

THE DAY AHEAD

MARKET RECAP at 4 pm ET

Stocks gained after the Federal Reserve held interest rates steady and signaled potential cuts later this year, while **Treasury yields** slipped. A weakened **dollar** pushed **gold** prices up. **Oil** prices rose after a larger-than-expected decline in U.S. crude inventories.

STOCKS	Close	Chng	%Chng	Yr-high	Yr-low
DJIA	26504.13	38.59	0.15	26951.81	21712.53
Nasdaq	7987.32	33.44	0.42	8176.08	6457.13
S&P 500	2926.47	8.72	0.30	2954.13	2443.96
Toronto	16511.79	8.44	0.05	16672.71	13776.88
FTSE	7403.54	-39.50	-0.53	7528.93	6599.48
Eurofirst	1515.33	0.33	0.02	1541.32	1308.86
Nikkei	21333.87	361.16	1.72	22362.92	19241.37
Hang Seng	28202.14	703.37	2.56	30280.12	24896.87

TREASURIES	Yield	Price
10-year	2.0319	8/32
2-year	1.7515	7/32
5-year	1.7696	9/32
30-year	2.5437	6/32

FOREX	Last	% Chng
Euro/Dollar	1.1226	0.31
Dollar/Yen	108.10	-0.31
Sterling/Dollar	1.2646	0.72
Dollar/CAD	1.3285	-0.68
TR/HKEX RMB	93.66	-0.02

COMMODITIES (\$)	Price	Chng	% chng
Front Month Crude /barrel	54.39	0.49	0.91
Spot gold (NY/oz)	1354.52	8.43	0.63
Copper U.S. (front month/lb)	0.0268	-0.0002	-1.03
CRB Index Total Return	183.85	-0.68	-0.37

S&P 500	Price	\$ Chng	% Chng
GAINERS			
Allergan plc	128.13	7.49	6.21
IQVIA Holdings Inc	154.24	8.58	5.89
Adobe Inc	291.21	14.43	5.21
LOSERS			
SVB Financial Group	213.74	-7.06	-3.20
Albemarle Corp	68.95	-1.82	-2.57
Charles Schwab Corp	39.88	-1.03	-2.52

Coming Up



Kroger Co is expected to report a drop in first-quarter profit, as the grocer invests heavily to improve delivery services, store formats and online business. Investors will be keen to know how Kroger's initiatives, including self-checkout aisles in stores and the partnership with a Silicon Valley startup to use self-driven cars for delivering groceries, are helping boost comparable-store sales.

The U.S. Labor Department is likely to report **initial jobless claims** for the

week ended June 15, fell to a seasonally adjusted 220,000.

Slack Technologies Inc is set to start trading on the New York Stock Exchange after the owner of the workplace messaging app opting to list its shares through an unconventional direct listing over a traditional initial public offering. Slack is the latest in a string of high-profile companies to go public in 2019, following the likes of Uber, Pinterest and Beyond Meat. It is also the second biggest technology company after Spotify Technology SA last year to bypass a traditional IPO process in going public.

LIVECHAT-OIL OUTLOOK

Reuters energy correspondent **Jessica Resnick-Ault** takes your questions about the oil markets in the rapid-fire, weekly segment "Lock, Stock and Barrel". (0930 ET/1330 GMT) To join the conversation, [click here](#)

KEY ECONOMIC EVENTS

Events	ET	Poll	Prior
Current account for Q1	0830	-\$124.6 bln	-\$134.4 bln
Initial jobless claims	0830	220,000	222,000
Jobless claims 4-week average	0830	--	217,750
Continued jobless claims	0830	1.688 mln	1.695 mln
Philly Fed Business Index for Jun	0830	11.0	16.6
Philly Fed Capex Index for Jun	0830	--	23.30
Philly Fed Employment for Jun	0830	--	18.20
Philly Fed Prices Paid for Jun	0830	--	23.10
Philly Fed New Orders for Jun	0830	--	11.00
Leading index change mm for May	1000	0.1 pct	-0.1 pct

Market Monitor

The **S&P 500** approached its record high after the Federal Reserve signaled potential U.S. interest rate cuts later this year, reassuring investors worried that the U.S.-China trade war could stall economic growth. **Boeing** shares were down 1.43%. **Adobe Inc** surged 5.41% after the Photoshop software provider beat analysts' estimates for quarterly profit and revenue. The **Dow** rose 0.15%, to 26,504.13, the **S&P 500** gained 0.30%, to 2,926.47 and the **Nasdaq** added 0.42%, to 7,987.32.

Treasury yields retreated after the Federal Reserve held interest rates steady, as expected, but flagged possible rate cuts of as much as half a percentage point later this year as inflation remained below its target. Chris Cordaro, chief investment officer at RegentAtlantic in New York, said the Fed was justified in not cutting interest rates. "We're still running at really low unemployment rates," Cordaro said. "The economy is starting to slow but it's not coming anywhere close to potentially dipping into a recession. It would be premature today to cut rates and even maybe in July." The **10-year notes** rose 8/32 to a yield of 2.03%. The **2-year notes** rose 7/32 to yield 1.74% and the **30-year bonds** were up 6/32, yielding 2.54%.

The **dollar** weakened and risk assets benefited after the U.S. Federal Reserve announced it held interest rates steady in June, but signaled a possible rate cut by the end of the year. "This was a bit more dovish than what people were expecting and that's evident in how the market responded,



Traders work on the floor at the New York Stock Exchange in New York, June 19.

especially in terms of interest rates - the two-year falling, equities responding positively and the dollar weakening," said Jason Draho, head of Americas asset allocation at UBS Global Wealth Management. The **euro** was up 0.32% at \$1.123. The **dollar index** was down 0.40% at 97.25.

Oil futures rose after a larger-than-expected decline in U.S. crude inventories. After swelling to near two-year highs, U.S. crude stocks fell 3.1 million barrels last week, compared with analysts' expectations for a draw of 1.1 million barrels, the Energy Information Administration said. Refined products also posted surprise drawdowns due to a rise in refining and crude exports, as well as a drop in crude production. **Brent crude futures**

were up at \$62.38 a barrel, rising 0.39%. **U.S. crude futures** rose 0.95% at \$54.41 a barrel.

Gold prices climbed after the U.S. Federal Reserve signalled interest rate cuts were possible later this year, as it responded to increased economic uncertainty and tepid inflation. "Gold rallies about \$9 so far despite current rates unchanged as dots suggest a split Fed, but cuts clearly in the pipeline," said Tai Wong, head of base and precious metals derivatives trading at BMO. "The biggest fly in the amber is a surprise U.S.-China trade deal which would completely change the broad narrative," Wong said. **Spot gold** rose 0.65% at \$1,354.8 per ounce. **U.S. gold futures** were up 0.42% at \$1,356.4 per ounce.

Top News

Airbus fights back with big name buyers after Boeing's MAX showstopper

Airbus sealed deals with big name buyers for its latest passenger jet at the Paris Airshow, battling back from the potential loss of a major customer a day earlier when IAG placed a lifeline order for Boeing's grounded 737 MAX jet. Indigo Partners, the private equity firm of veteran low-cost airline investor Bill Franke, and American Airlines each signed up for 50 of Airbus's new long-range A321neo jet, although some orders were converted from deals on other models. Airbus, which has not given a list price for the A321XLR, launched the new plane on Monday, aiming to carve out new routes for airlines with smaller planes and steal a march on Boeing's plans for a potential all new jet for the middle of the market. Also at the airshow, Boeing seized on a lull in firm orders for passenger jets to sign more than \$100 million in contracts for digital services for its newer but fast-growing global unit.

Harley-Davidson strikes deal to build smaller bike in China

Harley-Davidson will partner with China's Qianjiang Motorcycle to build a new smaller motorcycle than its trademark "big hogs", making good on promises to move more production outside the United States that have angered President Donald Trump. The partnership Harley outlined is aimed both at taking a bigger chunk of China's huge bike and moped market, while also fitting in with a plan to cut costs and source half of all sales outside the United States by 2027. The new bike would have an engine displacement of 338 cubic centimeters, one of the smallest in the company's 116-year old history, and would be sold in China from the end of 2020. Harley declined to reveal a price range



An Airbus A350-1000 performs at the 53rd International Paris Air Show at Le Bourget Airport near Paris, France, June 19. REUTERS/Pascal Rossignol

for the new motorbike, but Qianjiang said it would be "affordable" and Harley said it would be introduced elsewhere in Asia after the initial launch in China.

Activists urge Google to break up before regulators force it to

Shareholder activists urged Google parent Alphabet to break itself up before regulators force the world's biggest internet ad seller to split into different pieces. SumOfUs, a U.S.-based group that aims to curb the growing power of corporations, presented the proposal at Alphabet's annual shareholder meeting at an auditorium at the company's offices in Sunnyvale, California. Sonamtso, a campaigns director for Students for a Free Tibet who goes by one name, said at the meeting on behalf of SumOfUs that Alphabet is too big to manage. It should sell off some assets now "rather than waiting for antitrust regulators to set a path" and potentially

deriving less shareholder value, Sonamtso said. But the proposal and 13 other shareholder measures opposed by the company were voted down, according to its preliminary tally.

Apple explores moving 15-30% of production capacity from China - Nikkei

Apple has asked its major suppliers to assess the cost implications of moving 15%-30% of their production capacity from China to Southeast Asia as it prepares for a restructuring of its supply chain, according to a Nikkei Asian Review report. Apple's request was a result of the extended Sino-U.S. trade dispute, but a trade resolution will not lead to a change in the company's decision, Nikkei said, citing multiple sources. The iPhone maker has decided the risks of depending heavily on manufacturing in China are too great and even rising, it said. Key iPhone assemblers Foxconn, Pegatron,

Wistron, major MacBook maker Quanta Computer, iPad maker Compal Electronics, and AirPods makers Inventec Corp, Luxshare-ICT and Goertek have been asked to evaluate options outside of China, Nikkei reported.



IBM to win unconditional EU okay for \$34 billion Red Hat deal - sources

U.S. tech giant International Business Machines is set to secure unconditional EU approval for its \$34 billion bid for software company Red Hat, people familiar with the matter said. IBM is seeking to expand its subscription-based software offerings via the deal, its biggest to date, to counter slowing software sales and waning demand for mainframe servers. It would also help it catch up with Amazon, Alphabet and Microsoft in the fast growing cloud computing business. The European Commission, which is scheduled to decide on the deal by June 27, and IBM declined to comment.

U.S. refiner Phillips 66 enters offshore oil export race

U.S. oil refiner Phillips 66 is proposing a deepwater crude export terminal off the U.S. Gulf Coast, the company said, challenging at least eight other projects aiming to send U.S. shale oil to world markets. The project, called Bluewater Texas Terminal LLC, signals another major expansion of its logistics operations. Phillips 66 has applied for federal and state permits to build an export port about 20 miles off Corpus

Christi, Texas, and related crude pipelines, according to documents viewed by Reuters and people familiar with the filings. The people did not want to be named because the information is not public. Its project would be at least the ninth project proposed for the Gulf Coast.

'Sully' Sullenberger blasts U.S. aircraft certification process, says 737 MAX pilots need new simulator training

Chesley "Sully" Sullenberger, who in 2009 landed a US Airways flight safely on the Hudson River in New York, told a congressional panel that pilots of the now-grounded Boeing 737 MAX should get new simulator training before the plane returns to service. Sullenberger, who has blasted Boeing and the Federal Aviation Administration for their roles in the two 737 MAX crashes since October that killed 346 people, also said the U.S. system of certifying new aircraft is not working. "Our current system of aircraft design and certification has failed us," he said.

Southwest sees higher Q2 unit revenues, and costs, due to 737 MAX groundings

Southwest Airlines expects higher unit revenues, and costs, in the second quarter than previously forecast due to the ongoing grounding of Boeing's 737 MAX aircraft, which has led to more than a hundred flight cancellations per day. The low-cost carrier said in a regulatory filing it now expects second quarter unit revenues to increase in the 6.5% to 7.5% range compared with its previous forecast of 5.5% to 7.5%. It sees unit costs, excluding fuel and profit sharing expenses, rising 11.5% to 12.5% versus previous guidance for 10.5% to 12.5%. Southwest continues to expect second quarter fuel costs in the range of \$2.10 to \$2.20 per gallon, but said its fuel efficiency will decline more than expected due to the absence of its most fuel-efficient

aircraft, the MAX.

Staff evacuated as rocket strikes near foreign oil firms in Iraq

A rocket hit a site in southern Iraq used by foreign oil companies, including U.S. energy giant ExxonMobil, wounding three people and threatening to further escalate U.S.-Iran tensions in the region. There was no immediate claim of responsibility for the attack near Iraq's southern city of Basra, the fourth time in a week that rockets have struck near U.S. installations. A second rocket that landed in another nearby area did not explode, one official said. Abbas Maher, mayor of the nearby town of Zubair, said he believed "groups linked to regional powers", a reference to Iran, had specifically targeted Exxon to "send a message" to the United States. "We cannot separate this from regional developments, meaning the U.S.-Iranian conflict," Maher said. "These incidents have political objectives ... it seems some sides did not like the return of Exxon staff."

Sycamore Partners lowers Chico's offer to \$350 million

Chico's FAS, Inc said it plans to review a new buyout offer from private equity firm Sycamore Partners that lowered an earlier unsolicited offer. Sycamore disclosed in a regulatory filing on Wednesday that it had lowered its offer for Chico's to \$350 million in cash because of the U.S. women's apparel retailer's deteriorating financial performance. Chico's noted that the company board had unanimously rejected the first bid after determining the proposal substantially undervalued the firm and was not in the best interests of shareholders. "Numerous Chico's FAS shareholders have expressed to management that they support the Board's previous decision to reject Sycamore's proposal and share the view that Sycamore's proposal is inadequate," a statement from the company said.





A stray polar bear is seen in the industrial city of Norilsk, Russia, June 17. REUTERS/Irina Yarinskaya/Zapolyarnaya Pravda

Insight and Analysis

Wall Street takes on long-term care payouts as insurers balk at costs

Some U.S. insurers are turning to Wall Street's financial wizards for relief from the liabilities of their long-term care (LTC) policies, posing a challenge for regulators worried about how new industry players will tackle the risks involved. These policies help support the provision of care to those unable to handle everyday tasks, such as bathing and cooking, by funding assisted living or nursing home arrangements. Many have become financially toxic for insurers, because of soaring healthcare costs and rising lifespans. A few investment firms are willing to take on these LTC contracts.

Will China dump U.S. bonds as a trade weapon? Not so fast

The trade war between Beijing and Washington has stoked concern in financial markets that China might opt to weaponize its holdings of more than \$1.1 trillion worth of U.S. Treasuries in retaliation for the tariffs the Trump administration has imposed on Chinese imports. Often referred to as the "nuclear option," choosing to dump so large a pool of assets would likely destabilize world financial markets, drive interest rates higher and push tensions between the world's two largest economies into uncharted territory. China has been slimming its Treasury securities portfolio for some time.

U.S. dependence on China's rare earth: Trade war vulnerability

Rare earth elements are used in a wide range of consumer products, from iPhones to electric car motors, as well as military jet engines, satellites and lasers. Rising tensions between the United States and China have sparked concerns that Beijing could use its dominant position as a supplier of rare earths for leverage in the trade war between the two global economic powers. It would take years to build enough processing plants to match China's processing capacity of 220,000 tonnes - which is five times the combined capacity of the rest of the world.

CANADA

Coming Up

Canadian Prime Minister **Justin Trudeau** is scheduled to travel to Washington to meet with U.S. President Donald Trump for talks on a new continental trade pact and China's detention of two Canadians.

Canopy Growth Corp., Canada's biggest weed producer by market capitalization, is expected to report a jump in fourth-quarter revenue, driven by strong demand from its adult cannabis market users. The company, which is betting on further medical usage and legalization in the United



States with an offer to buy Acreage Holdings Inc, has also been looking to expand into the cannabis beauty and wellness industry.

MARKET MONITOR

Canada's main stock index was subdued, as investors adopted a cautious approach ahead of the Federal Reserve's policy statement that could open the door to future interest rate cuts.

The **Toronto Stock Exchange's S&P/TSX composite index** was up 0.05%, at 16,511.79.

The **U.S. dollar** was down 0.69% against its **Canadian counterpart** at C\$1.3284.

TSE's S&P/TSX composite	Price	C\$ chng	% chng
GAINERS			
Shopify Inc	434.95	27.76	6.82
CannTrust Holdings Inc	7.10	0.45	6.77
LOSERS			
Gran Tierra Energy Inc	2.25	-0.33	-12.79
New Gold Inc	0.88	-0.04	-4.35

Top News

Canada's annual inflation rate hits seven-month high, analysts dismiss rate cut possibility

Canada's annual inflation rate rose unexpectedly to a seven-month high in May, data showed, prompting analysts to predict the Bank of Canada would not be cutting interest rates anytime soon. Statistics Canada said the annual rate hit 2.4% on increased prices for vegetables and durable goods. Analysts in a Reuters poll had expected the annual rate to edge up to 2.1% from 2.0% in April. It was the first time since October 2018 that the annual rate had exceeded the Bank of Canada's 2.0% target. Statscan said Canadians paid 2.9% more for meat and 16.7% more for fresh vegetables than in May 2018 because of higher demand and tight supply caused by bad weather in growing regions. Although two of the Bank of Canada's three measures of core inflation edged above 2.0%, CPI common - remained at 1.8% in May.

Barrick said Tuesday comments on Acacia offer not a 'no-increase statement'

Barrick Gold said that comments by Chief Executive Mark Bristow that he had no intention of discussing a higher buyout offer for the company's African unit with its minority shareholders should not be considered a "no-increase statement." The comments, made to Bloomberg on Tuesday, addressed pending discussions with minority shareholders of Acacia Mining over Barrick's proposal to offer 0.153 Barrick shares for each Acacia share. Barrick released a statement that said the comments should not be interpreted as a "no-increase statement" as defined by the UK Takeover Code.

Canada opens probe into 250,000 GM pickups, SUVs over brake performance

Transport Canada, the auto safety regulator, has opened a probe into

braking issues in nearly 250,000 General Motors full-size pickups and SUVs after U.S. officials launched a similar probe last year, the agency said on its website. Transport Canada's probe covers 249,700 2015 through 2017 model year vehicles including the Cadillac Escalade, Chevrolet Suburban, Chevrolet Tahoe and GMC Yukon as well as 2014-2017 Chevrolet Silverado LD and GMC Sierra LD vehicles.

Trans Mountain oil pipeline expansion may start in September

Construction on expanding the Trans Mountain oil pipeline could begin in September, assuming the next regulatory steps go smoothly, the project's chief executive said. Expanding Trans Mountain would ease congestion on pipelines that move Alberta crude, lifting Canadian prices. Once complete, the project will triple the capacity of Trans Mountain.

WEALTH NEWS

FED POLICY

Fed signals interest rate cuts possible later this year

The U.S. Federal Reserve signaled it could cut interest rates by as much as half a percentage point over the remainder of this year, as it responded to increased economic uncertainty and a drop in expected inflation. The Fed, which held rates steady after the end of its latest two-day policy meeting, said it "will act as appropriate to sustain" a nearly 10-year economic expansion and dropped a promise to be "patient" in adjusting rates. Nearly half its policymakers now show a willingness to lower borrowing costs over the next six months. "We will act as needed, including promptly if that's appropriate, and use our tools to sustain the expansion," Fed Chairman Jerome Powell said.



REUTERS/Chris Wattie

The Federal Reserve building is pictured in Washington DC, August 22, 2018.

TRADE DISCUSSIONS

Senior U.S.-Chinese trade negotiators to confer before Trump-Xi G20 meeting

The top U.S. trade negotiator said it is in the interests of China and the United States to have a successful trade pact and he expects to confer with a senior Chinese official before next week's G20 summit in Japan where President Donald Trump and Chinese President Xi Jinping are set to meet.

EXPLORING OPTIONS

Buffett-backed Axalta Coating Systems to explore a sale

Axalta Coating Systems, the U.S. coatings company whose largest shareholder is Warren Buffett's Berkshire Hathaway, said it had formed a board committee to explore a sale of the company.

ACQUISITION POSSIBILITIES

Elbit eyes acquisition opportunities from Raytheon-UTC deal

Israel-based Elbit Systems said it would keep an eye out for possible acquisitions if the proposed merger of U.S. aerospace companies Raytheon and United Technologies triggers certain divestments.

ECONOMIC DATA

U.S. mortgage applications fall from 33-month high

U.S. mortgage applications declined last week from about a 33-month peak as most home borrowing costs moved up from their lowest levels since September 2017, the Mortgage Bankers Association said.

NEW EMISSIONS RULE

Trump administration replaces Obama-era power plant rule, in boost to coal

The Trump administration finalized a new carbon emissions rule for U.S. power plants that it said could cut pollution without damaging the coal industry, replacing a much tougher Obama-era version to fight climate change.

SMART HOMES

SmartRent funding heralds new wave in 'smart home' market

A producer of "smart home" software that helps landlords cut operating costs such as shuttling keys to waiting maintenance workers or guiding tours for prospective tenants has raised \$32 million from Bain Capital Ventures and the owners of nearly 1 million U.S. apartments.

KEY RESULTS

Company Name*	Quarter	ET	Smart Estimates	EPS Estimates**	Year Ago	Rev Estimates (mln)
Kroger	Q1	BMO	\$0.70	\$0.71	\$0.73	\$37,207.37
Darden Restaurants	Q4	BMO	\$1.73	\$1.73	\$1.39	\$2,243.83
Red Hat	Q1	AMC	\$0.87	\$0.86	\$0.72	\$931.59

*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.

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