

GLOBAL MARKETS

Wednesday, October 31, 2018

Markets in brief

- U.S. dollar rose to 16-month highs helped by upbeat economic data. Market expectations for a December rate hike remained intact, but it is lower than previously estimated, amid Trump's recent criticism for Fed's policies. Today's focus: ADP Nonfarm Employment.
- Japanese yen traded near 3-week lows after BoJ kept its expansive policy on hold.
- Euro got another setback from weak growth figure. The currency was already dragged down by political uncertainty in Germany along with ongoing EU-Italy disputes. Traders will be watching inflation data at 12:00 LT.
- British pound slumped to its lowest level since mid-August after the S&P said it might downgrade U.K. in case of "no-deal".
- Australian dollar retreated on weaker-than-expected inflation data, in addition to disappointing Chinese PMI data. Next focus: Trade Data tomorrow at 2:30 LT.
- Canadian dollar investors will be looking today at country's GDP data and BoC Gov. Poloz comments.
- Oil prices rose for the first time in three days, but it is still pressured by rising supply and weak demand outlook. Today's focus: EIA weekly report.
- Asian shares recovered today from 20-month lows pointing for a calmer end of month.
- U.S. stocks jumped yesterday led by strong gains in chip and transport stocks. Investors took advantage of the recent steep fall in equities. However, the S&P is still on pace for its biggest monthly percentage drop in more than eight years.

"No deal" means downgrade?

The risk of the U.K. leaving the European Union without a trade deal has sufficiently increased to affect the country's credit rating, according to S&P. A no-deal Brexit would result in a "moderate recession" for as many as five quarters in the U.K., with the economy contracting by 1.2% in 2019 and 1.5% in 2020, the ratings company said in a statement Tuesday. In such a scenario, unemployment would rise from record-low levels to more than 7% by 2020 -- a level not seen since the financial crisis, S&P said. Property prices would slump and inflation would spike to more than 5%. S&P said it still expected both sides in the Brexit talks to come to an agreement before next March, when the UK is scheduled to leave the European Union.

Trade tensions weighing on China's economy

Trade tensions are taking their toll on China's economy. An official manufacturing gauge slowed more than forecast and new export orders slid to the lowest since 2016. The PMI fell to 50.2 in October from 50.8 last month. The services gauge also worsened. The data showed broad deceleration, with the economy unlikely to bottom soon, according to Bloomberg Economics. The row is looking less like a skirmish and more like a trade war, JPMorgan CEO Jaime Dimon said yesterday at an Axios event.

Italy's populists resisting pressure

Italy's populists blamed the slowing economy on previous governments that bowed to the EU. They vowed to resist pressure to rein in the debt. Deputy Finance Minister Massimo Garavaglia made the case for more public investment. The EU warned that Italy's debt is a concern for the whole euro-zone. Rome said it would respond to the EU by Nov. 13. The spread on Italian 10-year bonds over German equivalents is back above 310 bps.

FX & COMMODITIES	LAST	1D
EUR/\$	1.1337	-0.07%
GBP/\$	1.2714	0.06%
AUD /\$	0.7096	-0.13%
NZD/\$	0.6550	-0.05%
\$/JPY	113.18	-0.04%
\$/CAD	1.3126	-0.12%
\$/CHF	1.0053	-0.01%
Gold \$	1217.13	-0.47%
Silver \$	14.38	-0.65%
Platinum \$	833.42	-0.37%
WTI \$	66.63	0.68%
BRENT \$	76.43	0.69%
AMERICA		
DOW JONES	24874.64	1.77%
S&P 500	2682.63	1.57%
NASDAQ	7161.65	1.58%
EUROPE		
STXE 600	355.53	0.01%
CAC 40	4978.53	-0.22%
DAX	11287.39	-0.42%
ASIA PACIFIC		
S&P/ASX 200	5830.31	0.43%
NIKKEI 225	21920.46	2.16%
CSI 300 (China)	3141.59	1.01%
MENA		
Saudi Arabia	7832.98	-0.19%
Dubai	2752.86	0.34%
Qatar	10164.93	0.01%
BONDS		
U.S. 10-year	3.1359	0.0001
German Bund 10-year	0.3690	-0.0001
AU 10-year	2.6270	0.0005
BEIRUT S.E.		
SOLIDERE - A	6.81	-1.73%
SOLIDERE - B	6.99	1.60%
BANK OF BEIRUT	18.80	-
BANK AUDI SAL	4.90	-
BLOM BANK	9.25	-
BYBLOS BANK	1.42	-
BLC BANK SAL	0.93	-
BANQUE BEMO SAL	1.56	-

FX & COMMODITIES

The US dollar hovered near 16-month highs versus a basket of its major rivals after gaining overnight as traders bet on the relative outperformance of the US economy and continued rate increases by the Fed. The US 10-year treasury bond yields have been inching higher for the last three sessions and was last traded at 3.135%. This when compared with the 10-year Japanese government bond yield of 0.12%, highlights the gap in favor of the dollar. The dollar index (DXY) climbed to a fresh 16-month high to hit 97.063, backed by stronger than expected US economic data.

The Japanese yen edged lower against the dollar on Wednesday after the Bank of Japan signaled it was a long way off from exiting crisis-era stimulus. The BoJ kept monetary policy steady on Wednesday and cut its price forecasts, reinforcing market expectations that subdued inflation will force it to maintain its massive stimulus program for the time being. The yen changed hands at 113.18 on the dollar, remaining under pressure after earlier sliding to 3-week lows at 113.32. The dollar had gained 0.6% on the yen the previous day.

The Euro got pressured by disappointing economic data with the euro zone economy grew less than expected in Q3. The euro changed hands at \$1.1343, steady from its close. The single currency has lost 2.3% versus the greenback in October. Political uncertainty in Germany, following chancellor Angela Merkel's decision to step down in 2021, is also pressuring the single currency. Moreover, the stand-off between Rome and Brussels over Italy's free spending budget, which is in breach of the European Union's fiscal rules, has weighed on the eur

The British pound held close to its mid-August lows, hovering at \$1.2705, after credit ratings agency S&P said a 'no-deal' Brexit would be likely to tip Britain into a recession. Sterling traders would be turning their attention to the BoE's monetary policy meeting on Thursday, when it is expected to keep interest rates on hold and detail conditions necessary for policy tightening.

The Australian dollar sank after inflation was weaker than estimated in Q3, reinforcing the case for interest rates to remain on hold. A slowdown in Chinese manufacturing gauge added further pressure.

The Chinese yuan was relatively flat in onshore trading at 6.9663, though it remains on a downward path after it fell to its lowest level in a decade this week. With no sign of a let-up in the Sino-U.S. trade war, investors are betting on more weakness ahead and expect authorities will eventually allow the yuan to breach the key 7/dollar level for the first time since the global financial crisis.

Oil prices climbed for the first time in three days, but rising supply and fears over the outlook for demand amid the US-China trade war kept pressure on the market. They dropped 1.3% the day before, after hitting their weakest since Aug. 17 at \$65.33 a barrel. Both crude benchmarks have fallen about \$10 a barrel from four-year highs reached in the first week of October, and are on track to post their worst monthly performance since July 2016. Oil has been caught in the global financial market slump this month, with equities under pressure from the trade scrap between the world's two largest economies.

	LAST	1D	YTD
CURRENCIES			
DXY	97.039	0.03%	5.34%
EUR/\$	1.1337	-0.07%	-5.56%
GBP/\$	1.2714	0.06%	-5.91%
AUD/\$	0.7096	-0.13%	-9.13%
NZD/\$	0.6550	-0.05%	-7.72%
\$/JPY	113.18	-0.04%	-0.43%
\$/CAD	1.3126	-0.12%	-4.23%
\$/CHF	1.0053	-0.01%	-3.08%
\$/SEK	9.1824	-0.07%	-10.88%
\$/NOK	8.4172	-0.04%	-2.53%
\$/DKK	6.5816	-0.07%	-5.69%
\$/TRY	5.5195	-0.79%	-31.19%
EUR/GBP	0.8917	0.13%	-0.40%
EUR/JPY	128.31	0.02%	5.43%
EUR/CHF	1.1398	0.06%	2.68%
COMMODITIES			
Gold Spot \$/Oz	1217.13	-0.47%	-6.58%
Silver Spot \$/Oz	14.38	-0.65%	-15.11%
Platinum Spot \$/Oz	833.42	-0.37%	-10.22%
Palladium Spot \$/Oz	1076.74	-0.07%	1.24%
COPPER \$/lb	266.65	0.09%	-20.41%
WTI \$/bbl	66.63	0.68%	10.28%
BRENT \$/bbl	76.43	0.69%	14.30%

In focus today

	TIME (LT)	EVENT	FCAST	PRIOR
EUR	12:00	Eurozone CPI Flash Estimate YoY	2.20%	2.10%
EUR	12:00	Eurozone Core CPI YoY	1.10%	0.90%
USD	14:15	US ADP Nonfarm Employment	188k	230k
CAD	14:30	Canada GDP MoM	0.00%	0.20%
CHF	19:15	Swiss SNB Jordan speaks		
CAD	22:15	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

STOCKS & BONDS

Asian stocks clawed up from 20-month lows on Wednesday amid pledges by China to support its markets, but investor confidence was brittle after equity markets bled trillions of dollars in a grim October. A confluence of factors ranging from Sino-U.S. trade tensions to worries about global economic growth, higher U.S. interest rates and company earnings have spurred volatility in financial markets in the past few weeks. But shares in Europe were expected to follow Asia's lead higher on the last day of the month, while U.S. S&P mini-futures edged up 0.3%. MSCI's broadest index of Asia-Pacific shares outside Japan rose 1%, drawing support from gains on Wall Street overnight. Yet it was on track to fall around 11% this month, which would be its worst monthly performance since September 2011. The index had dropped to its lowest level since Feb 2017 on Monday as worries over corporate profits weighed heavily on U.S. equities. The MSCI AC World index, which includes a few large emerging markets in addition to developed markets, was down 8.6% this month and has lost about \$4 trillion in value. The narrower MSCI World Index was down 8.43% and has wiped out \$4.5 trillion in October.

Major US stock indexes jumped more than 1% on Tuesday, helped by strong gains for chip and transport stocks as investors took advantage of cheaper prices following a steep recent pullback for equities. All 11 major S&P 500 sectors ended higher a day after a volatile session that pushed the benchmark S&P 500 lower and close to confirming its second correction of 2018. The Philadelphia semiconductor index jumped 4.2%, its biggest one-day percentage gain since March. Intel surged 5.2% and gave the biggest single-stock boost to the S&P 500. Chip stocks also gained following a brokerage upgrade of Nvidia shares and a better-than-expected report from chip-gear maker KLA-Tencor. Nvidia shares jumped 9.4% and KLA-Tencor shares rose 7.6%. Chip stocks had dropped broadly on Monday, as renewed concerns about US-China trade tensions sparked declines. The Dow Jones Transport Average jumped 2.8%, its biggest one-day rise in about a year. A drop in oil prices may have boosted closely watched transport shares, Carlson said. Market volatility has spiked in recent weeks, stemming from higher US interest rates and worries about economic growth peaking and trade tensions. Investors also may be increasingly nervous about uncertainty surrounding US congressional elections, now just a week away. The S&P is on pace for its biggest monthly percentage drop in more than eight years. Despite the big overall profit increase, some high-profile companies have issued disappointing reports.

Most Gulf stock markets dropped marginally yesterday. Dubai's blue-chip index rose sharply and marked its biggest intra-day gain in nearly three weeks, lifted by real estate and banks. The Dubai index added 1.1%, boosted by a near 3% gain in Emaar Properties and a 2.2% rise in Emirates NBD after it posted a double-digit jump in quarterly profit, led partly by higher net interest income. Saudi Arabia's bourse was down 0.2%, hurt by a 0.5% dip in bellwether Al Rajhi Banking & Investment Corp and a 2.4% slide in Arab National Bank.

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Saudi Arabia	7832.98	-0.19%	8.40%
Abu Dhabi	4854.65	-0.03%	10.37%
Dubai	2752.86	0.34%	-18.31%
Qatar	10164.93	0.01%	19.26%
Oman	4421.11	0.01%	-13.30%
Egypt	13154.56	0.61%	-12.41%
Kuwait	5250.27	0.49%	9.53%
Bahrain	1312.90	0.00%	-1.41%
10-YEAR BONDS			
U.S.	3.1359	0.0132	0.7305
Germany	0.3690	-0.0080	-0.0580
U.K.	1.3990	0.0000	0.2090
France	0.7430	0.0010	-0.0420
Australia	2.6270	0.0450	-0.0030
Japan	0.1250	0.0030	0.0770

Major Company News

- Commonwealth Bank of Australia will sell its asset management arm to Mitsubishi UFJ Financial Group for \$2.9 billion in a surprise sale, the latest business to be sold by an Australian financial giant.
- Standard Chartered Plc shares rose after the bank benefited from growth in Asia and also signaled it was bringing costs under control.
- Facebook relieved investors by forecasting that margins would stop shrinking after 2019 as costs from scandals ease up, sending shares up despite a 2nd-straight quarter with record-low user growth.
- Xilinx Inc., a maker of programmable chips increasingly being used in data centers, has won orders from Microsoft's Azure cloud unit, replacing chips made by Intel Corp (Bloomberg sources).
- T-Mobile US Inc exceeded quarterly estimates for net new phone subscribers and profit, driven by its competitive wireless plans and trade-in offers for iPhones aimed at fending off its bigger rivals.
- General Electric shares tumbled 8.8% after drastically reducing its dividend and said it faced a deeper accounting probe.
- GE's Baker Hughes on Tuesday said improving oil markets helped it post a Q3 adjusted net profit versus a year-earlier adjusted loss.
- Coca-Cola Co's shares rose 2.5% after the beverage maker's quarterly revenue and profit topped Wall Street expectations.
- Under Armour Inc's shares surged 24.7% after the sportswear maker's upbeat quarterly earnings and full-year profit forecast.
- Samsung slashed 2018 capex by more than a quarter on Wednesday and warned of lower profit until early next year, calling an end to a two-year boom in memory chips that fueled record Q3 profit.

TOP SELECTED NEWS

China factory growth weakest in over 2 years

(Reuters) China's manufacturing sector barely expanded in October and missed expectations, as both domestic and external demand ebbed, in a sign of deepening cracks in the economy from an intensifying trade war with the US. The official PMI, released on Wednesday, fell to 50.2 in October, the lowest since July 2016 and down from 50.8 in September. It was a touch above the 50-point mark that separates growth from contraction for a 27th straight month. Analysts surveyed by Reuters had forecast the official gauge, which gives global investors their first look at business conditions in China at the start of the last quarter of the year, would dip slightly to 50.6 for the month. The latest reading suggests a further slowing in the world's second-biggest economy and could prompt more policy support from Beijing on top of a raft of recent initiatives. New export orders, an indicator of future activity, contracted for a fifth straight month and at the fastest pace in at least a year. China's exports unexpectedly kicked into higher gear in September, largely as firms front-loaded shipments to dodge stiffer US duties, though analysts see pressure building in coming months. The continued slump in export orders may be bearing that scenario out. October is the first full month after the latest US tariffs went into effect.

Brexit worry drags UK business optimism

(Bloomberg) UK businesses are getting increasingly nervous about Prime Minister Theresa May's ability to pull off a Brexit deal. Optimism in Britain's economy slumped in October to the lowest level this year, with confidence falling in almost all parts of the country, Lloyds Bank said in a survey published on Wednesday. The concern is spread across firms of sizes, with both bigger and smaller companies more worried about UK's impending exit from the EU, according to the survey. Brexit negotiations remain deadlocked as differences within May's own party prevent any compromise at home. There's still no clear road-map on future trading conditions with the bloc, while a no-deal divorce could result in chaos after March 29, the formal date of exit. The effects were visible on shop floors as well. Lower consumer demand and stiff competition forced retailers to cut prices on clothes and electrical items in October, the British Retail Consortium and Nielsen said in a separate report. Prices fell 0.2% during the month, and that trend may continue, according to the report.

Australia's weak core inflation keeps c. bank on sidelines

(Bloomberg) Australia's core inflation was weaker than forecast in the three months through September, suggesting the central bank's prolonged interest-rate pause still has further to run. Annual trimmed-mean inflation, the key core measure, rose 1.8% in the third quarter compared with a forecast 1.9%; the weighted-median gauge, also a core measure, gained 1.7% versus 1.9% estimate. The consumer price index, or headline inflation, rose 1.9%, matching estimates and still shy of the Reserve Bank of Australia's 2-3% target. Tradable goods prices, which are impacted by the currency and other international factors, rose 0.8% in the quarter.

China to sell debt in Hong Kong to support renminbi

(Financial Times) The People's Bank of China will issue Rmb20bn (\$2.9bn) in central bank bills in Hong Kong's offshore renminbi market, part of China's efforts to support the offshore renminbi bond market by providing an interest-rate benchmark.

The issuance will also serve to support the renminbi exchange rate by soaking up offshore renminbi (CNH) liquidity, raising the borrowing costs for investors who want to borrow CNH in order to bet on renminbi depreciation. The renminbi has this week been trading at its lowest level against the dollar in 10 years. The PBoC and the Hong Kong Monetary Authority in late September announced the plan for PBoC to sell bills, but the announcement on Wednesday provides detail on the timing, size and tenor of the deal. The PBoC will issue Rmb10bn in 91-day bills and an additional Rmb10bn in one-year bills, both on November 7. China's finance ministry has previously issued government bonds in Hong Kong, but the sale announced on Wednesday will be China's first-ever sale of central bank bills in the territory. In October 2015, the PBoC issued Rmb5bn in one-year bills in London's offshore renminbi market, the first-ever sale of such instruments outside China.

US consumer confidence at 18-yr high; house price slow

(Reuters) U.S. consumer confidence rose to an 18-year high in October, driven largely by a robust labor market, bolstering expectations that strong economic growth would continue through early 2019. But a weakening housing market and tightening financial market conditions are casting a shadow on the economic expansion that is in its ninth year, the second longest on record. Home price gains slowed further in August, other data showed, another sign that higher mortgage rates were weighing on housing demand. The Conference Board said its consumer confidence index reading rose to 137.9 this month, the highest since September 2000, from a downwardly revised 135.3 in September. Economists polled by Reuters had forecast the consumer index slipping to 136.0 from the previously reported 138.4 in September. Consumers' assessment of current business and labor market conditions improved despite a sharp stock market sell-off and jump in U.S. Treasury yields, which have tightened financial market conditions. A separate report on Tuesday showed the S&P CoreLogic Case-Shiller composite home price index of 20 U.S. metropolitan areas rose 5.5% in August from a year ago after increasing 5.9% in July. Growth in house prices has slowed from as high as 6.8% in March. Prices had been boosted by a shortage of properties on the market, but now mortgage rates have risen to seven-year highs.

Trump targets US birthright citizenship as elections loom

(Reuters) With congressional elections a week away, President Donald Trump on Tuesday said he will seek to scrap the right of citizenship for US-born children of non-citizens and illegal immigrants as he tries again to dramatically reshape immigration policies. Reviving his support for a legally questionable theory, Trump told the Axios news website he would issue an executive order on so-called birthright citizenship, an issue that has long rankled some conservative Republicans. Trump's previous calls to end the practice have resonated with his political base, but moderate Republicans and some legal experts say Trump is running afoul of the US Constitution. Under the Constitution's 14th Amendment, enacted in the wake of the Civil War to ensure that black Americans previously subject to slavery had full citizenship rights, citizenship is granted to "all persons born or naturalized in the US." It has been routinely interpreted over the years to confer citizenship to people born in the US whose parents are illegal immigrants.

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