

THE DAY AHEAD

MARKET RECAP at 4 pm ET

Stocks were higher as investors brushed aside worries about rising tensions in the Middle East and as shares of Amazon and Alphabet gained. **Gold** prices shot to almost seven-year highs as a spike in U.S.-Iranian tensions spurred demand for safe-haven assets, while the **dollar** weakened. **Treasury yields** gained. **Oil** prices edged lower.

STOCKS	Close	Chng	%Chng	Yr-high	Yr-low
DJIA	28703.55	68.67	0.24	28872.80	23301.59
Nasdaq	9071.47	50.70	0.56	9093.43	8976.43
S&P 500	3246.29	11.44	0.35	3258.14	3222.34
Toronto	17105.47	39.35	0.23	17230.58	14383.06
FTSE	7575.34	-47.06	-0.62	7626.41	7542.44
Eurofirst	1629.54	-5.80	-0.35	1641.53	1623.81
Nikkei	23204.86	-451.76	-1.91	0.00	0.00
Hang Seng	28226.19	-225.31	-0.79	28883.30	28245.97

TREASURIES	Yield	Price
10-year	1.8038	-5/32
2-year	1.5405	-1/32
5-year	1.6025	-2/32
30-year	2.2800	-21/32

FOREX	Last	% Chng
Euro/Dollar	1.1193	0.31
Dollar/Yen	108.43	0.32
Sterling/Dollar	1.3166	0.61
Dollar/CAD	1.2961	-0.29
TR/HKEX RMB	92.13	-0.02

COMMODITIES (\$)	Price	Chng	% chng
Front Month Crude /barrel	62.72	-0.33	-0.52
Spot gold (NY/oz)	1565.87	14.47	0.93
Copper U.S. (front month/lb)	0.0280	0.0000	-0.07
CRB Index Total Return	198.38	0.55	0.28

S&P 500	Price	\$ Chng	% Chng
GAINERS			
Abiomed Inc	178.03	11.21	6.72
Gap Inc	18.19	0.75	4.30
Salesforce.Com Inc	173.10	6.93	4.17
LOSERS			
Under Armour Inc	20.44	-1.42	-6.48
L Brands Inc	18.09	-0.77	-4.08
Lamb Weston Holdings Inc	90.55	-3.02	-3.22

Coming Up



REUTERS/Lindsey Wasson

A report from the U.S. Commerce Department is likely to show that the country's **trade deficit** narrowed to \$43.8 billion in November, from \$47.2 billion in October. Separately, the **factory goods orders** are expected to have decreased 0.8% in November, compared with a rise of 0.3% the month before. The Institute for Supply Management's **non-manufacturing activity index** is likely to have risen to a reading of 54.5 in December from 53.9 the previous month.

Tesla Inc will deliver its first China-

made Model 3 sedans to the public at an event at its Shanghai plant.

The **Consumer Electronics Show** in Las Vegas is slated to start. Manufacturers and developers are expected to attend the show to discuss key trends and emerging technologies such as 5G and artificial intelligence.

Cargill Inc is expected to release its second-quarter earnings amid uncertainty over U.S.-China trade deal details and escalating geopolitical tensions in the Middle East. Last quarter, Cargill reported a 3% rise in adjusted quarterly profit, citing strong North American consumer demand for meat and growth in its animal nutrition businesses.

General Motors Co, the second-biggest foreign automaker in China, is expected to announce its 2019 China sales.

KEY ECONOMIC EVENTS

Events	ET	Poll	Prior
International trade for Nov	0830	-\$43.8 bln	-\$47.2 bln
Goods trade balance (R) for Nov	0830	--	-\$63.19 bln
Durables ex-defense, R mm for Nov	1000	--	0.8%
Durable goods, R mm for Nov	1000	--	-2.0%
Factory orders mm for Nov	1000	-0.8%	0.3%
Durables ex-transport R mm for Nov	1000	--	0.0%
Nondefense cap ex-air R mm for Nov	1000	--	0.1%
Factory ex-transport mm for Nov	1000	--	0.2%
ISM N-Manufacturing PMI for Dec	1000	54.5	53.9
ISM N-Manufacturing Business Activity for Dec	1000	52.0	51.6
ISM N-Manufacturing Employment Index for Dec	1000	--	55.5
ISM N-Manufacturing New Orders Index for Dec	1000	--	57.1
ISM N-Manufacturing Price Paid Index for Dec	1000	--	58.5

Market Monitor

Stocks ended higher, rebounding from Friday's losses as investors brushed aside increased tensions in the Middle East, while shares of Alphabet and other internet names gained. The **S&P 500 energy index** rose 0.78% to 462.35. Top Internet companies gained, boosting the S&P 500 and Nasdaq. **Alphabet** rose 2.67% after Pivotal Research upgraded the stock to "buy." **Amazon.com** was 1.49% higher. For now, the market is mostly discounting the situation in the Middle East, said Paul Nolte, portfolio manager at Kingsview Investment Management in Chicago. "It's more jawboning than" actual fighting so far, he said. Among the biggest decliners have been some of 2019's star performers including chipmakers. The **Philadelphia semiconductor index**, which surged about 60% last year, was down 1.04% at 1834.68. The **Dow Jones Industrial Average** rose 0.24% to 28,703.55, the **S&P 500** gained 0.35% to 3,246.29 and the **Nasdaq Composite** added 0.56% to 9,071.47.

The **Treasury yield curve** was flatter as heightened tensions between the United States and Iran continued to boost demand for safe-haven assets. The **spread between two- and 10-year yields** stood at 25.70 basis points. The **benchmark 10-year notes** were down 5/32 to yield 1.80%. The **two-year notes** were down 1/32, yielding 1.54% and the **30-year bonds** were 21/32 lower to yield 2.28%.

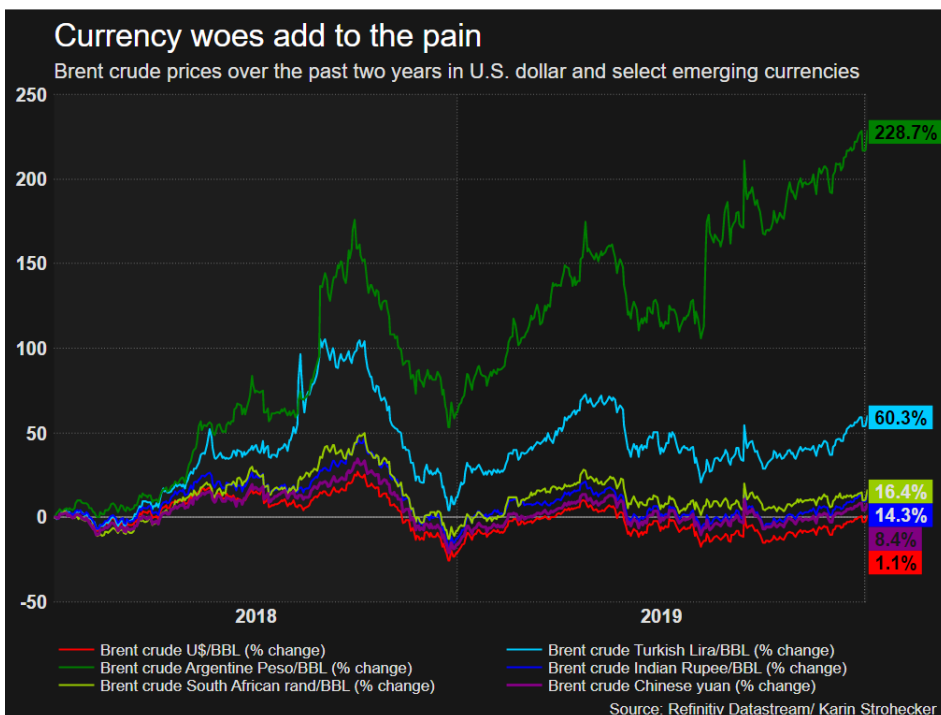
The **dollar** rallied against the safe-haven Japanese yen, but stayed weaker versus the Swiss franc, as market sentiment remained cautious amid concerns about a broader escalation of Mideast conflicts after the

United States killed Iran's most prominent military commander. "On the technical side, the yen has been strengthening even before the Iran thing so that play may be overdone below 108 yen and we're seeing the dollar coming back toward 109 yen," said John Doyle, vice president of dealing and trading at Tempus Inc in Washington. Against the **Japanese yen**, the **dollar** rose 0.31% to 108.42 yen. The **Swiss franc** rose against the dollar, which fell 0.40% to 0.9686 franc. The **dollar index** was down 0.19% at 96.66.

Oil prices edged lower after Brent touched above \$70 a barrel. **Brent crude** futures lost 0.41% to \$68.32 a barrel, after soaring to a high of \$70.74

a barrel from Friday's settlement. **U.S. crude** was down 0.52% at \$62.72 a barrel.

Gold surged to a near seven-year high as the U.S. killing of a top Iranian commander stirred fears of a wider conflict in the Middle East. "The markets are nervous about what comes next between the United States and Iran; there are political risks and there is safe haven buying in gold," said Bob Haberkorn, senior market strategist at RJO Futures. **Spot gold** was up 0.93% at \$1,565.87 per ounce, after rising to \$1,579.72 earlier in the session, its highest since April 2013. **U.S. gold futures** were 0.96% higher at \$1,567.30 per ounce.



Top News

Ford quarterly sales slip on slowdown in passenger cars demand

Ford posted a 1.3% fall in fourth-quarter vehicle sales as soft demand for passenger cars outweighed higher sales of pick-up trucks. Ford's figures rounded off U.S. automakers' sales for 2019, with passenger cars falling out of favor with buyers amid lower oil prices and as automakers focused on SUVs and pick-ups that are more profitable. Discounts during the key holiday season and lower interest rates helped pushed sales of Ford's trucks to 330,075 in the quarter, up from 284,859 trucks a year earlier. However, passenger car sales at the company declined 41% to 63,400 cars. The No. 2 U.S. automaker said it sold 601,862 vehicles in the quarter, compared with 609,693 vehicles a year earlier. Ford sold more than 1.2 million trucks in 2019, outselling rival General Motors Co, which sold 802,962 pickups during the year.

Xerox secures \$24 billion financing for proposed HP takeover

Xerox said it has secured \$24 billion in financing for its \$33.5 billion takeover offer for HP, a deal that the personal computer maker is opposing. Xerox has engaged in "constructive dialogue" with many of HP's largest shareholders, the company's chief executive officer, John Visentin, said in a letter addressed to HP's board. "My offer stands to meet with you in person, with or without your advisors, to begin negotiating this transaction," Visentin said. Activist investor Carl Icahn, who has a 4.2% stake in HP and a 10.9% stake in Xerox, in December urged HP shareholders who agreed with a merger with Xerox to reach out to the PC maker's directors for immediate action. HP had said it was open to exploring a bid for Xerox, stating that it recognizes the potential benefits of consolidation.



Ford logo is pictured at the 2019 Frankfurt Motor Show (IAA) in Frankfurt, Germany September 10, 2019. REUTERS/Wolfgang Rattay

Aeromexico reaches compensation deal with Boeing over MAX crisis

Mexican airline Aeromexico said it had reached a compensation deal with Boeing related to the grounding of the planemaker's 737 MAX aircraft, joining a growing list of global airlines settling with the U.S. company. Aeromexico did not disclose the size of the payment, but added that it remains in talks with Boeing and regulatory authorities. Earlier, the Wall Street Journal reported that Boeing is considering plans to raise more debt to bolster its finances after the grounding of its 737 MAX jet. The company is also thinking of deferring some capital expenditures, freezing acquisitions and cutting spending on research and development to preserve cash, the report said, citing people familiar with the matter. **Separately**, Boeing is considering plans to raise more debt to bolster its finances after the grounding of its 737 MAX jet, the Wall Street Journal reported, citing people familiar with the matter.

Amazon to showcase its transportation drive at world's largest tech show

From making cars talk using Alexa's voice to managing data from factories full of robots, Amazon.com wants a big piece of the action in transportation, and this week at CES will unveil more about its strategy to achieve that goal than ever before. The Seattle retail and cloud services powerhouse plans to use the annual technology show in Las Vegas to unveil its plan to be a major player in self-driving vehicle technology, connected cars, electric vehicles and management of the torrents of data generated by automakers and drivers, company executives told Reuters. Amazon Web Services, which provides large-scale cloud computing and data management services, is central to Amazon's strategy. **In other news**, Amazon.com said its streaming device, Fire TV, has surpassed 40 million active users globally, maintaining its lead over rival Roku.



Qualcomm launches autonomous driving computer, aiming to hit roads by 2023

Qualcomm announced a computing system for autonomous vehicles designed to handle everything from lane controls to full self-driving that it aims to have on the road by 2023. The system, dubbed Snapdragon Ride, is the company's first foray into a full system to power self-driving cars. Patrick Little, the senior vice president and general manager of Qualcomm's automotive business, said the company is using the expertise it built in the mobile phone processor business developing powerful processors that consume little electricity and generate little heat. "Many of these cars have a supercomputer in the back. It looks like your kid's gaming PC," Little told Reuters in an interview. "Now imagine you're putting that in the trunk of an electric vehicle. Now your range anxiety is just doubled."

Occidental to cut Western Midstream majority stake to reduce debt

Occidental said it would cut its majority stake in pipeline operator Western Midstream Partners to less than 50% in 2020, as it looks to reduce its debt that grew significantly with the Anadarko deal. Occidental is working to pare \$40 billion of debt it took on with the Anadarko deal, and changes to ownership would ease a sale or spin-off of Western Midstream. The restructuring would also allow Occidental to no longer show the gas pipeline and processing business's debt as its own. The net long-term debt for Occidental was \$47.6 billion as of Sept. 31, 2019. The deal, which has been called "hugely overpriced" by activist investor Carl Icahn, continues to weigh

on Occidental's shares, which still trade at levels it touched during the financial downturn of 2008.

Avon-Natura tie-up to yield more cost savings-CEO

Brazilian cosmetics group Natura lifted its cost savings target for its takeover of Avon as it begins integrating the world's fourth-largest beauty group. The company now sees savings of \$200 million to \$300 million per year within the next 36 months, more than the \$150 million to \$250 million estimated in May, when it agreed to buy rival Avon through a share swap. "We want to use part of that to reinvest in growth," especially when it comes to reviving the Avon business, Natura & Co's Chief Executive Officer and Chairman Roberto Marques told Reuters. "In terms of investment: branding, product development and digitalization will be core," he added. By acquiring Avon, Natura, which also owns the Natura, Aesop and The Body Shop brands, strengthened its door-to-door sales model, increasing its third-party "consultants" to 6.3 million globally from 1.7 million.

First Solar to pay \$350 million to end shareholder lawsuit, avert trial

First Solar said it agreed to pay \$350 million to settle a long-running shareholder lawsuit accusing the solar panel maker of inflating its stock price by concealing design defects and reporting misleading financials over nearly four years. The class-action settlement requires approval by U.S. District Judge David Campbell in Phoenix, and averts a scheduled Jan. 7 trial, court records show. First Solar said it did not admit liability or wrongdoing in agreeing to settle, and expects the settlement to be reflected in results for its fiscal year ending Dec. 31, 2019. First Solar said related lawsuits by plaintiffs that chose to sue on their own rather than join the class action, and by plaintiffs suing company officials in a so-called derivative lawsuit, remain pending. The shareholders were led by two UK pension funds, Mineworkers' Pension Scheme and British Coal Staff

Superannuation Scheme. Their lawyers did not immediately respond to requests for comment.

JetBlue to use alternative fuel source on flights out of San Francisco

JetBlue said it would use an alternative fuel source for flights leaving from San Francisco and plans to curb carbon dioxide emissions from jet fuel for domestic flights as it aims to reduce its carbon footprint. The aviation industry has been trying to combat climate change by trying to cut its greenhouse gas emissions in half by 2050 compared with 2005 levels and sees the emergence of lower-carbon biofuels as a vital step towards meeting this goal. JetBlue in its attempt to reduce greenhouse gas emissions will favor renewable sources and will start using sustainable aviation fuel in mid-2020 on flights from San Francisco International Airport. The company did not disclose if any other airports will be a part of the plan to reduce greenhouse gas emissions. Sustainable-fuel would have the single largest impact in reducing emissions from each flight by around 80%, but is in short supply, according to the International Air Transport Association.

Cybersecurity firm Armis may be acquired by Insight Partners-report

Cybersecurity firm Armis, which specializes in protection for the Internet of Things (IoT), is in advanced talks to be bought by U.S.-based Insight Partners for around \$1 billion, Israeli financial news website Calcalist reported. The company employs some 240 people in Palo Alto, California, and in Tel Aviv, according to Calcalist. Insight Partners, a venture capital and private equity firm, opened offices in Tel Aviv in October. Neither company was reachable for immediate comment. Armis says its enterprise security platform protects IoT devices -- like medical infusion pumps or those used in production lines at car manufacturers -- from attacks by identifying suspicious or malicious devices and quarantining them.



People attend a funeral procession for Iranian Major-General Qassem Soleimani, head of the elite Quds Force, and Iraqi militia commander Abu Mahdi al-Muhandis, who were killed in an air strike at Baghdad airport, in Tehran, Iran January 6, 2020. Official Khamenei website/Handout via REUTERS

Insight and Analysis

FOCUS-Drug developers take fresh aim at 'guided-missile' cancer drugs

Dozens of drugmakers are conducting human trials for a record 89 therapies that pair antibodies with toxic agents to fight cancer, evidence of renewed confidence in an approach that has long fallen short of its promise, an analysis compiled for Reuters shows. These antibody-drug conjugates, or ADCs, from companies including AztraZeneca and GlaxoSmithKline, are described by researchers as "guided missiles" packing a powerful anti-cancer punch. They are engineered to zero in on tumours and then release cytotoxins that deliver up to 10,000 times the potency of standard chemotherapy, while minimizing damage to healthy tissue.

Fed focuses on repo market exit strategy after avoiding year-end crunch

Wall Street's worst fears of a year-end funding squeeze never materialized thanks in large part to the quarter-trillion dollars the Federal Reserve stuffed into the market to ensure nothing became gummed up. The question now, though, is what it will take for the U.S. central bank to withdraw from its daily liquidity operations in the \$2.2 trillion market for repurchase agreements, or repos - after it became a dominant player in a short three months. "The repo operations are a band-aid, but the wound isn't healed fully," said Gennadiy Goldberg, an interest rate strategist at TD Securities.

COLUMN-U.S. energy consumption hit by economic slowdown: Kemp

U.S. manufacturers and freight hauliers were hit last year by the sharpest slowdown since the 2008/09 recession and it filtered through into a noticeable dip in energy consumption. Use of electricity, natural gas and diesel by industrial customers all showed large declines, or at least sharp slowdowns, in the nine months ending in September 2019. In July to September, industrial users' total energy consumption fell 1% compared with the same period a year earlier, according to statistics from the U.S. Energy Information Administration. That was the biggest decline since the mid-cycle manufacturing slowdown in 2015/16 and before that the recession of 2008/09.



CANADA

Market Monitor

Canada's main equity index treaded water as gains in energy stocks countered pressure from a spike in tensions in the Middle East.

The **Toronto Stock Exchange's S&P/TSX composite index** ended 0.23%

higher at 17,105.47. The **energy sector** climbed 2.21% to 149.51.

The **U.S. dollar** was down 0.30% against its **Canadian counterpart** at C\$1.2960.

COMING UP

A gauge of **Canadian purchasing activity**, the **Ivey Purchasing Managers Index** for December is scheduled for release. The seasonally adjusted index rose to a three-month high of 60.0 in November.

TSE's S&P/TSX composite

	Price	C\$ chng	% chng
GAINERS			
Hudson's Bay Co	10.84	0.96	9.72
Baytex Energy Corp	2.08	0.13	6.67
Ballard Power Systems Inc	10.67	0.54	5.33
LOSERS			
Hexo Corp	1.93	-0.13	-6.10
Cronos Group Inc	8.82	-0.49	-5.22
Hudbay Minerals Inc	4.82	-0.26	-5.03

Top News

First Quantum shares fall after company adopts takeover defense

First Quantum fell after the copper miner said it had adopted a poison pill takeover defense, nearly a month after China's Jiangxi Copper agreed to pay \$1.1 billion to become the miner's largest shareholder. The move adds a potential barrier to any takeover proposal at a time analysts, bankers and miners expect to see more deals in copper, a critical ingredient in low-carbon technologies. The rights plan comes into force immediately, First Quantum said. First Quantum last September said it was in talks with Jiangxi for a potential sale of a minority interest in its Zambian copper assets, Kansanshi and Sentinel. Such a deal could generate about \$2-billion in proceeds, according to Scotiabank analysts. However, Jiangxi is prevented from buying more than a 20% interest in First Quantum under a standstill agreement reached by the companies in October. First Quantum is also looking for strategic partners to develop new copper projects. First Quantum's shares ended 0.34% lower at C\$12.40.



Snow covers the building site of tech company Sidewalk Labs' smart-city as seen from a landing commuter plane in Toronto, Ontario, Canada December 6, 2019. REUTERS/Chris Helgren

Alphabet's Toronto smart city proposal faces timber innovation challenge

An Alphabet company's vision for a "smart city" project in Toronto includes buildings made of timber that are five times the current limit, potentially steering the company into the challenges of timber innovation in Canada. Sidewalk Labs' proposal includes developing 30-plus story buildings made of timber, close to Toronto's central business district, as part of their commitment to sustainability. Sustainability is a "key

factor" in evaluating the proposal, said Andrew Tumilty, spokesman for Waterfront Toronto, the government-mandated agency in charge of the Quayside development. The issue typifies the multitude of challenges Sidewalk faces in getting its smart city off the ground - including governmental regulations that are years behind current technology, and a shrunken geography for the project that brings into question the viability of many of their proposals. Sidewalk's project will be voted on by Waterfront Toronto's board for final approval on March 31, 2020.

WEALTH NEWS

FEDERAL RESERVE POLICY

Fed faces new trade-offs, hunts for new model, in low-rate world

An unprecedented combination of low U.S. unemployment, weak inflation and low interest rates has the U.S. Federal Reserve grappling with how to fight the next recession, as experts debate new approaches to financial regulation as well as a fuller overhaul of Fed strategy. At a three-day conference in San Diego on an array of economic topics, one stood out: The textbook view of central banking, where low unemployment produces unwanted inflation that monetary policymakers can counter with interest-rate hikes, is at least badly hobbled if not fully broken. "These factors are basically the hand that we are dealt," New York Fed President John Williams said, expressing a resignation shared by other central bankers and academic researchers gathered for the American Economic Association annual conference. The Fed is in the middle of a broad review of its approach to monetary policy that is due to conclude later this year. The economy is currently felt to be functioning well, with a recession unlikely in the near term - an apt time, officials feel, to make any changes.



A file photo shows the Federal Reserve Board building on Constitution Avenue in Washington, U.S., March 27, 2019. REUTERS/Brendan McDermid

PRIVATE EQUITY HIRING

Private equity's talent challenge: Keeping it out of the family

Family offices, which handle the wealth of the very rich and their kin, are increasingly poaching young talent from buyout firms, challenging the private equity industry's claim as the destination of choice for aspiring dealmakers. The five executive headhunting firms with the biggest market share on Wall Street - Korn Ferry, Egon Zehnder, Russell Reynolds Associates, Odgers Berndtson and Heidrick & Struggles - told Reuters they have seen a significant increase in the number of private equity professionals moving to family offices in the last five years.

STOCKS IN 2020

Defying gravity? What could bring U.S. stocks down to earth

The U.S. stock market's relentless drive higher has caused some nail-biting on Wall Street that the rally is about to end. Geopolitical risks - such as the latest escalation of U.S. tensions with Iran - are just one on a list of worries for 2020.

GRAPHIC

Oil price gains turn up the heat on emerging market oil importers

Oil prices topping \$70 a barrel due to rising geopolitical tensions are piling the pressure on emerging market crude consumers such as South Africa, Turkey and India, already struggling to boost their fragile economic growth.

2020 PREDICTIONS

The heat's rising everywhere in 2020

Expect investors and banks to join the climate-change fight; pain in Russia and South Africa; heightened risk in Hong Kong; and U.S. elections testing Wall Street nerves. Opportunities will abound, too. All this and more awaits in a pivotal year for politics, profit and planet.

INSIGHT

Trump administration pressed Dutch hard to cancel China chip-equipment sale -sources

The Trump administration mounted an extensive campaign to block the sale of Dutch chip manufacturing technology to China, with Secretary of State Mike Pompeo lobbying the Netherlands government and White House officials sharing a classified intelligence report with the country's Prime Minister, people familiar with the effort told Reuters.

OPEC OUTPUT

OPEC December oil output slips as Nigeria, Iraq comply more

OPEC oil output fell in December as Nigeria and Iraq adhered more closely to pledged reductions and top exporter Saudi Arabia made further cuts ahead of a new production-limiting accord, a Reuters survey found.



THE DAY AHEAD

ON THE RADAR

Events	ET	Poll	Prior
Wed: ADP national employment for Dec	0815	160,000	67,000
TR IPSOS PCSI for Jan	1100	--	62.22
Consumer credit for Nov	1500	\$15.50 bln	\$18.91 bln
Thu: Challenger layoffs for Dec	0730	--	44,569
Initial jobless claims	0830	220,000	222,000
Jobless claims 4-week average	0830	--	233,250
Continued jobless claims	0830	--	1.728 mln
Fri: Non-farm payrolls for Dec	0830	160,000	266,000
Private payrolls for Dec	0830	150,000	254,000
Manufacturing payrolls for Dec	0830	5,000	54,000
Government payrolls for Dec	0830	--	12,000
Unemployment rate for Dec	0830	3.5%	3.5%
Average earnings mm for Dec	0830	0.3%	0.2%
Average earnings yy for Dec	0830	3.1%	3.1%
Average workweek hours for Dec	0830	34.4 hrs	34.4 hrs
Labor force participation for Dec	0830	--	63.2%
U6 underemployment for Dec	0830	--	6.9%
Wholesale inventory, R mm for Nov	1000	0.2%	0.0%
Wholesale sales mm for Nov	1000	0.2%	-0.7%

KEY RESULTS

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



A man visits ice sculptures ahead of the annual Harbin International Ice and Snow Sculpture Festival in the northern city of Harbin, Heilongjiang province, China January 4, 2020. REUTERS/Aly Song

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

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