

# THE DAY AHEAD

## MARKET RECAP at 4 pm ET

**Major indexes** edged lower as a rally sparked by progress in U.S.-China trade talks faded. **Treasury yields** were narrowly mixed. The **euro** eased against the **dollar** after the European Central Bank stopped new bond purchases. **Oil** prices rallied on declining U.S. crude inventories and hopes of tightening global supplies and **gold** prices slipped.

STOCKS	Close	Chng	%Chng	Yr-high	Yr-low
DJIA	24597.38	70.11	0.29	26951.81	23344.52
Nasdaq	7070.33	-27.98	-0.39	8133.30	6630.67
S&P 500	2650.50	-0.57	-0.02	2940.91	2532.69
Toronto	14750.35	-32.71	-0.22	16586.46	14610.18
FTSE	6877.50	-2.69	-0.04	7903.50	6673.57
Eurofirst	1380.07	-1.58	-0.11	1587.95	1337.26
Nikkei	21816.19	213.44	0.99	24448.07	20347.49
Hang Seng	26524.35	337.64	1.29	33484.08	24540.63

TREASURIES	Yield	Price
10-year	2.9131	-2 /32
2-year	2.7599	1 /32
5-year	2.7545	2 /32
30-year	3.1686	-13 /32

FOREX	Last	% Chng
Euro/Dollar	1.1361	-0.06
Dollar/Yen	113.59	0.28
Sterling/Dollar	1.2662	0.26
Dollar/CAD	1.3349	0.00
TR/HKEX RMB	93.77	-0.17

COMMODITIES (\$)	Price	Chng	% chng
Front Month Crude /barrel	52.99	1.84	3.60
Spot gold (NY/oz)	1242.66	-2.74	-0.22
Copper U.S. (front month/lb)	0.0276	-0.0001	-0.25
Reuters/CRB Index Total Return	189.44	1.90	1.02

S&P 500	Price	\$ Chng	% Chng
<b>GAINERS</b>			
General Electric Co	7.18	0.47	7.00
Aflac Inc	45.75	2.85	6.64
Kimberly-Clark Corp	118.36	4.44	3.90
Macerich Co	48.78	1.67	3.54
<b>LOSERS</b>			
Monster Beverage Corp	53.43	-4.01	-6.98
HanesBrands Inc	13.80	-0.98	-6.63
Under Armour Inc	17.81	-1.20	-6.31
American Airlines Group Inc	32.46	-1.89	-5.50

## Coming Up



A file photo of a woman shopping at a Macy's department store in Manhasset, New York, November 28. REUTERS/Shannon Stapleton

**U.S. retail sales** might have increased 0.2 percent in November, slower than previous month's reading of 0.8 percent. **Industrial production data** is expected to edge up 0.3 percent in November, against a gain of 0.1 percent in October. Markit **manufacturing PMI and business inventories** data are also scheduled for release.

**Services activity in Brazil** might have grown 2 percent in October over the same month a year ago.

## KEY ECONOMIC EVENTS

Events	ET	Poll	Prior
Retail sales ex-autos mm for Nov	0830	0.2 pct	0.7 pct
Retail sales mm for Nov	0830	0.2 pct	0.8 pct
Retail control for Nov	0830	0.4 pct	0.3 pct
Industrial production mm for Nov	0915	0.3 pct	0.1 pct
Capacity utilization SA for Nov	0915	78.6 pct	78.4 pct
Manufacturing output mm for Nov	0915	0.3 pct	0.3 pct
Markit composite flash PMI for Dec	0945	--	54.7
Markit manufacturing PMI flash for Dec	0945	55.1	55.3
Markit services PMI flash for Dec	0945	54.7	54.7
Business inventories mm for Oct	1000	0.6 pct	0.3 pct



# Market Monitor

The S&P 500 ended little changed after a volatile session, as investors favored defensive sectors while the biggest drag came from financials and consumer discretionary stocks. Wall Street oscillated between positive and negative territory as it struggled to sustain an opening rally spurred by hopes for progress in U.S.-China trade negotiations. A Chinese commerce ministry spokesman had said Washington and Beijing were in close contact over trade. The S&P's **financial sector** was down 0.6 percent at 404.84 as bank stocks fell. **JP Morgan** fell 0.01 percent and **Goldman Sachs** lost 0.7 percent. The defensive **utilities** rose 0.88 percent to 287.02 and **real estate** gained 0.61 percent to 206.06. Retail stocks dropped, with **Under Armour** sliding 4.8 percent after the sportswear maker forecast 2019 revenue growth and profit below Wall Street estimates. The **S&P retail index** fell 0.41 percent to 2066.96, snapping a three-day rally. The **Dow Jones Industrial Average** was up 0.28 percent, at 24,596.71. The **S&P 500** was down 0.02 percent, at 2,650.49 and the **Nasdaq Composite** was down 0.39 percent, at 7,070.33.

**Treasury yields** were mixed in choppy trading within narrow ranges, as investors digested the European Central bank's reduced growth and inflation forecasts for next year along with a warning of economic risks to the region. "The market at the moment is focused on the ECB and we're sort of moving in line with Bunds for the most part," said Gennadiy Goldberg, interest rates strategist at TD Securities in New York. U.S. yields were also pressured by a steeper-than-expected drop in November's U.S. import prices, which followed Wednesday's tame consumer price reading. \$16 billion of 30-year government bonds were sold at a yield of 3.165 percent, lowest since September. The bid-to-cover ratio was 2.31, up from the previous auction's 2.08. Shorter-dated **2-year Treasury notes** rose 1/32 to yield 2.76 percent. The benchmark **10-year notes** fell 2/32 to yield 2.91 percent.



A file photo of traders working on the floor of the New York Stock Exchange (NYSE) in New York, December 10. REUTERS/Brendan McDermid

The **euro** held steady against the dollar after the European Central Bank, as expected, halted new bond purchases and promised to maintain policy support for the euro zone due to risks from trade tensions, Brexit and budget woes in Italy and France. Sterling edged higher following UK Prime Minister Theresa May's prevailing in her party's vote on her leadership the day before. "Continuing confidence and increasing caution," was how ECB President Mario Draghi at his news conference described the ECB's decision for ending the 2.6 trillion euro, four-year-long quantitative easing program. It will reinvest cash from maturing bonds. On the other hand, the ECB kept its primary rate target at -0.40 percent. It also marked down its outlook on regional growth. The **single currency** was 0.05 percent higher at \$1.1362. The **sterling** was up 0.27 percent at \$1.2663. An index that tracks the **greenback** against the euro, sterling and four other currencies was 0.02 percent higher at 97.07.

**Oil prices** climbed, after data showed inventory declines in the United States and as investors began to expect that the global oil market could have a deficit sooner than they had previously thought. OPEC's output agreement with Russia and Canada's decision to mandate production

cuts could create an oil market supply deficit by the second quarter of next year, if top producers stick to the deal, the International Energy Agency said in its monthly Oil Market Report. U.S. crude inventories at Cushing, Oklahoma, the delivery point for U.S. crude futures, fell by nearly 822,000 barrels in the week through Dec. 11, traders said, citing data from market intelligence firm Genscape. **Brent crude** was 2.69 percent up, at \$61.77 per barrel and **U.S. light crude** rose 3.60 percent to \$52.99 a barrel.

**Gold prices** fell as the dollar rose and investors latched on to gains in global stocks. Also weighing on bullion was an improved sentiment for risk, with global stock markets receiving a boost on signs of easing U.S.-China trade tensions. "It looks like ECB President Mario Draghi was a little more dovish than expected, so we are seeing the euro currency back off and the dollar strengthening, and this is weighing on gold prices," said Phil Streible, senior commodities strategist at RJO Futures in Chicago. "With equities rebounding this week, gold has fallen slightly out of favor as traders unwound their safe-haven bets," said Fawad Razaqzada, an analyst with Forex.com. **Spot gold** fell 0.19 percent to \$1,243.04 per ounce. **Gold futures** were down 0.24 percent, at \$1,247.0, at close.



# Top News

## Apple plans new \$1 billion campus for Austin, Texas

Apple said it would spend \$1 billion to build a second campus in Austin, Texas, that will house up to 15,000 workers as part of a broader push by U.S. companies to create more domestic jobs. The iPhone maker also said it plans to expand in Seattle, San Diego and Culver City, California, and add hundreds of jobs in Pittsburgh, New York and Boulder, Colorado, over the next three years. Apple said at the start of the year it would invest \$30 billion in the United States, taking advantage of a windfall from U.S. President Donald Trump's sweeping tax code overhaul. The 133-acre campus in Austin will be less than a mile from Apple's existing facilities and initially have 5,000 employees. The jobs created would be in engineering, research and development, operations and finance. "Apple is proud to bring new investment, jobs and opportunity to cities across the United States and to significantly deepen our quarter-century partnership with the city and people of Austin," Chief Executive Tim Cook said. Separately, Qualcomm is asking courts in China to ban sales of Apple's latest iPhone models XS and XR after winning a preliminary injunction against older models, the company confirmed. To read more on this, [click here](#)

## Delta Air Lines shares drop on weak revenue outlook

Shares in U.S. carrier Delta Air Lines dropped on concerns that slowing global economies would limit the No. 2 U.S. airline's revenue growth in 2019 despite strong travel demand. At its investor day, Delta forecast a 4 to 6 percent rise in revenues, compared to an average 5.6 percent rise forecast by Refinitiv data. The lower end of Delta's 2019 profit forecast of \$6 to \$7 per share also fell short of an average \$6.70 forecast by Refinitiv. To boost revenues, Chief Executive Officer Ed Bastian said Delta would continue segmenting its cabins with an increased focus on higher-margin premium products.



A file photo of customers walking past an Apple logo inside an Apple store at Grand Central Station in New York, August 1. REUTERS/Lucas Jackson

## Trump says GM shift to electric vehicles is 'not going to work'

President Donald Trump said the decision of General Motors to shift much of its focus to electric vehicles will not succeed, and he asserted a new trade deal will make it harder for the company to move work to other countries. Last year, GM said it planned to launch 20 new electric vehicles by 2023 as it faces rising regulatory requirements for zero-emission vehicles in China and elsewhere. The largest U.S. automaker has come under enormous criticism in Washington after it announced plans to close four plants in the United States and cut up to 15,000 jobs in North America. Trump questioned GM CEO Mary Barra's business strategy in an interview with Fox News.

## Trump advised to stay out of matter of Huawei CFO arrest-Wall Street Journal

Advisers to U.S. President Donald Trump have told him his options are limited in the legal case of a Huawei Technologies executive fighting extradition to the United States and they suggested he stay out of the matter, the Wall Street Journal reported. Trump told Reuters on Tuesday he would intervene with the Justice Department in the case against Huawei Chief Financial Officer Meng Wanzhou if it

would help secure a trade deal with Beijing. The president was told by advisers that Meng's arrest in Canada was a Justice Department matter and that the White House should stay out of it for now, the Journal reported, citing a person familiar with the matter. Huawei and its lawyers have said it operates in strict compliance with applicable laws, and is confident that both the Canadian and U.S. legal systems "will reach a just conclusion".

## GE's digital unit to sell majority stake in ServiceMax

General Electric said its digital unit would sell a majority stake in ServiceMax, a cloud-based provider of software used in inventory and workforce management, to technology-focused private equity firm Silver Lake. GE will retain a 10 percent equity in ServiceMax, a business it acquired for \$915 million in 2016. Financial terms of the deal were not disclosed and the companies expect to close the transaction in early 2019. As a separate company ServiceMax would pursue new strategic partnerships, Silver Lake said. GE spent more than \$4 billion building up its digital business and aimed to become a "top-ten" software company under former Chief Executive Officer Jeff Immelt.

### Ford set to end production at Blanquefort in France, jobs at risk

Ford will end production at its Blanquefort plant in France by late August next year after rejecting a rescue deal for the factory, in a move which drew the ire of France's finance minister due to the risk of large-scale job losses. The French government had this autumn expressed optimism that the plant in southwest France and its 850 employees would be saved, but Ford told the plant's works council that it had rejected the bid made by transmission supplier Punch Powerglide. The likely job losses will be a blow for President Emmanuel Macron, coming at a time of public rebellion over his reforms to liberalise the economy, including an easing of labour laws, and battles to haul down the country's stubbornly high unemployment.

### YouTube, under pressure for problem content, takes down 58 million videos in quarter

YouTube took down more than 58 million videos and 224 million comments during the third quarter based on violations of its policies, the unit of Alphabet's Google said in an effort to demonstrate progress in suppressing problem content. Government officials and interest groups in the United States, Europe and Asia have been pressuring YouTube, Facebook and other social media services to quickly identify and remove extremist and hateful content that critics have said incite violence. The European Union has proposed online services should face steep fines unless they remove extremist material within one hour of a government order to do so. Separately, a German rule which gives publishers the right to demand a license fee from Google for using news snippets should be halted as it has not been notified to the European Commission, an advisor to Europe's top court said. To read more on this, [click here](#)

### Mylan says Sanofi loses Lantus insulin patent claims

Mylan said that the United States Patent and Trademark Office had rejected Sanofi's infringement claims relating to insulin drug Lantus. Sanofi is heavily reliant on Lantus, its leading product with sales of 4.62 billion euros (\$5.26 billion) in 2017, and Mylan's own insulin drug would be its second competitor after Eli Lilly launched its version in late 2016. Lantus is a long-acting insulin used to treat adults with type 2 diabetes and adults and paediatric patients with type 1 diabetes to control high blood sugar. Sanofi, which settled a similar case with Lilly in 2016, allowing it to launch Basaglar, sued Mylan in October 2017.

### Caterpillar CEO Jim Umpleby to take on chairman role

Caterpillar said Chief Executive Officer Jim Umpleby would take on the additional role of chairman, effective immediately. Umpleby, a member of the board and CEO since Jan. 1, 2017, is widely credited for pulling the company out of its longest downturn - from 2012 to 2016 - when sales dropped more than 40 percent. Deerfield, Illinois-based Caterpillar, which boosted its

full-year profit outlook twice in 2018, announced the closure of two facilities earlier this year. The company is also considering closing an engine plant that could eliminate 880 jobs. Umpleby replaces company veteran Doug Oberhelman, who retired as CEO on Dec. 31, 2016 but stayed on as executive board chairman until March 31, 2018.

### Victoria's Secret owner L Brands to sell La Senza lingerie brand

L Brands said it would to sell its luxury lingerie brand La Senza to an affiliate of private equity firm Regent LP, capping a months long effort to sell the loss-making business. The company has been facing stiff competition from American Eagle Outfitter's Aerie and upstarts such as Adore Me and Third Love, forcing it to sell its non-core assets and focus on brands such as Victoria's Secret and Bath & Body Works. As part of the deal, Regent would assume La Senza's liabilities and would have to pay L Brands if it sells or monetizes any part of the lingerie brand. L Brands bought Canadian chain La Senza for about \$700 million in early 2007 and expects it to incur an operating loss of \$40 million in the year.



A file photo of a woman viewing a Christmas seasonal display at a Victoria's Secret lingerie flagship store in London, December 6. REUTERS/Toby Melville

## KEY RESULTS

No major S&P 500 companies are scheduled to report.



People stand at the Trocadero square near the Eiffel Tower in Paris, December 12. REUTERS/Gonzalo Fuentes

## Insight and Analysis

### **COLUMN-Trump fires Fed chief? No Brexit? Don't rule anything out in 2019: McGeever**

It's that time of year when investors try to size up the economic, policy and political risks that will shape the 12 months ahead and outline the essentially unpredictable events that could knock their strategies and investments off course. And 2019 is shaping up to be a year in which absolutely nothing can be ruled out, be they low-probability, high-impact "black swan" or slightly more predictable but still significant "grey swan" events. President Trump impeached? Brexit doesn't happen and Britain stays in the EU? Trump fires Fed chief Jerome Powell? Germany in

recession? The U.S.-China trade dispute resolved and markets soar? Oil crashes to \$20 a barrel? None of those are likely, all would have major implications for global markets. But given the febrile politics around the world and how mature the economic and market cycles are right now, absolutely anything goes.

### **OPEC exit frees Qatar from U.S. legal concerns**

Even before taking over Qatar's energy policy in a government reshuffle last month, Qatar Petroleum (QP) CEO Saad al-Kaabi had long wanted the Gulf state to leave OPEC. Kaabi was concerned OPEC membership could be a stumbling block

for QP's ambitions in the United States, where it has one of the world's biggest LNG terminals, and a distraction as Doha doubles down on gas production, three industry sources said. Proposed U.S. legislation known as NOPEC (No Oil Producing and Exporting Cartels Act) could expose members of the oil exporters club to antitrust lawsuits, a risk for QP at a time it is planning to invest billions more in the United States. The sources said Qatar's exit had been in the works for months, driven by Kaabi's desire to focus on Qatar's strength in liquefied natural gas (LNG) rather than OPEC, where Doha has little say anyway because it doesn't produce much oil.

## CANADA

## MARKET MONITOR

**Canada's main stock index** ended lower, after having risen in early trade on hopes for progress in U.S.-China trade negotiations. The **Toronto Stock Exchange's S&P/TSX composite index** ended down 0.22 percent, at 14,750.35. **Empire Co** shares rose 10.68 percent after the company reported second-quarter results that topped analysts' expectations. **AltaGas** shares jumped after the company said it would sell its indirect stake in hydroelectric projects in Northwest British Columbia for about C\$1.39 billion. The company shares ended 9.69 percent up.

The **U.S. dollar** was flat against the **loonie** to C\$1.3349.

## Coming Up

No Major events are scheduled.

TSE's S&P/TSX composite	Price	C\$ chng	% chng
<b>GAINERS</b>			
Empire Company Ltd	28.51	2.75	10.68
AltaGas Ltd	15.05	1.33	9.69
Baytex Energy Corp	2.45	0.19	8.41
<b>LOSERS</b>			
Aphria Inc	7.04	-0.74	-9.51
Birchcliff Energy Ltd	3.07	-0.22	-6.69
Aurora Cannabis Inc	7.61	-0.54	-6.63

## Top News



### Canada's big banks tighten grip on mortgage market after rule changes

Canada's biggest banks are tightening their grip over the country's C\$1.5 trillion mortgage market as new rules designed to cut out risky lending make it harder for borrowers to switch lenders, with some analysts betting on more gains for the country's biggest two banks. The rules, which stress-test borrowers' ability to make repayments at 200 basis points above their contracted rates, had been expected to hurt profitability at the banks' domestic businesses by resulting in them turning away more customers. However, the country's biggest five banks, which account for about two-thirds of the Canadian mortgage market, are reporting higher rates of renewals by existing customers concerned they will not qualify for a mortgage with another bank.

### Paulson's success at Detour Gold could serve as 'template' for future activism

Billionaire hedge fund manager John Paulson's success in ousting the bulk of Detour Gold's board could serve as a "template" for an expected increase in shareholder activism in the gold sector, institutional investors said. The company's shareholders voted for five board nominees backed by Paulson at a special meeting, and Detour's interim chief executive officer and the chairman were not re-elected to the nine-member board. Paulson's campaign could have implications across the sector, where activism is historically low, returns have been disappointing, compensation is above-average and insider ownership is below-average, Desjardins Group analysts wrote in a note. "

### Waterton seeks CEO, board changes at Canadian miner Hudbay

Private equity firm Waterton Global Resource Management urged Hudbay Minerals to replace its chief executive officer and said it would nominate several candidates to the miner's board. Waterton, which raised its stake in the company to nearly 10 percent from 7 percent, said it had withdrawn request for a special shareholders' meeting.

### Bombardier's venture in China gets \$453 million state rail contract

Canadian manufacturer Bombardier's Chinese joint venture said it had won a \$453 million contract to supply 168 high-speed train cars to state-owned China Railway Corp (CRC), making it the second order win this year for China's growing high-speed network. In September, CRC awarded the joint venture a contract worth \$324 million to supply 120 train cars by the end of this year. Bombardier's Berlin-based transportation unit has six joint ventures in China, seven wholly foreign-owned enterprises and more than 7,000 employees, the company said in a statement.

### AltaGas cuts dividend, to sell stake in British Columbia hydroprojects

Canadian utility AltaGas cut its annual dividend and said it would sell its indirect stake in hydroelectric projects in Northwest British Columbia for about C\$1.39 billion. The company's plan to sell the 55 percent stake follows the 35 percent stake sale in the facilities for C\$922 million in June to fund its acquisition of U.S.-based WGL Holdings Inc. AltaGas, which cut its annual dividend by 56 percent to 96 Canadian cents per common share, said it expects EBITDA to be in the range of C\$1.2 billion-C\$1.3 billion in 2019.

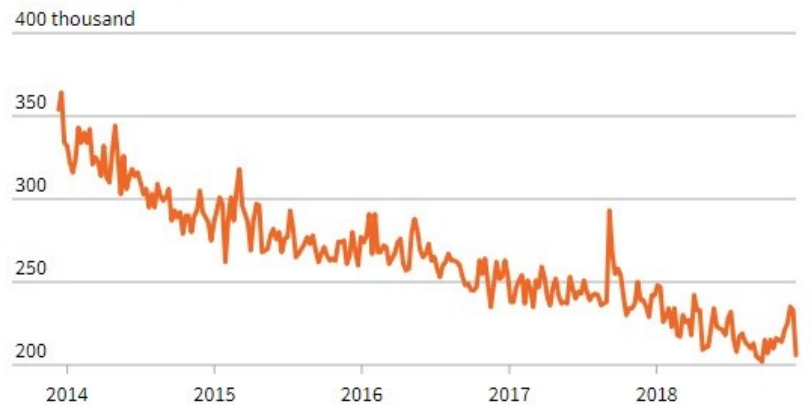
# WEALTH NEWS

## JOBLESS CLAIMS TUMBLE

### U.S. labor market tightening; inflation pressures muted

The number of Americans filing applications for jobless benefits tumbled to near a 49-year low last week, which could ease concerns about a slowdown in the labor market and economy. Initial claims for state unemployment benefits dropped 27,000 to a seasonally adjusted 206,000 for the week ended Dec. 8, the Labor Department said. Also, the U.S. federal government ran a \$205 billion deficit in November, according to data released by the Treasury Department. Other data showed import prices dropping by the most in more than three years in November as the cost of petroleum products tumbled and a strong dollar weighed on prices of other goods, pointing to subdued imported inflation. The Labor Department said import prices dropped 1.6 percent last month, the biggest decline since August 2015, after an unrevised 0.5 percent increase in October.

## Weekly U.S. jobless claims INITIAL CLAIMS



Source: Thomson Reuters Datastream

By Jiachuan Wu and Stephen Culp | REUTERS GRAPHICS

[Click on the chart for an graphic](#)

## POLL

### U.S. yield curve to invert in 2019, recession to follow

The U.S. Treasury yield curve will invert next year, possibly within the next six months, much earlier than forecast just three months ago, with a recession to follow as soon as a year after that, a Reuters poll showed.

## PIMCO SEES U.S. RECESSION

### Bond giant Pimco expects 30 percent chance of U.S. recession in '19

Declining global economic growth rates will boost defensive stocks and could lead to opportunities in emerging market currencies and mortgage bonds in the year ahead, asset manager Pacific Investment Management Co (Pimco) said in its 2019 outlook.

## INVESTMENT

### Japan Post to invest \$2.6 billion in U.S. insurer Aflac

Japan Post is planning to invest about \$2.6 billion in Aflac, aiming to become the largest shareholder in the U.S. insurer, a person familiar with the matter said.

## DEMOCRATS ASK FOR DEUTSCHE PROBE

### Top Democratic lawmakers seek probe into Deutsche Bank controls

Two top Democratic U.S. senators called for the Senate to open an investigation into Germany's Deutsche Bank over its compliance with U.S. anti-money laundering and bank secrecy laws.

## GROUP TO OPPOSE T-MOBILE-SPRINT DEAL

### Group forms to oppose tie-up of U.S. telecom firms T-Mobile, Sprint

An array of companies and groups that have opposed T-Mobile US' plan to buy Sprint Corp announced that they had banded together, saying the deal would lead to higher prices for wireless customers and hurt rural consumers.

## CHRYSAOR EYES CHEVRON ASSETS

### Chrysaor sets sights on Chevron's North Sea assets - sources

Private equity-backed oil firm Chrysaor has hired advisers ahead of talks to buy Chevron's British North Sea oil and gas fields for over \$2.5 billion, industry and banking sources said.





*An Israeli soldier is comforted as he reacts at the scene of a shooting attack near Ramallah in the Israeli-occupied West Bank, December 13.  
REUTERS/Ammar Awad*

*The Day Ahead - North America is compiled by Debanjan Bose and Yoganand KN in Bengaluru.*

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