

THE DAY AHEAD

MARKET RECAP at 4 pm ET

Major indexes eked out gains as upbeat retail sales data and strong Walmart results offset recession fears and trade tensions. The **30-year bond yields** fell to a record low and **Benchmark yields** dropped to a three-year trough. **Oil prices** extended losses. The **dollar** recovered from early weakness while **gold** steadied.

| STOCKS | Close | Chng | %Chng | Yr-high | Yr-low |
|-----------|----------|---------|-------|----------|----------|
| DJIA | 25579.32 | 99.9 | 0.39 | 27398.68 | 21712.53 |
| Nasdaq | 7766.62 | -7.32 | -0.09 | 8339.64 | 6457.13 |
| S&P 500 | 2847.59 | 6.99 | 0.25 | 3027.98 | 2443.96 |
| Toronto | 16012.53 | -33.41 | -0.21 | 16672.71 | 13776.88 |
| FTSE | 7067.01 | -80.87 | -1.13 | 7727.49 | 6599.48 |
| Eurofirst | 1438.46 | -3.98 | -0.28 | 1554.34 | 1308.86 |
| Nikkei | 20405.65 | -249.48 | -1.21 | 22362.92 | 19241.37 |
| Hang Seng | 25495.46 | 193.18 | 0.76 | 30280.12 | 24896.87 |

| TREASURIES | Yield | Price |
|------------|--------|--------|
| 10-year | 1.5067 | 22 /32 |
| 2-year | 1.4795 | 6 /32 |
| 5-year | 1.3996 | 14 /32 |
| 30-year | 1.9616 | 49 /32 |

| FOREX | Last | % Chng |
|-----------------|--------|--------|
| Euro/Dollar | 1.1113 | -0.22 |
| Dollar/Yen | 106.02 | 0.12 |
| Sterling/Dollar | 1.2108 | 0.41 |
| Dollar/CAD | 1.3314 | -0.02 |
| TR/HKEX RMB | 92.34 | -0.02 |

| COMMODITIES (\$) | Price | Chng | % chng |
|------------------------------|---------|--------|--------|
| Front Month Crude /barrel | 54.73 | -0.50 | -0.91 |
| Spot gold (NY/oz) | 1522.60 | 6.52 | 0.43 |
| Copper U.S. (front month/lb) | 0.0259 | 0.0000 | -0.17 |
| CRB Index Total Return | 178.79 | -0.63 | -0.35 |

| S&P 500 | Price | \$ Chng | % Chng |
|--------------------------|--------|---------|--------|
| GAINERS | | | |
| Agilent Technologies Inc | 69.61 | 4.02 | 6.13 |
| Walmart Inc | 112.68 | 6.48 | 6.10 |
| NetApp Inc | 46.47 | 1.76 | 3.94 |
| LOSERS | | | |
| Tapestry Inc | 19.35 | -5.65 | -22.60 |
| General Electric Co | 8.00 | -1.03 | -11.41 |
| Cisco Systems Inc | 46.25 | -4.36 | -8.61 |

Coming Up



A file photo of John Deere equipment seen at a John Deere dealership in Taylor, Texas, U.S., February 16, 2017. REUTERS/Mohammad Khursheed

Deere & Co will release its third-quarter earnings. The company is expected to report higher quarterly earnings, but investors will look for a report on the impact of the escalating trade war with China and bad weather on farm equipment demand.

The Commerce Department is expected to show U.S. **housing starts** for July increased to 1.257 million units, from 1.253 million units in June. University of Michigan's **consumer sentiment index (prelim)** is expected to show a reading of 97.2 in August, after showing a reading of 98.4 in July.

KEY ECONOMIC EVENTS

| Events | ET | Poll | Prior |
|---|------|-----------|-----------|
| Building permits: number for Jul | 0830 | 1.270 mln | 1.232 mln |
| Build permits: change mm for Jul | 0830 | -- | -5.2% |
| Housing starts number for Jul | 0830 | 1.257 mln | 1.253 mln |
| House starts mm: change for Jul | 0830 | -- | -0.9% |
| U Mich Sentiment Preliminary for Aug | 1000 | 97.2 | 98.4 |
| U Mich Conditions Preliminary for Aug | 1000 | 110.4 | 110.7 |
| U Mich Expectations Preliminary for Aug | 1000 | 89 | 90.5 |
| U Mich 1 year inflation preliminary for Aug | 1000 | -- | 2.6% |
| U Mich 5-year inflation preliminary for Aug | 1000 | -- | 2.5% |

Market Monitor

The **S&P 500** and the **Dow** gained ground in a late rally as upbeat retail sales data offset recessionary fears and simmering U.S.-China trade tensions. All three major U.S. stock indexes struggled for direction as investors grappled with mixed messages of a strong consumer data and dropping U.S. Treasury yields. **Walmart** shares rose 6.1% after it beat second-quarter Street estimates, allaying concerns about waning consumer demand. Those concerns were further eased when retail sales data surpassed analyst expectations. Impending U.S. tariffs weighed on **Cisco Systems**, which plunged 8.61%. Trade-sensitive **industrials sector** fell 0.23% to 612.61 and **technology index** fell 0.19% to 1345.34. The **Dow Jones Industrial Average** rose 0.39% to 25,579.32, the **S&P 500** rose 0.25% to 2,847.59 and the **Nasdaq Composite** dropped 0.09% to 7,766.62 at close.

U.S. **30-year Treasury yields** fell to a record low and **benchmark 10-year notes** dropped to a three-year trough amid persistent worries about global trade tensions and economic slowdowns around the world. U.S. yields fell further in mid-afternoon trading. Analysts said the slide was due to a report from The Spectator that Federal Reserve Chairman Jerome Powell has banned any public appearances by any member of the central bank. Reuters, however, cannot verify the accuracy of the Spectator report. "Clearly that report moved the market: it moved Treasuries in particular," said Lou Brien, market strategist, at DRW Trading in Chicago. Yields on 30-year bonds, fell to fresh record lows of 1.916% and yields on the U.S. benchmark 10-year Treasury note hit three-year lows of 1.475%. "One of the interpretation to the report



Traders work on the floor at the New York Stock Exchange in New York, U.S., August 14. REUTERS/Eduardo Munoz

is that it's a blackout period before a surprise move by the Fed."

Benchmark notes rose 22/32 yielding 1.50%. Short dated **2-year notes** were up 6/32 to yield 1.47%. The **30-year bonds** were up 1-17/32 yielding 1.96%.

The **dollar** recovered from early weakness against the safe-haven yen to advance modestly as better-than-expected U.S. retail sales data tempered concerns that the U.S. economy could be headed for a recession. The **dollar** was up 0.12% against the **Japanese yen** at 106.02 yen. The **dollar index** was up 0.11% at 98.09.

Oil prices fell pressured by mounting recession concerns and China's threat to impose counter-measures in retaliation for the latest U.S. tariffs on \$300 billion of Chinese goods. "Oil is getting whacked again as risk-aversion again kicks in and fears of a trade war

inflicted slowdown grip traders," said Craig Erlam, senior market analyst at OANDA. Meanwhile, a second week of unexpected rises in U.S. crude inventories is added to the pressure. U.S. crude stocks grew by 1.6 million barrels last week, compared with expectations for a drop of 2.8 million barrels, the Energy Information Administration said. **Brent crude** fell 1.87% to \$58.37 a barrel. **U.S. crude** was down 0.92% to \$54.72 a barrel.

Gold prices rose as lingering fears over a global economic downturn and lack of clarity on the U.S.-China trade front kept the safe haven precious metal comfortably above the key \$1,500 per ounce mark. "But with the U.S. retail sales data coming out as strong as they did, that's seeing some market participants rethink their bets," said Daniel Ghali, commodity strategist at TD Securities. **Spot gold** was up 0.44% at \$1,522.70 per ounce. **U.S. gold futures** rose 0.34% to \$1,533 per ounce.

Top News

GE shares fall on Madoff whistleblower calling its finances a fraud

General Electric shares fell after fraud investigator Harry Markopolos, who blew the whistle on Bernard Madoff's Ponzi scheme, said GE was concealing deep financial problems, prompting a sharp rebuke from GE's new CEO. GE Chief Executive Officer Larry Culp said Markopolos' 175-page report contained factual errors and constituted "market manipulation - pure and simple," because Markopolos stood to profit from short-selling tied to its release. In the report, Markopolos accused GE of hiding \$38 billion in potential losses and asserted that the company's cash and debt positions were far worse than it had disclosed. "GE's true debt to equity ratio is 17:1, not 3:1, which will undermine its credit status," Markopolos said. The report also says GE is insolvent and asserts that its industrial units have a working capital deficit of \$20 billion. "He is selectively front-running widely reported regulatory processes and rigorous investigations without the benefit of any access to GE's books and records," GE board member and audit committee chair Leslie Seidman said in a statement, referring to Markopolos. GE's shares ended 11.41% lower at \$8 at market close.

Walmart's earnings beat allays worry over tariff impact for now

Walmart reported strong second-quarter results and raised its earnings expectations for the year, temporarily sidestepping concerns around consumer demand in the wake of tariffs on imports from China. The world's largest retailer posted a 20-quarter, or five-year, streak of U.S. growth, unmatched by any other retail chain. Consumers are responding to the changes the company is making to its business and the company is gaining



A file photo shows a traffic light in front of a logo of General Electric at the company's plant in Birr, Switzerland, June 17. REUTERS/Arnd Wiegmann

market share, Chief Executive Doug McMillon said in a statement. In an interview, Chief Financial Officer Brett Biggs said Walmart has raised prices on some items due to these tariffs, but it is not passing all the cost pressure it faces to consumers. It is managing that by negotiating with suppliers and sourcing from alternate supply bases, he said. Sales at U.S. stores open at least a year rose 2.8%, excluding fuel, in the quarter ended July 31. Analysts estimated growth of 2.07%, according to IBES data from Refinitiv. Adjusted earnings per share increased to \$1.27 per share, beating expectations of \$1.22 per share.

Alibaba results beat estimates on cloud, e-commerce growth

China's Alibaba Group reported better-than-expected quarterly revenue and profit, aided by growth in its e-commerce and cloud computing businesses. The beats show the company is managing to outperform expectations even as it weathers an increasingly competitive e-commerce industry and a tougher macroeconomic environment. Alibaba's revenue rose 42% to 114.92 billion yuan in its first

quarter ended June 30 from 80.92 billion yuan, a year earlier. Revenues at its cloud computing business rose 66% to 7.79 billion yuan, while those at its core commerce business rose 44% to 99.54 billion yuan. Net income attributable to ordinary shareholders was 21.25 billion yuan. Excluding items, the company earned 12.55 yuan per American Depository Share.

Democratic U.S. senator asks Facebook CEO if he gave 'incomplete' testimony

Democratic U.S. Senator Gary Peters asked Facebook's chief to answer questions about his April 2018 congressional testimony in light of reports that Facebook captured audio from users and sent it to a vendor to be analyzed and transcribed. "I asked you specifically if Facebook uses audio obtained from mobile devices to enrich personal information about its users. Your emphatic answer was no," Peters wrote in a letter to Chief Executive Mark Zuckerberg. "If these reports are accurate, I am concerned that your previous testimony before Congress appears to have been, at best, incomplete." The letter noted that

Facebook later submitted written responses to Congress that it does in fact access users' audio when they have opted in and used a specific Facebook service. Separately, Facebook is restricting access to increasing amounts of content in Vietnam, a government official said, as the Southeast Asian country ramps up a campaign to tighten access to the internet. To read more, [click here](#)

J.C. Penney quarterly loss halves, sales still fall amid turnaround

J.C. Penney reported a smaller-than-expected quarterly loss, as the department store operator's efforts to cut costs and shutter unprofitable businesses paid off. The retailer reaffirmed it expected positive free cash flow this year and would have funds of around \$1.5 billion available at the end of 2019. The retailer also gave a forecast for 2019, the first full-year outlook it has given since withdrawing its 2018 expectations in November to give new Chief Executive Jill Soltau time to settle in. Excluding items, Penney posted a loss of 18 cents per share, lower than estimates of 31 cents.

American, Southwest Airlines bump more passengers after 737 MAX grounding

American Airlines and Southwest are bumping thousands of passengers off airplanes after their Boeing 737 MAX fleet's was grounded in mid-March following two fatal crashes. The Federal Aviation Administration reported that American denied seats to 69,924 passengers voluntarily in the first six months of 2019, up from 28,409 in the same period last year, while involuntarily denying boarding to 5,022 passengers, up from 678 in the same period last year. Southwest denied seats to 22,364 people voluntarily through June, compared with 10,364 in the first half of 2018, while it involuntarily denied boarding to

2,525, up from 1,045 in the first six months of 2018. The FAA noted the airlines told the agency "the grounding of the 737 MAX aircraft has negatively impacted their involuntary denied boarding statistics."

Tapestry sees Kate Spade turnaround taking more time, shares plunge

Tapestry shares tumbled after the high-end fashion house forecast a surprise fall in first-quarter revenue and profit and said it was not sure when same-store sales at Kate Spade would rise. Weakness at the millennial-centric brand also prompted the company to cut its full-year profit growth expectations. Chief Executive Officer Victor Luis blamed a lack of newness in some Kate Spade satchels and heavy discounts from competing brands for the drop. Excluding items, the company earned 61 cents per share, in line with expectations. Net sales rose 2% to \$1.51 billion, but missed estimates of \$1.53 billion, according data from Refinitiv. Shares of the company ended 22.6% lower at \$19.35 at market close.

CFTC says Kraft, Mondelez to pay \$16 million in wheat price manipulation case

The U.S. Commodity Futures Trading Commission (CFTC) said Kraft Heinz and Mondelez will have to pay \$16 million in penalty regarding a wheat manipulation case that dates back to 2015. Kraft Heinz, which was Kraft Foods until 2015, and Mondelez bought \$90 million of December 2011 wheat futures, which gave the companies a dominant position in the market, even though they never intended to take possession of the grain, the CFTC said. The move sent a false signal that the companies had demand for wheat and caused an artificial price fluctuation that earned them more than \$5 million in profits, the CFTC said. Both companies said they strongly disagree with CFTC's

statement, which "blatantly violate and misrepresent the terms and spirit of the consent order", and will be seeking immediate relief from the court.

Amazon faces online backlash in China for T-shirts with Hong Kong democracy slogans

Chinese social media users directed their fury at online marketplace Amazon.com, after discovering T-shirts on its website sporting slogans that support anti-government protesters in Hong Kong. The widely-read Global Times tabloid, published by China's state-owned People's Daily, said many Chinese internet users found the T-shirts for sale carrying slogans such as "Free Hong Kong Democracy Now" and "Hong Kong is Not China," among others. The company said in a statement, "Amazon has always and will continue to acknowledge the longstanding and widely-recognized policy of 'one China, two systems'. Every country where we operate has different laws, and we will continue to respect those local laws where we do business."

Lawyer Avenatti seeks to end 'vindictive' Nike prosecution he blames on Trump feud

Lawyer Michael Avenatti asked a federal judge to dismiss an indictment accusing him of trying to extort Nike, saying he was targeted in a "vindictive and selective prosecution" because of his feud with U.S. President Donald Trump. In a Wednesday night court filing, Avenatti blamed the office of U.S. Attorney Geoffrey Berman in Manhattan for having "eschewed the typically careful and thoughtful fact-gathering investigation on which it historically prides itself" in its "zest to nab" him. Avenatti also said Trump and his family "have demonstrated genuine animus" toward him and that it was clear he would not have been prosecuted if not for that animus.



Military vehicles are parked on the grounds of the Shenzhen Bay Sports Center in Shenzhen, China, August 15. REUTERS/Thomas Peter

Insight and Analysis

COLUMN-Coal may be dying, but growth in the seaborne market says not yet: Russell

The prevailing market view on coal is that the industry is now facing terminal decline, as renewables and natural gas displace the polluting fuel. The problem is the facts don't quite fit the narrative. The coal industry can be split into two broad sectors, namely coal mined and burnt domestically, and the seaborne market, where coal is mined and exported to countries that need to import energy. Recent media headlines on the seaborne market are largely bearish, with one of the latest being an interview of Guillermo Fonseca, the

chief executive of Colombian coal exporter Cerrejon, who told Bloomberg News that the market for the fuel "is disappearing." Add to this pessimistic assessment the sale by mining major Rio Tinto of its thermal coal assets, plans by rival BHP Group to do the same and a commitment by another big miner, Glencore, to cap production and the picture emerges of an industry on the brink.

COLUMN- LME open-outcry trading holds off electronic challenge: Andy Home

The London Metal Exchange (LME) is now the only open-outcry market in

Europe and one of the last in the world. The London Stock Exchange closed its trading floor as long ago as 1986. The London International Financial Futures Exchange permanently shut the last of its pits in 2000, taking with it the bright-jacketed traders that enlivened the grey Cityscape. The LME's nine ring-dealing members were therefore understandably nervous about the exchange's intention in mid-March to trial an electronic close for the last of the ring sessions. The results of the three-month experiment, however, generated no compelling evidence either for or against open-outcry trading.



CANADA

Market Monitor

Canada's main stock index ended lower, as the inversion of the country's yield curve raised fears of a looming recession, adding to worries over slowing global growth. The **Toronto Stock Exchange's S&P/TSX composite index** ended down 0.21% at 16,012.53.

The heavyweight **financials sector** was down 0.35% at 289.81 and the **industrials sector** fell 0.61% to 269.9.

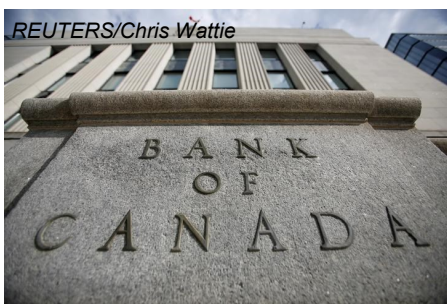
The **U.S. dollar** was flat against its **Canadian counterpart** at C\$1.3317.

COMING UP

No major events are scheduled.

| TSE's S&P/TSX composite | Price | C\$ chng | % chng |
|--|-------|----------|--------|
| GAINERS | | | |
| Boardwalk Real Estate Investment Trust | 43.40 | 1.82 | 4.38 |
| Alamos Gold Inc | 9.55 | 0.37 | 4.03 |
| Hudbay Minerals Inc | 4.39 | 0.16 | 3.78 |
| LOSERS | | | |
| Canopy Growth Corp | 36.41 | -6.16 | -14.47 |
| Birchcliff Energy Ltd | 1.91 | -0.19 | -9.05 |
| Cronos Group Inc | 16.13 | -1.57 | -8.87 |

Top News



Canada's yield curve inversion turns up pressure on central bank to cut rates

Inversion of Canada's yield curve by the most in nearly two decades is threatening to coerce the Bank of Canada to cut interest rates rather than risk an economic downturn, portfolio managers said on Wednesday. "The Bank of Canada can't ignore what's happening in debt markets and the inversion of the yield curve," said Sal Guatieri, a senior economist at BMO Capital Markets. "It's so highly inverted now, a reduction in policy rates would at least provide some semblance of normality." Canada runs a current account deficit and exports many commodities, including oil, so its economy could be hurt by a slowdown in the global flow of trade or capital. A potential Bank of Canada rate cut could hurt the Canadian dollar, one of the top

performing G10 currencies this year.

Canada's Intact Financial to buy Guarantee Co, Frank Cowan for C\$1 billion

Canadian property and casualty insurer Intact Financial said it agreed to buy The Guarantee Co of North America and Frank Cowan Co for C\$1 billion in cash from Princeton Holdings Ltd. The deal, expected to close in the fourth quarter, will bolster Intact's position by adding new products for its high net worth customers, the company said. Intact expects the deal to add to net operating income per share immediately, with low single-digit accretion within 24 months after close.

Canopy Growth needs another 3-5 years to turn profit

Canopy Growth said it expects another three to five years to turn in a profit as Canada's largest cannabis company invests heavily to diversify and expand. Canopy posted a C\$1.2 billion loss and lower-than-expected sales for the first quarter. Brokerage BMO Capital Markets in a note cautioned that Canopy's earnings would further deteriorate as it looks to launch cannabis products, resulting in significant working capital investment

and operating expenses. On an earnings call with analysts, Canopy also flagged less store counts in key provinces like Ontario, adding to growing concerns about oversupply in the nascent Canadian market.

Ethics breach plunges Canada's Trudeau back into image crisis ahead of vote

Canadian Liberal Prime Minister Justin Trudeau's already tough re-election bid got tougher this week when the country's ethics watchdog delivered a scathing rebuke less than 10 weeks before the October vote. Independent ethics commissioner Mario Dion on Wednesday said Trudeau improperly pressured his former attorney general to spare engineering firm SNC-Lavalin Group from a corruption trial. "The big issue for the Liberal Party of Canada is that this undercuts their top asset - the prime minister's brand," said Darrell Bricker, head of polling company Ipsos Public Affairs. "It's what won the last election. He IS their strategy." "It really comes down to a matter of timing," said Shachi Kurl, executive director of the Angus Reid Institute, another pollster. "Will Justin Trudeau have enough time to absorb this set back?" The election is set for Oct. 21.



WEALTH NEWS

ECONOMIC REPORT

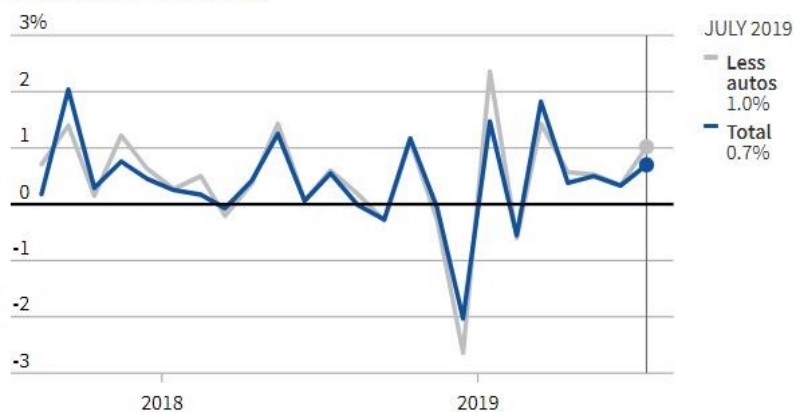
Strong U.S. retail sales ease gloom over economy

U.S. retail sales surged in July as consumers bought a range of goods even as they cut back on motor vehicle purchases, helping to assuage financial market fears that the economy was heading into recession. Retail sales increased 0.7% last month after gaining 0.3% in June, the government said. Excluding automobiles, gasoline, building materials and food services, retail sales jumped 1.0% last month after advancing by 0.7% in June. Solid consumer spending is blunting some of the hit on the economy from the downturn in manufacturing, which is underscored by weak business investment. The sector's struggles were highlighted by a report from the Fed showing factory production dropped 0.4% in July. Initial claims for state unemployment benefits increased 9,000 to a seasonally adjusted 220,000 for the week ended Aug. 10, the Labor Department said.

U.S. retail sales

Click on the chart for a detailed and interactive graphic

MONTHLY CHANGE



Source: Thomson Reuters Datastream

By Jiachuan Wu and Stephen Culp | REUTERS GRAPHICS

TARIFF WARS

China to counter latest U.S. tariffs as Trump vows deal on U.S. terms

China vowed to counter the latest U.S. tariffs on \$300 billion of Chinese goods but called on the United States to meet it halfway on a potential trade deal, as U.S. President Donald Trump said any pact would have to be on America's terms.

UPS INVESTS IN TUSIMPLE

UPS buys stake in TuSimple, testing self-driving trucks in Arizona

UPS said it has bought a minority stake in self-driving company TuSimple, and the world's largest package delivery company has been testing the startup's autonomous trucks since May on a busy freight route in Arizona.

TRADE DISPUTE

WTO paves way for China to seek sanctions against U.S.

The World Trade Organization (WTO) adopted final findings against U.S. duties imposed on a range of Chinese imports, effectively giving Beijing a green light to seek compensatory sanctions.

ANTITRUST QUERIES

U.S. antitrust unit seeks additional information from United Tech, Raytheon

United Technologies and Raytheon have received requests for additional information from the antitrust division of the U.S. Department of Justice related to their \$120 billion merger, according to a regulatory filing.

COLLABORATION

Mastercard, Indonesia's Artajasa to collaborate on payment gateway

Mastercard said it signed an agreement with Indonesian payment switching firm Artajasa Pembayaran Elektronik to make a foray into the Southeast Asian country's national payment gateway system.

BITCOIN EXTENDS LOSSES

Bitcoin slumps to two-week low on technical trading, market jitters

Bitcoin extended losses after suffering its worst day for a month on Wednesday, with traders citing factors ranging from technical trading to jitters in traditional markets washing into cryptocurrency trading.

KEY RESULTS

| Company Name* | Quarter | ET | Smart Estimates | EPS Estimates** | Year Ago | Rev Estimates (mln) |
|---------------|---------|-----|-----------------|-----------------|----------|---------------------|
| Deere & Co | Q3 | BMO | \$2.83 | \$2.85 | \$2.59 | \$9,386.98 |

**Includes companies on S&P 500 index. **Estimates may be updated or revised; release times based on company guidance or past practice.*

I/B/E/S EPS and revenue estimates, and StarMine Smart Estimates, provided by Refinitiv.

The Financial and Risk business of Thomson Reuters is now Refinitiv.

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For questions or comments about this report, email us at: TheDay.Ahead@thomsonreuters.com.

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