

# GLOBAL MARKETS

Tuesday, October 30, 2018

## Markets in brief

- Global trade worries resurfaced after a Bloomberg report said that the U.S. is preparing to announce tariffs on all remaining Chinese imports by early December.
- U.S. stocks plunged to near correction territory, with the sell-off widening in afternoon trade after the news. Most tech and growth stocks declined. The S&P tech index closed down 1.8% while the industrials sector dropped 1.7%.
- Asian shares recovered today as China stepped in to stabilize its markets. Chinese stocks recovered while giving boost to other regional indexes. Comments from Trump saying he aims a "great deal" with China, helped in calming markets this morning.
- Australian dollar also jumped on Trump's comments regarding a possible deal with China. It ignored the earlier slump in Chinese yuan. Next focus for traders would be Inflation data tomorrow at 2:30 LT.
- Chinese yuan slipped to fresh 10-year lows in early trading, after the central bank set its official yuan midpoint to the lowest level in over a decade.
- U.S. dollar traded firm benefiting from its safe-haven appeal during trade tensions and fears of global economic slowdown.
- Euro continued to be pressured by political uncertainties in Germany, in addition to ongoing standoff between EU and Italy.

## Trump expecting "great deal" with China ... but what if talks failed?

U.S. President Donald Trump said he thinks there will be "a great deal" with China on trade, but warned that he has billions of dollars worth of new tariffs ready to go if a deal isn't possible. "I think that we will make a great deal with China and it has to be great, because they've drained our country," Trump told FOX News Channel's "The Ingraham Angle" on Monday. Trump said in the interview he would like to make a deal now, but that China was not ready. He did not elaborate. However, on Monday, Bloomberg reported that the U.S. is preparing to announce tariffs on all remaining Chinese imports by early December if talks next month between presidents Trump and Xi fail to ease the trade war, citing unnamed sources. According to the report, no decisions had been made but preparations for a new list of U.S. tariffs were being made in case the Trump-Xi meeting does not yield progress in resolving the U.S.-China disputes. A person familiar with the administration's tariff deliberations told Reuters that there could soon be movement toward a new round of tariffs, adding "the wheels are turning" in that direction, with no further elaboration.

## China seeking to stabilize its markets

China's securities regulator will encourage share buybacks and mergers & acquisitions by listed firms, it said in a statement on Tuesday responding to market concerns about recent sharp moves in markets. The China Securities Regulatory Commission (CSRC) also said it will enhance market liquidity, reduce unnecessary interference in trading, and create a level playing ground for investors. It added it would guide more long-term capital into the markets.

## Italy to test bond investor demand

Italy plans to sell up to 5.5 bn euros of debt today and the timing couldn't be better. The 10-yr yield spread to bunds fell below 300 bps after S&P kept the sovereign rating unchanged. The sale may also benefit from positive inflows this week, with 10 billion euros due in redemptions and 5 bn euros in coupon payments that can be reinvested. With the auction, Italy will have 92% of its 2018 funding needs out of the way.

FX & COMMODITIES	LAST	1D
EUR/\$	1.1386	0.11%
GBP/\$	1.2804	0.09%
AUD /\$	0.7098	0.61%
NZD/\$	0.6557	0.54%
\$/JPY	112.71	-0.30%
\$/CAD	1.3110	0.18%
\$/CHF	1.0010	0.09%
Gold \$	1228.01	-0.11%
Silver \$	14.49	0.22%
Platinum \$	834.89	0.32%
WTI \$	67.21	0.25%
BRENT \$	77.32	-0.03%
<b>AMERICA</b>		
DOW JONES	24442.92	-0.99%
S&P 500	2641.25	-0.66%
NASDAQ	7050.29	-1.63%
<b>EUROPE</b>		
STXE 600	355.51	0.90%
CAC 40	4989.35	0.44%
DAX	11335.48	1.20%
<b>ASIA PACIFIC</b>		
S&P/ASX 200	5805.10	1.34%
NIKKEI 225	21457.29	1.45%
CSI 300 (China)	3111.40	1.12%
<b>MENA</b>		
Saudi Arabia	7847.51	0.57%
Dubai	2729.66	0.55%
Qatar	10193.32	0.02%
<b>BONDS</b>		
U.S. 10-year	3.1076	0.0002
German Bund 10-year	0.3820	0.0001
AU 10-year	2.5820	0.0001
<b>BEIRUT S.E.</b>		
SOLIDERE - A	6.93	0.73%
SOLIDERE - B	6.88	1.18%
BANK OF BEIRUT	18.80	-
BANK AUDI SAL	4.90	-
BLOM BANK	9.25	-
BYBLOS BANK	1.42	0.71%
BLC BANK SAL	0.93	-
BANQUE BEMO SAL	1.56	-

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## FX & COMMODITIES

**The US dollar firmed against its rivals on Tuesday, supported by a safe haven bid as rising trade tensions and fears of a slowdown in global economic growth weighed on investors' appetite for risk assets.** Investors shunned riskier assets and moved to buy the greenback after Bloomberg reported that Washington is preparing to announce tariffs on all remaining Chinese imports by early December if talks next month between US President Donald Trump and Chinese President Xi Jinping fail to ease the trade war. Trump and his Chinese counterpart are due to meet on the sidelines of the Group of 20 leaders summit in Argentina at the end of November. The dollar index, a gauge of the currency's strength against six major peers, traded at 96.715, up 0.14% on Tuesday. It hit a 2018 high of 96.98 on Aug. 15. US equities turned sharply lower on Monday, reversing a positive start and led by declines in technology stocks. Investors are concerned that corporate earnings may peak this quarter as borrowing costs rise with the US Fed expected to raise interest rates by 25 basis points in December, followed by another two possible hikes in 2019.

**The Japanese yen traded in a narrow range ahead of the Bank of Japan's monetary policy announcement due on Wednesday.**

**The Chinese yuan slipped to a fresh 10-year low in early trading on Tuesday amid concerns that the weakening currency could drive capital outflows and further pressure policymakers in Beijing.** Focus has remained on China's yuan which has been trading at its worst levels since the global financial crisis and now threatens to move below 7 yuan against the dollar, seen as a key psychological marker for the currency. The onshore yuan, which trades within a daily band set by Chinese central bankers, was 0.1% weaker at 6.9711. The offshore yuan, which is not constrained by the same limits, was basically unmoved at 6.9752. China's central bank set its official yuan midpoint to the lowest level in over a decade on Tuesday, as the local currency remained on the back foot on worries over slower growth at home and talk of further falls in coming months. The official yuan midpoint was fixed at 6.9574 per dollar on Tuesday, 197 pips, or 0.28%, weaker than the previous fix of 6.9377.

**Australian and NZ dollar extended risk-on gains after President Trump discussed a possible trade deal with China even though he admitted the Asian nation wasn't yet ready.** AUD/USD jumps 0.6% to 0.7098. Spot was already higher along with Asian stocks before his comments. Trump told Fox News a deal with China has to be "great" because China has "drained" the US.

**Euro continued to be pressured by political uncertainty.** The single currency traded relatively unchanged versus the dollar at \$1.1374 on Tuesday, having hit a 10-week low of \$1.1332 on Monday on news that German Chancellor Angela Merkel would not seek re-election as head of her Christian Democrats (CDU) party. The euro has also been weighed by the ongoing standoff between Brussels and Rome over Italy's free spending budget that would breach the EU's fiscal rules.

Brent oil prices dipped on Tuesday, weighed down by ongoing weakness in global stock markets and by signs of rising global supply despite looming sanctions on Iran's crude exports.

	LAST	1D	YTD
<b>CURRENCIES</b>			
DXY	96.715	0.14%	4.98%
EUR/\$	1.1386	0.11%	-5.16%
GBP/\$	1.2804	0.09%	-5.25%
AUD /\$	0.7098	0.61%	-9.10%
NZD/\$	0.6557	0.54%	-7.62%
\$/JPY	112.71	-0.30%	-0.02%
\$/CAD	1.3110	0.18%	-4.11%
\$/CHF	1.0010	0.09%	-2.67%
\$/SEK	9.1366	0.17%	-10.43%
\$/NOK	8.3761	0.21%	-2.05%
\$/DKK	6.5536	0.11%	-5.29%
\$/TRY	5.5317	0.53%	-31.34%
EUR/GBP	0.8892	-0.03%	-0.12%
EUR/JPY	128.32	-0.41%	5.42%
EUR/CHF	1.1397	-0.02%	2.68%
<b>COMMODITIES</b>			
Gold Spot \$/Oz	1228.01	-0.11%	-5.74%
Silver Spot \$/Oz	14.49	0.22%	-14.45%
Platinum Spot \$/Oz	834.89	0.32%	-10.06%
Palladium Spot \$/Oz	1094.95	0.38%	2.96%
COPPER \$/lb	272.50	-0.57%	-18.67%
WTI \$/bbl	67.21	0.25%	11.24%
BRENT \$/bbl	77.32	-0.03%	15.63%

### In focus today

	TIME (LT)	EVENT	FCAST	PRIOR
EUR	12:00	Eurozone GDP QoQ	0.40%	0.30%
USD	16:00	US CB Consumer Confidence	136.3	138.4
CAD	21:30	BoC Gov Poloz spaks		

**Wednesday:** AU CPI, BoJ Policy Decision + Outlook Report + Press Conference, Eurozone Flash CPI, US ADP Nonfarm Employment, Canada GDP MoM, SNB Jordan speaks, Boc Poloz speaks

**Thursday:** AU Trade Balance, AU Import Prices, UK Manufacturing PMI, BoE Inflation Report, UK BoE Policy Decision, BoE Carney speaks, US ISM Manufacturing PMI

**Friday:** AU Retail Sales, Eurozone Manufacturing PMI, Canada Jobs Report, US Jobs Report

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## STOCKS & BONDS

Asia shares recouped early losses and crept higher on Tuesday as China made a fresh attempt to stabilize its stock markets, but the gains looked fragile amid fears of a sharp escalation in the US-China trade war. MSCI's broadest index of Asia-Pacific shares outside Japan swung in and out of negative territory in morning trade and was up 0.2% by midday. The index has lost 12% this month and is on track for its biggest October decline since 2008, during the global financial crisis. Mainland China's benchmark Shanghai Composite and the blue-chip CSI 300 were also choppy, falling in early trade before rising 0.7% and 1.0%, respectively, by midday. China's securities regulator said it would encourage share buybacks and mergers and acquisitions by listed firms, and would enhance market liquidity, in the latest attempt to put a floor under the country's skidding equity markets. Japan's Nikkei also erased early losses and advanced 1.3%. Traders said investors were looking for bargains among beaten-down stocks.

US stocks fell on Monday in a volatile session, with the S&P 500 ending just shy of confirming its second correction of 2018, hurt by fresh worries of an escalation of US-China trade tensions and a sharp drop in big tech and Internet names. Following a morning rally, major US indexes pulled back steeply after the Bloomberg report. After the S&P 500 dropped more than 10% from its Sept. 20 record closing high during the session, the benchmark index pared its losses late to close down 9.9% from its peak. The Dow industrials also fell more than 10% from its Oct. 3 record close during the session, before ending down 8.9% from the mark. Major tech and growth stocks, such as Amazon.com Inc, Google parent Alphabet Inc and Netflix Inc, posted sharp declines. The S&P 500 technology sector fell 1.8%. The industrials sector, which is seen as sensitive to trade issues, dropped 1.7%, with Boeing Co tumbling 6.6%. Market volatility has spiked in recent weeks, stemming from higher interest rates and worries about the economy and trade tensions. Investors also may be increasingly nervous about uncertainty surrounding US congressional elections, now just a week away. Internet stocks also may have been wounded by Britain's plan to tax the revenue from online platforms. In corporate news, shares of software maker Red Hat Inc surged 45.4% after the company agreed to be bought by IBM Corp for \$34 billion. But IBM shares fell 4.1%, weighing on the Dow and S&P. Investors who are bullish about stocks point to strong corporate profits this year and economic strength. But there are also concerns about the extent of a slowdown in earnings growth next year, while weak housing data has raised some worries about the economy.

**Gulf stock markets were mostly higher yesterday.** Saudi index closed higher, aided by strong corporate earnings. Abu Dhabi index recovered some of its losses after opening at its lowest in two months. Stock exchange data on Sunday showed that foreigners sold a net 2.34 billion riyals (\$623.85 million) in the Saudi stock market for the week ending Oct. 25, but the bourse was supported by local institutions, which bought 8.06 billion riyals worth of shares.

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<b>AMERICA</b>			
DOW JONES	24442.92	-0.99%	-1.12%
S&P 500	2641.25	-0.66%	-1.21%
NASDAQ	7050.29	-1.63%	2.13%
S&P/TSX	14721.75	-1.12%	-9.18%
<b>EUROPE</b>			
STXE 600	355.51	0.90%	-8.65%
FTSE 100	7026.32	1.25%	-8.60%
CAC 40	4989.35	0.44%	-6.08%
DAX	11335.48	1.20%	-12.25%
<b>ASIA PACIFIC</b>			
S&P/ASX 200	5805.10	1.34%	-4.29%
NIKKEI 225	21457.29	1.45%	-5.74%
TOPIX	1611.46	1.38%	-11.34%
CSI 300 (China)	3111.40	1.12%	-22.81%
<b>MENA</b>			
Saudi Arabia	7847.51	0.57%	8.60%
Abu Dhabi	4851.54	-0.41%	10.30%
Dubai	2729.66	0.55%	-19.00%
Qatar	10193.32	0.02%	19.59%
Oman	4422.25	-0.15%	-13.28%
Egypt	13074.47	0.72%	-12.95%
Kuwait	5216.27	-0.01%	8.82%
Bahrain	1315.04	0.00%	-1.25%
<b>10-YEAR BONDS</b>			
U.S.	3.1076	0.0227	0.7022
Germany	0.3820	0.0050	-0.0450
U.K.	1.3990	0.0160	0.2090
France	0.7470	0.0050	-0.0380
Australia	2.5820	0.0140	-0.0480
Japan	0.1210	0.0110	0.0730

### Major Company News

- Sony Corp lifted its annual operating profit outlook by 30% to a record level after a strong second-quarter, bolstered by popular game titles as well as growing demand for its online gaming services.
- British online financial trading firm IG Group Holdings Plc named June Felix as its new chief executive officer on Tuesday, following the departure of veteran Peter Hetherington last month.
- Citigroup has been granted a licence to set up a branch of Citibank at Abu Dhabi Global Market, a financial centre in Abu Dhabi, it said on Tuesday.
- British online grocer Ocado and U.S. supermarket chain Kroger Co have agreed service and operational terms in relation to the deal they struck in May.
- Mondelez International Inc said on Monday it would hike prices for biscuits, gums and candies in the United States and certain emerging markets next year to battle rising transportation and freight costs.
- Uber heads to a British court on Tuesday to defend its business model of treating drivers as self-employed, entitling them to few rights in law, in the latest stage of a long-running battle at the taxi app.
- Intel Corp has increased the ratio of women and African-Americans in its workforce after three years of a high-profile effort to improve diversity, the U.S. microchip maker said in a report released on Monday.



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## TOP SELECTED NEWS

### As Merkel retreats, Europe shows it still needs her firefighting

(Bloomberg) Angela Merkel is starting her retreat at home just as she's needed more than ever by her allies abroad. As Europe prepares for life without the leader whose clout underwrote its global standing and solutions to its crises over the past decade, the continent faces another challenging few months with the German chancellor's legacy as the euro region's rock in the balance. Italy's financial stability is in question, Britain is due to leave the EU in March and populist parties are conspiring to reshape the continent's politics in EU elections weeks later. There's also the test of unity over sanctions against Vladimir Putin's Russia and keeping peace in the Balkans -- all with Merkel now at her weakest. The 64-year-old's remarkable longevity had to run out of road at some point. Her enemies were made, political capital spent and she was hobbled by a refugee crisis that caused a nationalist backlash in Germany. But it comes at a critical time as the balance of power tips further toward the kind of nationalist protectionism espoused by the US under Donald Trump and away from Merkel's vision that left her as the beacon for liberal democracy among supporters. The baton is now being passed to French President Emmanuel Macron and the pressure will be on him to emulate Merkel's ability to weigh Europe's needs while sustaining ties with Russia, Turkey and China.

### Hammond calls time on UK austerity with a post-Brexit tax cut

(Bloomberg) UK Chancellor of the Exchequer Philip Hammond promised early tax cuts and an end to austerity despite weak growth forecasts and uncertainty over Brexit. "We have reached a defining moment on this, long, hard journey, opening a new chapter in our country's economic history, where we can look confidently to the future," Hammond told lawmakers in his budget statement Wednesday. "Austerity is coming to an end, but discipline will remain." Hammond outside 11 Downing Street before presenting the annual budget statement on Oct. 29. Hammond is under pressure to end almost a decade of spending cuts that have limited public services and spurred support for the opposition Labour Party and its socialist leader, Jeremy Corbyn. But he's trying to do so at a less than opportune time with Britain scheduled to leave the EU in March, and on the eve of his speech, he said Britain may need another emergency budget and prolonged austerity in the event of a no-deal Brexit.

### UK upgrades growth forecasts: finance minister

(Reuters) Britain has raised its official forecast for economic growth in 2019 while the outlook for subsequent years was unchanged or slightly higher, finance minister Philip Hammond said on Monday as he outlined his annual budget. The country's official budget forecasters now expect gross domestic product will grow by 1.6% in 2019, compared with a forecast of 1.3% made in March. Growth forecasts in 2020 and 2021 were both 1.4%, compared with 1.3% and 1.4% respectively in the March forecast, according to figures prepared for Hammond by the Office for Budget Responsibility. By 2023 the growth forecast was 1.6%.

### Italy budget to start parliamentary passage by Wednesday: government source

(Reuters) Italy's parliament will begin debating the government's 2019 draft budget by Wednesday, two government sources said. The budget, which targets the fiscal deficit at 2.4% of gross domestic product, must be approved by both houses of parliament by the end of the year. One source said the document will be sent to parliamentary commissions for initial discussions on Tuesday, while another source said it will be sent either on Tuesday or Wednesday.

### US consumer spending solid; income gain smallest in 15 months

(Reuters) US consumer spending rose for a seventh straight month in September, but income recorded its smallest gain in more than a year on moderate wage growth, suggesting the current pace of spending was unlikely to be sustained. The report from the Commerce Department on Monday also showed the increase in income at the disposal of households was the smallest in 15 months and savings dropped to their lowest level since December last year. There are signs the stimulus from the Trump administration's \$1.5 trillion tax cut package has peaked. Higher interest rates and falling household wealth after a sharp stock market selloff are also casting a shadow on spending. Consumer spending, which accounts for more than two-thirds of US economic activity, increased 0.4% last month as households bought more motor vehicles and spent more on health care. Data for August was revised up to show spending advancing 0.5% instead of the previously reported 0.3% gain. Economists polled by Reuters had forecast consumer spending increasing 0.4% in September. When adjusted for inflation, consumer spending rose 0.3%. The so-called real consumer spending climbed 0.4% in August. The data was included in last Friday's third-quarter gross domestic product report, which showed consumer spending accelerating at a 4.0% annualized rate, the fastest in nearly four years. The economy grew at a 3.5% rate in the third quarter, a slowdown from the April-June period's robust 4.2% pace.

### China is buying distressed private companies as markets sink

(Bloomberg) It's never been easy to figure out where China's government ends and the private sector begins, but the dividing line is getting increasingly blurry as the nation's stock market sinks. At least 47 non-state companies in China have disclosed plans to sell stakes to government-backed investors in 2018, company filings compiled by Bloomberg show. The pace of such deals accelerated in recent months as the country's \$3.2 trillion equity rout squeezed company founders who pledged their stakes as collateral for loans. Faced with margin calls and cut off from the banking system, some entrepreneurs have had little choice but to accept state money. While the capital infusions have reduced the risk of near-term defaults and caused several stocks to rally, they've also fueled concern among some analysts that China's government is taking advantage of this year's market turmoil to encroach on the private sector's turf. Despite recent liquidity challenges, private Chinese businesses have been key drivers of the nation's world-beating economic expansion over the past four decades and are typically far more productive than government-owned peers.



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For further inquiries, feedback, and trading services:

### GLOBAL MARKETS DIVISION

Phone:

**+961 1 960501**

Email:

**[treasury@bankofbeirut.com.lb](mailto:treasury@bankofbeirut.com.lb)**

### PRIVATE BANKING DEPARTMENT

Phone:

**+961 1 960531/2/3**

Email:

**[privatebanking@bankofbeirut.com.lb](mailto:privatebanking@bankofbeirut.com.lb)**

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