

THE DAY AHEAD

MARKET RECAP at 4 pm ET

Stocks and most **Treasury yields** rose on hopes for progress in U.S.-China trade talks. **Palladium** surpassed the \$1,400 mark for the first time, while **gold** edged lower. **Oil** pared losses on a report that OPEC sharply cut production in December. The **dollar** was little changed against a basket of major currencies.

STOCKS	Close	Chng	%Chng	Yr-high	Yr-low
DJIA	24336.28	129.12	0.53	26951.81	21712.53
Nasdaq	7084.46	49.77	0.71	7079.63	6457.13
S&P 500	2635.93	19.83	0.76	2625.76	2443.96
Toronto	15211.22	99.96	0.66	16586.46	13776.88
FTSE	6834.92	-27.76	-0.40	7001.94	6599.48
Eurofirst	1379.50	0.79	0.06	1381.47	1308.86
Nikkei	20402.27	-40.48	-0.20	20580.25	19241.37
Hang Seng	26755.63	-146.47	-0.54	26903.78	24896.87

TREASURIES	Yield	Price
10-year	2.7450	-5 /32
2-year	2.5657	-1 /32
5-year	2.5690	-4 /32
30-year	3.0703	3 /32

FOREX	Last	% Chng
Euro/Dollar	1.1391	-0.05
Dollar/Yen	109.16	0.07
Sterling/Dollar	1.2985	0.81
Dollar/CAD	1.3273	0.15
TR/HKEX RMB	94.33	-0.12

COMMODITIES (\$)	Price	Chng	% chng
Front Month Crude /barrel	52.28	-0.03	-0.06
Spot gold (NY/oz)	1291.71	-1.73	-0.13
Copper U.S. (front month/lb)	0.0270	0.0001	0.71
Reuters/CRB Index Total Return	186.49	0.13	0.07

S&P 500	Price	\$ Chng	% Chng
GAINERS			
Fastenal Co	57.34	3.22	5.95
M&T Bank Corp	163.22	8.80	5.70
PPG Industries Inc	107.46	4.92	4.80
Goodyear Tire & Rubber Co	20.27	0.74	3.79
LOSERS			
PG&E Corp	6.50	-0.53	-7.54
Morgan Stanley	42.53	-1.96	-4.41
CenturyLink Inc	15.34	-0.65	-4.07
Western Digital Corp	36.47	-1.36	-3.60

Coming Up



A report from the Federal Reserve is likely to show **industrial production** increased 0.2 percent in December after having risen 0.6 percent in November. **Manufacturing output** is forecast gaining 0.3 percent after being unchanged in November.

Federal Reserve Bank of New York President **John Williams** will speak on the U.S. economic outlook and monetary policy before the New Jersey Bankers Association Economic Leadership Forum. Meanwhile, Federal Reserve Bank of Philadelphia President **Patrick Harker** is scheduled to speak on "Business, Equity and the Future of Philadelphia" before the

event, "The Prosperity Symposium: Economic Mobility Research in Action".

VF Corp is expected to report higher third-quarter revenue, boosted by demand for its Vans sneakers during the holiday season. However, the company's jeans business, which it plans to spin off in the first half of this year, is likely to continue being a sticking point.

SunTrust Banks Inc is expected to report a slight drop in fourth-quarter profit, hurt mostly by sluggish loan growth. Analysts will keep an eye on the lender's net interest margin in a rising interest rate, but slowing loan growth environment.

Statistics Canada is expected to report **annual inflation rate** in December remained unchanged at 1.7 percent.

LIVECHAT- POLITICS BY THE NUMBERS

Reuters U.S. politics polling editor **Chris Kahn** delivers the data and trends from Reuters up-to-the-minute polling of Americans. (0900 ET/1400 GMT) To join the discussion, [click here](#)

KEY ECONOMIC EVENTS

Events	ET	Poll	Prior
Industrial production mm for Dec	0915	0.2 pct	0.6 pct
Capacity utilization SA for Dec	0915	78.5 pct	78.5 pct
Manufacturing output mm for Dec	0915	0.3 pct	0 pct
Industrial production yoy for Dec	0915	--	3.89 pct
U Mich Sentiment Preliminary for Jan	1000	97	98.3
U Mich Conditions Preliminary for Jan	1000	114.5	116.1
U Mich Expectations Preliminary for Jan	1000	86	87
U Mich 1 year inflation preliminary for Jan	1000	--	2.7 pct
U Mich 5-year inflation preliminary for Jan	1000	--	2.5 pct



Market Monitor

Stocks advanced as hopes of an expedient resolution to the trade war between the United States and China boosted industrial shares and lifted investor sentiment. U.S. Treasury Secretary Steven Mnuchin discussed lifting some or all tariffs imposed on Chinese imports and suggested offering a tariff rollback during trade discussions scheduled for Jan. 30, the Wall Street Journal reported, citing people familiar with the internal deliberations. Stocks spiked higher after having posted modest gains in early afternoon trading, though they pared gains slightly after a Treasury spokesperson told CNBC that Mnuchin had not made any such recommendations. **Industrial stocks** jumped 1.65 percent to 579.38. The **S&P 500 financial index** rebounded to trade 0.54 percent higher to 424.37, after having dropped as much as 1 percent after **Morgan Stanley** reported a lower-than-expected quarterly profit. The investment bank's shares were 4.3 percent lower. Analysts have cut their fourth-quarter profit growth forecast for S&P 500 companies to 14.2 percent from 20.1 percent estimated on Oct. 1, according to

IBES data from Refinitiv. The **Dow Jones Industrial Average** rose 0.51 percent, to 24,330.76, the **S&P 500** gained 0.76 percent, to 2,635.93 and the **Nasdaq Composite** added 0.71 percent, to 7,084.46.

Treasury yields rose as better-than-expected economic data and hopes for progress in U.S.-China trade talks diminished safe-haven demand for government debt. "There are still a lot of geopolitical risks out there," said Wen Lu, U.S. rates strategist at TD Securities in New York. "Rates are going to stay in a range for the next couple of weeks." **Benchmark 10-year Treasury notes** fell 5/32, yielding 2.75 percent. **Two-year notes** slipped 1/32, to yield 2.56 percent.

The **dollar** rose against a **euro** dragged lower by soft economic data, while the **pound** took off on hopes of a second referendum on Britain's membership in the European Union. Against the **dollar**, the **euro** fell to \$1.1390, a 0.06 percent loss. "The data that has been coming out of Europe this week has certainly been on the

softer side and suggests that from an economic standpoint they are technically in a recession," said Dean Popplewell, chief currency strategist at Oanda. The **pound** was trading 0.82 percent up at \$1.2986. Investors expected the pound to trade within a relatively tight range for the remainder of the week. However, "comments tend to come fast and furious through the London papers on the weekend which normally sets up to a surprise open in sterling," said Popplewell.

Oil steadied, boosted by a rebound in U.S. equities and news that OPEC sharply curtailed production in December, after earlier losses on fears about surging U.S. crude output and weakening global demand. **Brent crude oil** futures edged lower 0.15 percent at \$61.23 a barrel. **U.S. crude futures** edged down 0.06 percent to \$52.28 a barrel. The Organization of the Petroleum Exporting Countries, in its monthly market report, cut its forecast for average daily demand for its crude in 2019 to 30.83 million barrels, down 910,000 bpd from the 2018 average. However, OPEC also said it cut oil output by 751,000 bpd in December before a new accord to limit supply took effect, suggesting that producers have made a strong start to averting a glut in 2019.

Palladium surpassed the \$1,400 mark for the first time, as demand for the auto-catalyst metal overtook its availability in the market, while gold edged lower as the dollar gained on better-than-expected U.S. weekly jobs data. **Spot palladium** gained 2.76 percent to \$1,396.50 per ounce, having earlier hit an all-time high of \$1,434.50, and rising more than 10 percent so far this month. Meanwhile, **spot gold** edged down 0.14 percent to \$1,291.61 per ounce. **Gold futures** were 0.18 percent lower at \$1,291.50. "Gold dipped after the good jobless claims number from the United States, and has not recovered since. Now, the dollar is grinding higher with yields backing up, further weighing on the metal," BMO's Tai Wong said.



Traders work on the floor of the New York Stock Exchange (NYSE) in New York, U.S., January 17. REUTERS/Brendan McDermid



Top News

Volatile market hits Morgan Stanley's trading, wealth management

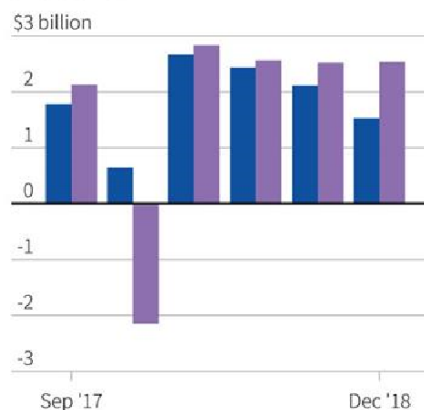
Morgan Stanley's quarterly profit fell short of expectations as bond trading revenue slumped more than rivals and its wealth management business faltered. The bank held its profit margin outlook for wealth management steady at 26 percent to 28 percent through this year. The business had a profit margin of 24 percent in the fourth quarter and 26 percent for all of 2018. The bank reported that net revenues for the current quarter fell to \$4.1 billion from \$4.4 billion a year earlier because of losses in the investments of some deferred compensation plans. Overall, Morgan Stanley reported a fourth-quarter pre-tax operating income of \$1.9 billion, down 25 percent from the \$2.5 billion it reported in the year-earlier period, when changes to U.S. tax law dramatically affected results across Wall Street. Its earnings per share of 80 cents missed analysts' average estimate of 89 cents per share. Net revenue fell 10 percent to \$8.6 billion, falling well short of the \$9.3 billion Wall Street expected, according to IBES data from Refinitiv.

Lampert wins Sears bankruptcy auction with \$5.2 billion bid

Sears Holdings Chairman Eddie Lampert won a bankruptcy auction to buy the once iconic U.S. retailer after presenting an improved offer of \$5.2 billion, Sears said, allowing it to keep its more than 400 stores running. Sears picked Lampert's hedge fund ESL Investments Inc as the winner at a bankruptcy court-supervised auction after his latest bid topped an earlier \$5 billion proposal following weeks of talks. The deal would preserve up to 45,000 jobs and ESL would acquire substantially all of the company, including its "Go Forward Stores" on a going-concern basis, Sears said. There remains a chance the deal could fall apart, as it still must be documented and approved by a U.S. bankruptcy judge. A hearing to approve the sale is currently scheduled for Feb. 1 and, if successful, the transaction is expected to close on or about Feb. 8, Sears said.

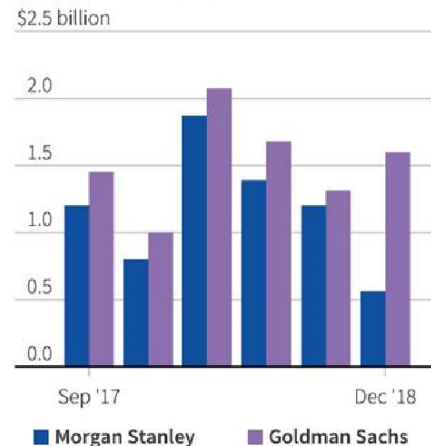
Morgan Stanley and Goldman Sachs earnings

NET INCOME



Source: Thomson Reuters Datastream; company filings
By Jiachuan Wu | REUTERS GRAPHICS

FIXED INCOME TRADING



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

Facebook blocks accounts linked to Russian state-owned Sputnik

Facebook said it had removed hundreds of Russia-initiated accounts, which it judged to be involved in coordinated inauthentic behavior on its platforms, including some linked to state-owned news agency Sputnik. In a separate statement, Sputnik attacked the social network for a decision it said was political and amounted to censorship of seven Facebook pages belonging to its news hubs in neighboring countries. Facebook's head of cybersecurity policy, Nathaniel Gleicher, said in a blog post it had unearthed two separate operations which originated in Russia, with one active in multiple countries across eastern Europe and the other specific to Ukraine. The social media company said it had taken down about 364 Facebook pages and accounts operating in Baltic Sea states, Central Asia, the Caucasus, and parts of Europe, and that the pages were linked to employees of Sputnik.

ADM to buy rest of UK grain merchant Gleadell from InVivo

U.S. agribusiness group Archer Daniels Midland said it had agreed to buy the remaining 50 percent stake in British grain

merchant Gleadell it does not already own from French co-operative InVivo. The deal, which includes Gleadell's wholly-owned subsidiary Dunns (Long Sutton), is expected to close in the first quarter, ADM said in a statement. Terms of the deal were not disclosed. The U.S. group plans to merge Gleadell and Dunns with its British units ADM Arkady and ADM Direct UK to create ADM Agriculture Ltd, it added. "The transaction will increase ADM's origination, storage and destination marketing capabilities in the UK," the statement said, noting Gleadell was a major exporter to European Union markets and further afield. Key assets include port storage and ship loading operations along with extensive pulse and agricultural seed processing.

Citigroup names David Livingstone EMEA head

Citigroup named David Livingstone as head of its operations in Europe, the Middle East and Africa region, in place of Jim Cowles, according to a memo seen by Reuters. Livingstone, who was most recently the Wall Street bank's chief country officer for Australia and New Zealand, is taking charge at a time when financial institutions in the U.K. and



Europe are reorganizing in anticipation of a hard Brexit. In his previous stint in the EMEA, Livingstone was the vice chairman of the investment banking and capital markets division in the region. Cowles, who has been heading the EMEA region since 2013, is leaving to establish a not-for-profit organization, the memo said.

Ferrero short-listed for auction of Campbell Soup's intl. business - source

Nutella maker Ferrero has been shortlisted to take part in the second round of Campbell Soup Co's auction of its international business, a source with knowledge of the matter said. The Italian confectionery group is competing with U.S. food companies Kraft Heinz and Mondelez International. Private equity firms Bain Capital LP, KKR and FinTrek Capital Hong Kong were also admitted to the second round of bids, sources told Reuters last month, adding the sale could fetch close to \$3 billion". Ferrero, which has already a plant in Australia, is interested in Arnott's brand and factories," the source said.

Musk tweets Tesla to end customer referral plan because of costs

Tesla's customer referral incentive plan will end on Feb. 1, the electric carmaker's Chief Executive Officer Elon Musk tweeted, citing costs. Musk tweeted that the referral

program is ending because "it's adding too much cost to the cars, especially Model 3". The billionaire in the past few months has been pushing for cost-cutting initiatives to boost the company's profitability. Introduced in 2015, personal referral codes gave new buyers six months of free supercharging and prizes for existing owners such as launching personal photos into deep space or invites to a Tesla event. Tesla operates its own stores but does not use franchised dealers or traditional advertising and marketing.



In 5G play, Vodafone and IBM link up cloud systems for business

Vodafone is teaming up with IBM to offer businesses a way to link different cloud computing systems to support the next wave of digital advances, such as machine

learning, on super-fast fifth-generation telecoms networks. As part of the deal, the UK-based telecoms operator will pay \$550 million to IBM under an eight-year managed-services agreement that will offer tools such as artificial intelligence (AI) and automation to networked businesses. The two companies are pitching the venture as a combination of cloud computing and connectivity that would, for example, enable super-fast communication between robots on a factory floor without the need for a big 'pipe' back to a data centre.

Leslie Moonves challenges \$120 mln severance denial by CBS

Leslie Moonves, who resigned under pressure as CEO of CBS, is challenging the company's decision to deprive him of \$120 million in severance pay, according to a regulatory filing. In December, CBS denied Moonves of a \$120 million severance package following a board review of the findings of an investigation into his behavior and the CBS culture conducted by two law firms hired by the CBS board. "On January 16, 2019, Mr. Moonves notified the Company of his election to demand binding arbitration with respect to this matter. The Company does not intend to comment further on this matter during the pendency of the arbitration proceedings," CBS said in the filing.

KEY RESULTS

Company Name*	Quarter	ET	Smart Estimates	EPS Estimates**	Year Ago	Rev Estimates (mln)
Schlumberger NV	Q4	07:00	\$0.36	\$0.36	\$0.48	\$8,036.27
Regions Financial	Q4	BMO	\$0.39	\$0.38	\$0.36	\$1,476.46
SunTrust Banks	Q4	BMO	\$1.35	\$1.37	\$1.09	\$2,365.10
Kansas City Southern	Q4	BMO	\$1.53	\$1.54	\$1.38	\$687.07
State Street	Q4	BMO	\$1.65	\$1.67	\$1.83	\$2,976.46
Citizens Financial Group	Q4	BMO	\$0.94	\$0.94	\$0.71	\$1,598.43
VF	Q3	BMO	\$1.10	\$1.10	NULL	\$3,872.48

*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.





A woman rides a horse through flames during the annual "Luminarias" celebration on the eve of Saint Anthony's day, Spain's patron saint of animals, in the village of San Bartolome de Pinares, northwest of Madrid, Spain, January 16, 2019. REUTERS/Susana Vera

Insight and Analysis

Trading operations stung banks in 4th quarter but dovish Fed fuels hope

Big trading operations were a thorn in the side of the top U.S. banks in the fourth quarter as fears about global growth sent credit markets into a tailspin, but a "dovish" turn from the Federal Reserve may mean the drama is over for now. Citigroup, JPMorgan, Goldman Sachs and Bank of America all reported declines in fourth-quarter revenue from their key fixed income, commodity and currency trading arms, although overall results at most were cushioned by improving loan growth and net interest margins.

FOCUS-Trump tariffs force tough choices at U.S. auto suppliers

Bob Roth makes no bones about his feelings towards U.S. manufacturing. The

co-owner and chief executive of RoMan Manufacturing, which makes transformers and glass-molding equipment for automakers and other industries, asks callers on his voicemail: "What have you done today to support U.S. manufacturing?" His procurement team has been under long-standing orders to source all parts and materials as near as possible to his western Michigan factory, even with President Donald Trump's tariffs on steel and aluminum. But with those tariffs dragging into a new year and steel comprising a quarter of RoMan's fixed costs, Roth says his company has now begun the lengthy process of switching from its U.S. suppliers to an Israeli company for a key component for its products.

COLUMN-Finding the bright side in a graying U.S. workforce

Economists call it the "old-age dependency ratio" - a rough measure of the balance between people who work and retirees. The ratio compares the number of people over age 65 - classified as "old" - with those aged 15 to 64 - and it is not headed in a healthy direction: by 2040, there will be 2.7 working-age Americans for each retiree, down from 4.8 in 2010. That number from the Federal Reserve Bank of Atlanta points toward a shortfall of workers available to support an aging population, and it is cited often to justify doom-and-gloom warnings about economic growth, federal spending and the health of our social insurance programs.

CANADA

MARKET MONITOR

Canada's **main stock index** ended higher for the day. The **Toronto Stock Exchange's S&P/TSX composite index** was up 0.66 percent, at 15,211.22.

The **energy sector** rose 0.44 percent to 152.13. The **financials sector** added 0.83 percent at 286.44. **Husky Energy** jumped 12.36 percent and **MEG Energy** shares plunged 35.60 percent.

The **U.S. dollar** rose 0.17 percent against the **Canadian dollar** to C\$1.3276.

COMING UP

Statistics Canada is expected to report **annual inflation rate** in December remained unchanged at 1.7 percent.

TSE's S&P/TSX composite	Price	C\$ chng	% chng
GAINERS			
Husky Energy Inc	17.45	1.92	12.36
Crescent Point Energy Corp	4.61	0.20	4.54
Canada Goose Holdings Inc	65.94	2.85	4.52
LOSERS			
MEG Energy Corp	5.50	-3.04	-35.60
Peyto Exploration & Develop-	7.08	-0.85	-10.72
Aurora Cannabis Inc	8.70	-1.02	-10.49

Top News

Husky scraps bid for oil rival MEG Energy, citing Alberta output cuts

Husky Energy shocked investors when it abandoned its hostile bid for MEG Energy, saying it could not win sufficient MEG shareholder support after Alberta's government ordered production cuts to reduce a crude glut. The bid reflected Husky's strategy to double down on heavy oil production even though clogged pipelines drove down Canadian prices. But market conditions changed dramatically since Husky's September offer, and Canadian prices surged this month after the provincial government ordered temporary production cuts. In a statement, Husky said the government intervention and a lack of progress on expanding pipelines hurt the "business and economic

environment." Husky was expecting to secure over 50 percent support from MEG's shareholders, people familiar with the situation told Reuters on Wednesday ahead of its deadline. It had offered to buy MEG for C\$11 in cash per share or 0.485 of a Husky share. Those Husky shares lost nearly one-third of their value since the offer, however, making the bid less attractive.

Canada sheds 13,000 jobs in December, after November revised higher -ADP

Canada lost 13,000 jobs in December, driven by hiring decline in the trade, transportation and utilities and construction sectors, according to a report from ADP released. The November total of jobs added was revised up to 74,000 from

39,100, ADP said. The report, which is jointly developed with Moody's Analytics, is derived from ADP's payrolls data of about 40,000 companies.



WEALTH NEWS

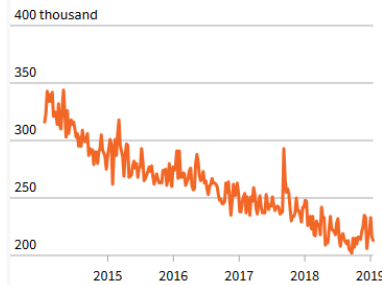
ECONOMIC DATA

U.S. labor market strong; mid-Atlantic factory activity improves

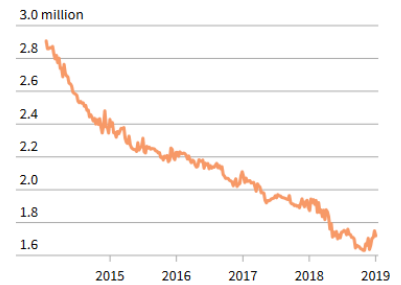
The number of Americans filing applications for jobless benefits unexpectedly fell last week, pointing to sustained labor market strength that should continue to underpin the economy. Initial claims for state unemployment benefits decreased 3,000 to a seasonally adjusted 213,000 for the week ended Jan. 12. The Federal Reserve said on Wednesday in its Beige Book report that eight of the U.S. central bank's 12 districts reported "modest to moderate growth" in late December and early January. The Fed noted that while outlooks generally remained positive, "many districts reported that contacts had become less optimistic." That was corroborated by a separate report from the Philadelphia Fed showing its business conditions index increased to a reading of 17.0 in January from 9.1 in December, which was its lowest level since August 2016.

Weekly U.S. jobless claims

INITIAL CLAIMS



CONTINUING CLAIMS



Source: Thomson Reuters Datastream
By Jiachuan Wu and Stephen Culp | REUTERS GRAPHICS

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

SHUTDOWN EFFECT

Shutdown is starting to hurt Trump's financial deregulation agenda

The U.S. government shutdown over President Donald Trump's call for Congress to fund a wall he promised to build on the U.S. - Mexican border is threatening another campaign pledge to make rules easier to navigate for banks and corporations.

FED ON ECONOMY

U.S. economy 'very strong' despite market worries -Fed's Quarles

The U.S. economy and labor market are strong with inflation contained, even while financial markets have recently been focused on the risk that global economic growth will slow further, Federal Reserve governor Randal Quarles said.

REUTERS POLL

Canada rate-hike conviction withers, hike not seen till at least April

Canada's economy is clawing its way through a soft patch, which will delay the next interest rate rise until at least April, according to economists polled by Reuters who said they were less confident about the Bank of Canada's rate hike path this year.

FIREFLY VALUE URGES FOR BUYBACK

Hedge fund pushes for share buyback at Gulfport to boost stock price

Firefly Value Partners said that it wants Gulfport Energy to buy back \$500 million worth of shares, an action the hedge fund argues could help double the stock price of the natural gas and oil company.

CREDIT RATING

Fitch says PG&E's bankruptcy will not hurt California's credit rating

Fitch Ratings said power company PG&E's planned bankruptcy will not at this point hurt the credit quality of California.

SQUARE INTRODUCES NEW DEBIT CARD

Payments company Square launches debit card for small businesses

Square is launching a free debit card for small businesses aimed at helping them better manage their cash flows, the company said.





A large, circular ice floe spins slowly in the Presumpscot River in Westbrook, Maine, U.S., January 16, 2019. REUTERS/Brian Snyder

The Day Ahead - North America is compiled by Nachiket Tekawade and Sourav Bose in Bengaluru.

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