

GLOBAL MARKETS

Friday, January 04, 2019

Markets in brief

- Global markets calmed down as signs of further improvement in China-U.S. trade relations boost sentiment. However, slowing world economic growth would keep investors' confidence in check.
- Safe-haven yen dropped with Asian stocks getting a lift. Chinese stock got a further boost from Chinese central bank working to stimulate the economy.
- High-yield currencies like the Australian dollar recovered to trade back above \$0.70 level. The Aussie recouped all the losses to end yesterday's session up by 0.29%.
- U.S. dollar remained under pressure from lower rate hike expectations. Actually, markets started to expect a possibility of a rate cut. However, traders will be closely watching the December Jobs Reports that will be released today at 15:30 LT. Fed Chair Powell will speak at 17:30 LT.
- US 2-year Treasury note yield dropped below 2.4% on, reaching parity with the federal funds effective rate for the first time since 2008. Now trading near 2.37%.
- U.S. 10-year Treasury yield hit today 2.54%, its lowest since Jan 17 (~ 1-year low)
- Spot Gold prices hit today \$1298.60, its highest since June 15 (7-month high).
- U.S. stocks were hammered yesterday by economic concerns.

Some hopes over U.S.-China trade talks

China said a U.S. delegation will visit next week for trade talks, confirming the two sides will have their first face-to-face negotiation since President Donald Trump and his counterpart Xi Jinping agreed to a 90-day truce in their trade war last month. Deputy U.S. Trade Representative Jeffrey Gerrish will lead the U.S. delegation for the talks on Jan. 7 and 8, the Commerce Ministry said in a statement.

U.S. political standoffs intensifying

Democrats wasted no time flexing their new power in the U.S. House of Representatives on Thursday by approving legislation backed by new Speaker Nancy Pelosi that would end a 13-day partial government shutdown, ignoring Trump's demand for \$5 billion for a border wall. The White House on Thursday issued a veto threat against both parts of the Democratic legislation. But that did not deter House Democrats. Thursday marked the first day of divided government in Washington since Trump took office in Jan 2017, as Democrats took control in the House from his fellow Republicans, who remain in charge of the Senate. Trump and congressional leaders were scheduled on Friday to discuss ways to break an impasse.

U.S. December jobs report today

U.S. job growth likely picked up in December with wages expected to have increased solidly, which could help to allay a recent upsurge in fears about the economy's health that have roiled financial markets. The Labor Department will publish its closely watched monthly employment report today on the heels of surveys showing sharp declines in consumer confidence and manufacturing activity last month. Nonfarm payrolls probably increased by 177,000 jobs last month, according to forecasts, after rising 155,000 in November. Slow job gains in November were largely blamed on unseasonably chilly temperatures, which stymied hiring at construction sites.

China to cut bank's reserve requirements and taxes

China will cut banks' reserve requirement ratios (RRRs), taxes and fees, Premier Li Keqiang said on Friday, as the world's second-largest economy shows further signs of cooling. The measures will also include targeted RRR cuts aimed at supporting small and private companies, Li was quoted as saying in a statement on the website of the Chinese government. China slashed reserve requirements four times in 2018.

FX & COMMODITIES	LAST	1D
EUR/\$	1.1394	0.00%
GBP/\$	1.2637	0.07%
AUD /\$	0.7022	0.23%
NZD/\$	0.6689	-0.06%
\$/JPY	108.19	-0.47%
\$/CAD	1.3474	0.10%
\$/CHF	0.9868	0.00%
Gold \$	1294.60	0.02%
Silver \$	15.77	0.18%
Platinum \$	803.66	0.74%
WTI \$	47.57	1.02%
BRENT \$	56.46	0.91%
AMERICA		
DOW JONES	22686.22	-2.83%
S&P 500	2447.89	-2.48%
NASDAQ	6463.50	-3.04%
EUROPE		
STXE 600	333.92	-0.98%
CAC 40	4611.49	-1.66%
DAX	10416.66	-1.55%
ASIA PACIFIC		
S&P/ASX 200	5619.36	-0.25%
NIKKEI 225	19561.96	-2.26%
CSI 300 (China)	3030.57	2.22%
MENA		
Saudi Arabia	7830.47	0.51%
Dubai	2520.53	-0.36%
Qatar	10280.34	-0.18%
BONDS		
U.S. 10-year	2.5759	0.0002
German Bund 10-year	0.1530	-0.0001
AU 10-year	2.2340	0.0006
BEIRUT S.E.		
SOLIDERE - A	6.81	-1.02%
SOLIDERE - B	6.89	-4.17%
BANK OF BEIRUT	18.80	-
BANK AUDI SAL	4.90	-
BLOM BANK	9.25	-
BYBLOS BANK	1.37	-
BLC BANK SAL	0.93	-
BANQUE BEMO SAL	1.57	-

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FX & COMMODITIES

The safe-haven yen weakened versus the dollar on Friday on hopes upcoming US-China trade talks would make some progress, but broader market confidence remained weak amid worries over slowing global growth. Market sentiment perked up after China confirmed that trade talks with the US will be held at the vice ministerial level in Beijing on Jan. 7-8. Trade tensions between the world's two largest economies had rattled financial markets for most of 2018. The yen weakened 0.47% to 108.19 while riskier currencies such as the Australian dollar gained 0.23% to \$0.7022. However, fears of a sharp slowdown in economic growth and a failure of the trade talks are likely to keep investors from diving back into riskier assets in a big way in the coming weeks. Weaker-than-expected US factory activity has heightened investor expectations the Fed will not raise rates in 2019, and possibly even cut them in 2020. Data has also been weak out of China and Europe. Spooked by signs of fresh troubles in the world's largest economy, investors rushed to the safety of bonds. The US two-year Treasury note yield dropped below 2.4% on Thursday, reaching parity with the federal funds effective rate for the first time since 2008. The Fed raised rates four times in 2018 on the back of strong growth and a robust labor market. However, with financial conditions tightening, most analysts now do not expect the Fed to raise rates in 2019. Indeed, interest rate futures markets are now fully pricing in a rate cut by April next year. In an interview with Bloomberg on Thursday, Dallas Fed President Robert Kaplan acknowledged issues such as the deceleration of global growth, tightening of financial conditions and widening credit spreads. "My own view is we shouldn't take any further action on interest rates until these issues are resolved for better or for worse...", Kaplan said. "So I would be an advocate of taking no action during the first couple of quarters of this year...we should be patient and give some time for this economy and watch how this situation unfolds." A dovish Fed would likely keep the greenback under pressure in the coming months, giving central banks in emerging markets room to cut rates if economic conditions sharply deteriorate. The dollar index was relatively unchanged at 96.3. The index fell 0.56% in the previous session. The euro and sterling were unchanged from Thursday's close at \$1.1393 and \$1.2636, respectively.

Oil prices edged up on Friday, shaking off previous losses after China said it would hold talks with the US government on Jan. 7-8 to look for solutions to the trade disputes between the world's two biggest economies. Both crude benchmarks were down earlier in the session on concerns that the Sino-American trade war would lead to a global economic slowdown. .

	LAST	1D	YTD
CURRENCIES			
DXY	96.368	0.07%	0.20%
EUR/\$	1.1394	0.00%	-0.64%
GBP/\$	1.2637	0.07%	-0.92%
AUD /\$	0.7022	0.23%	-0.38%
NZD/\$	0.6689	-0.06%	-0.45%
\$/JPY	108.19	-0.47%	1.39%
\$/CAD	1.3474	0.10%	1.21%
\$/CHF	0.9868	0.00%	-0.48%
\$/SEK	8.9963	0.06%	-1.59%
\$/NOK	8.6715	0.21%	-0.35%
\$/DKK	6.5541	0.00%	-0.65%
\$/TRY	5.4436	0.43%	-2.83%
EUR/GBP	0.9016	0.06%	-0.29%
EUR/JPY	123.27	-0.49%	2.08%
EUR/CHF	1.1243	0.00%	0.11%
COMMODITIES			
Gold Spot \$/Oz	1294.60	0.02%	0.94%
Silver Spot \$/Oz	15.77	0.18%	1.78%
Platinum Spot \$/Oz	803.66	0.74%	1.01%
Palladium Spot \$/Oz	1268.32	-0.18%	0.52%
COPPER \$/lb	260.80	1.56%	-0.87%
WTI \$/bbl	47.57	1.02%	4.76%
BRENT \$/bbl	56.46	0.91%	4.94%

In focus today 🕒

	TIME (LT)	EVENT	FCAST	PRIOR
EUR	11:00	Eurozone Services PMI	51.4	51.4
GBP	11:30	UK Services PMI	50.7	50.4
EUR	12:00	Eurozone CPI Flash Estimate YoY	1.80%	2.00%
CAD	15:30	Canada Jobs Report		
USD	15:30	US Nonfarm Payrolls	177k	155k
USD	15:30	US Unemployment Rate	3.70%	3.70%
USD	16:45	US Services PMI	53.5	53.4
USD	17:15	US Fed Chair Powell speaks		
OIL	18:00	EIA Weekly Report		

Next Week: US ISM Non-Manufacturing PMI, AU Trade Balance, Canada Trade Balance, US Trade Balance, AU Building Approvals, Canada BoC Policy Decision + Press Conference, BoE Carney speaks, China Inflation, UK BoE Credit Conditions Survey, ECB Policy Meeting Accounts, US Fed Chair Powell speaks, Japan Current Account, AU Retail Sales, US Inflation

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STOCKS & BONDS

The US two-year Treasury note yield dropped below 2.4% on Thursday afternoon, reaching parity with the federal funds effective rate for the first time since 2008. The fed funds effective rate, which was 2.4% on Thursday, moves within the Fed's key policy range of 2.25 to 2.5%. The market move suggests investors believe the US central bank will not be able to continue to tighten monetary policy as its forecast suggests, after having lifted benchmark interest rates four times in 2018. In late afternoon trade, the 3- and 5-year note yields had also dropped below 2.4%. Treasury yields fell on Thursday after data showed a significant drop in US manufacturing activity, extending overnight losses prompted by a revenue warning issued by Apple that sent investors fleeing to safe-haven.

Asian shares found a crumb of comfort on Friday as Beijing announced a new round of trade talks with Washington, though recession fears still had markets betting the next move in US interest rates might be down. Despite past disappointments, investors cheered news the US and China would hold vice-ministerial level talks next week on their year-long trade dispute. Chinese Premier Li Keqiang also flagged further policy easing and support for small business. Shanghai blue chips swung 2.2% higher, while South Korea bounced 0.6%. Steadying after an overnight bruising, E-Mini futures for the S&P 500 rose 0.5%. The overall mood was still fragile as Japan's Nikkei skidded 2.26% on its first trading day of the year, weighed by growth worries and the strength of the yen. MSCI's index of Asia-Pacific shares outside Japan edged up 0.4%, but was still down 1.8% at the end of another rough week. Fears that the Sino-US trade war would sap world growth roiled risk-sensitive assets in 2018, driving a surge in volatility and sending major stock markets deep into the red.

US stocks plunged on Thursday after slowing US factory activity on the heels of a dire revenue warning from Apple Inc fueled fears of a global economic slowdown. The magnitude of Apple's holiday quarter revenue shortfall sent shockwaves through the technology sector, which pulled all three major US stock indexes down more than 2%, with the Nasdaq posting a 3% loss. S&P Technology companies slid 5.1%, its biggest 1-day %age drop since August 2011. The Philadelphia SE Semiconductor index .SOX ended the session 5.9% lower. Late Wednesday, Apple CO Tim Cook wrote in a letter to investors that the company had not foreseen the extent of China's economic deceleration, which was exacerbated by US-China trade tensions. The iPhone maker's shares dropped 10.0%. Major automakers reported weak US new car sales in December, with Ford Motor Co and General Motors Co reporting sales falling by 8.8% and 2.7%, respectively. Ford shares fell 1.5%, while GM dropped 4.1%. Of the 11 major sectors in the S&P 500, all but defensive real estate and utilities stocks closed in the red. Trade-sensitive industrials also weighed on the Dow, led by Caterpillar Inc, 3M Co and Boeing Co. Shares of US commercial air carriers slid after Delta Air Lines cut its fourth quarter revenue estimate. The S&P 1500 Airlines index sank 5.9%.

Major Gulf stock markets staged a recovery on Thursday after opening on a weak note on global market woes, with renewed interest in financial stocks helping overcome volatility in global markets. The Qatari index rose 0.7%, with 18 of its 20 stocks advancing.

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AMERICA			
DOW JONES	22686.22	-2.83%	-2.75%
S&P 500	2447.89	-2.48%	-2.35%
NASDAQ	6463.50	-3.04%	-2.59%
S&P/TSX	14212.75	-0.94%	-0.77%
EUROPE			
STXE 600	333.92	-0.98%	-1.10%
FTSE 100	6692.66	-0.62%	-0.53%
CAC 40	4611.49	-1.66%	-2.52%
DAX	10416.66	-1.55%	-1.35%
ASIA PACIFIC			
S&P/ASX 200	5619.36	-0.25%	-0.48%
NIKKEI 225	19561.96	-2.26%	-2.26%
TOPIX	1471.16	-1.53%	-1.53%
CSI 300 (China)	3030.57	2.22%	0.66%
MENA			
Saudi Arabia	7830.47	0.51%	0.05%
Abu Dhabi	4866.64	-0.99%	-0.34%
Dubai	2520.53	-0.36%	-0.15%
Qatar	10280.34	-0.18%	0.50%
Oman	4301.88	-0.73%	-1.11%
Egypt	13264.70	0.46%	1.76%
Kuwait	5304.96	0.71%	1.39%
Bahrain	1329.47	-0.58%	-0.86%
10-YEAR BONDS			
U.S.	2.5759	0.0224	-0.1083
Germany	0.1530	-0.0120	-0.0890
U.K.	1.1940	-0.0150	-0.0830
France	0.6540	0.0030	-0.0560
Australia	2.2340	0.0590	-0.0840
Japan	-0.0290	-0.0320	-0.0320

Major Company News

- Bristol-Myers Squibb Co shares dropped 13.3% after the drugmaker announced plans to buy rival Celgene Corp for about \$74 billion. Celgene shares jumped 20.7% on the news. The cost to insure Bristol-Myers Squibb debt hit its highest point since 2010 on Thursday.
- Qualcomm Inc on Thursday took steps to enforce a court order banning the sale of some iPhone models in Germany, a move that will likely see Apple Inc pull those iPhone models from its German stores.
- An entity controlled by Hudson's Bay Co Chairman Richard Baker will buy the stake owned by a unit of Ontario Teachers' Pension Plan Board in the Canadian retailer, according to L&T B Cayman Inc, a top shareholder in Hudson's Bay and a joint buyer.
- Verily, Alphabet Inc's life sciences division, on Thursday announced a \$1 billion investment round led by private equity firm Silver Lake.
- China's Huawei Technologies has punished two employees for New Year greetings sent on the smartphone maker's official Twitter account using an iPhone, an internal memo showed.
- The Idaho Public Utilities Commission has rejected Canadian electric utility Hydro One Ltd's proposed \$6.7 billion (\$4.97 billion) acquisition of Avista Corp, the companies said on Thursday.
- Airbus narrowed a sales gap against US rival Boeing by finalising orders for 120 of the former Bombardier C Series jet, but shares in Europe's top planemaker fell as doubts surfaced over a target for overall 2018 deliveries.
- Brazilian officials on Thursday predicted a quick resolution to a dispute with Petroleo Brasileiro over offshore oil blocks and doubled down on pledges to steer the state-run firm toward its core businesses.



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TOP SELECTED NEWS

End QE leave Italy, France, Spain with 64bn euro hangover

(Reuters) The end of the European Central Bank's massive stimulus program has left Italy, France and Spain seeking new buyers for up to 64 billion euro (\$73 billion) of bonds, ECB data suggests. That's how much the ECB has "overbought" those countries' debt by, according to Reuters calculations on Thursday based on the bank's end-December stock of euro zone government bonds. The ECB said last month it would bring those bond holdings "into closer alignment" with each country's share in the central bank's capital in coming years. To achieve its goal, the ECB will have to reinvest proceeds from some of its maturing Italian, Spanish and French holdings into the government bonds of countries that were "underbought". Including Greece, whose bonds were not part of the stimulus scheme due to their low credit rating, that 'realignment' figure would rise as high as 89 billion euros. Once Greece and countries where the stock of debt is too small are taken out, Germany and Portugal appear likely beneficiaries. The original deviations were due to scarcity of bonds to buy in small countries, such as the Baltics, and to other self-imposed constraints of the ECB's stimulus program.

China warnings signal trade war finally hitting US

(Reuters) Weak sales at Apple and Cargill, US giants of technology and agriculture, may be the clearest sign yet that President Donald Trump's quest to reset world trade carries costs at home and could isolate the US as the increasingly fragile engine for global economic growth. Apple, a global technology darling loved for its sleek gadgets, on Wednesday warned of disappointing quarterly revenues because of poor sales in China. On Thursday, privately held grains trader Cargill announced worse-than-expected results out of China. China, the world's second largest economy, likely expanded at more than 6% last year, reflecting a slowdown from years past and, in recent months, its most tepid rate since the depths of the global financial crisis a decade ago. The US-China trade war threatens a decade-old hope among business and economic leaders that rising purchasing power among Chinese consumers would support an era of synchronized global growth. The sharp slowdown in China and weakness elsewhere also threaten to leave US consumers, whose spending accounts for more than two-thirds of US economic activity and who so far have been eager to spend in an era of rising household incomes and wages, as the chief bulwark against a broader world downturn.

US factory activity at 2-yr low, casts shadow over economy

(Reuters) US manufacturing activity slowed sharply to a two-year low in December amid a plunge in new orders and hiring at factories, suggesting the economy was probably not immune to slowing growth in China and Europe. The Institute for Supply Management (ISM) survey published on Thursday offered a downbeat assessment of the manufacturing sector, with almost all components declining last month. Concerns about the economy's health are escalating despite the labor market remaining strong. The Institute for Supply Management (ISM) said its index of national factory activity tumbled 5.2 points to 54.1 last month, the lowest reading since November 2016. The drop was the largest since October 2008, when the economy

was in the throes of a recession. A reading above 50 in the ISM index indicates an expansion in manufacturing, which accounts for about 12% of the US economy.

UK house prices rise at slowest pace in nearly 6 years

(Reuters) British house prices rose at their slowest annual pace in nearly six years in December and fell unexpectedly in monthly terms, mortgage lender Nationwide said, in the latest sign of a housing market slowdown since the Brexit vote in 2016. Annual house price growth slowed to 0.5%, Nationwide said on Friday, compared with a rise of 1.9% in November and weaker than a median forecast of 1.5% in a Reuters poll of economists. In monthly terms, prices fell by 0.7%.

Yet another Italy bank crisis puts populist leaders in bind

(Bloomberg) Before they came to power, Italy's populist leaders pilloried bankers and painted themselves as champions of the little guy. Now that an Italian lender is in trouble on their watch though, they may be considering throwing taxpayers' money at the problem -- just like the last government did. The European Central Bank placed Banca Carige SpA in temporary administration this week, wielding its power to intervene for the first time and leaving Deputy Premiers Luigi Di Maio and Matteo Salvini to handle the political fallout. Five Star leader Di Maio and Salvini, of the anti-immigration League, don't want to be seen to be helping an industry they've portrayed as exploiting ordinary Italians. But they can't afford to be in the frame either if Carige collapses, leaving depositors and creditors on the hook.

Bristol-Myers to buy Celgene in \$74 billion cancer-drug bet

(Bloomberg) Bristol-Myers Squibb agreed to acquire Celgene Corp. in a record-sized \$74 billion deal that will unite two drugmakers battling for advantage in a crowded market for innovative cancer treatments. The proposed union of the two companies represents a big bet that combined mass will help overcome the obstacles confronting their respective cornerstone products. It will also fan the flames of deal speculation in an industry that's coping with political pressure to rein in drug prices, the looming threat of expiring patents and disappointing clinical trials for some cancer treatments. If it is approved by shareholders and regulators, the cash-and-stock deal would rank as the largest pharmaceutical-company acquisition ever. Including net debt, the transaction values Celgene at \$88.8 bn, surpassing Pfizer Inc.'s deal for Warner-Lambert. Under the proposed terms, Celgene shareholders will receive one Bristol-Myers Squibb share and \$50 in cash for each Celgene share, according to a statement from the companies on Thursday. That would value Celgene at \$102.43 a share, a 54% premium to the stock's closing price on Jan 2.

Google shifted \$23bn to tax haven Bermuda in 2017 – filing

(Reuters) Google moved 19.9 billion euros (\$22.7 billion) through a Dutch shell company to Bermuda in 2017, as part of an arrangement that allows it to reduce its foreign tax bill, according to documents filed at the Dutch Chamber of Commerce. The amount channelled through Google Netherlands Holdings BV was around 4 billion euros more than in 2016, the documents, filed on Dec. 21, showed. Google did not immediately respond to an email and a phone call seeking comment.



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