

# THE DAY AHEAD

## MARKET RECAP at 4 pm ET

**Stocks** plummeted, **oil** prices fell and the Chinese **yuan** plunged as the trade dispute between United States and China escalated. **Treasuries** and **gold** prices rose as investors shifted focus to low-risk assets.

STOCKS	Close	Chng	%Chng	Yr-high	Yr-low
DJIA	25324.99	-617.38	-2.38	26951.81	21712.53
Nasdaq	7647.02	-269.92	-3.41	8176.08	6457.13
S&P 500	2811.88	-69.52	-2.41	2954.13	2443.96
Toronto	16193.41	-104.14	-0.64	16672.71	13776.88
FTSE	7163.68	-39.61	-0.55	7528.93	6599.48
Eurofirst	1465.11	-16.32	-1.10	1541.32	1308.86
Nikkei	21191.28	-153.64	-0.72	22362.92	19241.37
Hang Seng	28550.24	239.17	0.84	30280.12	24896.87

TREASURIES	Yield	Price
10-year	2.4015	15 /32
2-year	2.1843	4 /32
5-year	2.1814	10 /32
30-year	2.8385	22 /32

FOREX	Last	% Chng
Euro/Dollar	1.1227	-0.05
Dollar/Yen	109.34	-0.55
Sterling/Dollar	1.2957	-0.32
Dollar/CAD	1.3468	0.42
TR/HKEX RMB	93.81	-0.06

COMMODITIES (\$)	Price	Chng	% chng
Front Month Crude /barrel	60.81	-0.85	-1.38
Spot gold (NY/oz)	1299.33	13.73	1.07
Copper U.S. (front month/lb)	0.0273	-0.0006	-2.15
CRB Index Total Return	185.72	-1.34	-0.71

S&P 500	Price	\$ Chng	% Chng
<b>GAINERS</b>			
Newmont Goldcorp Corp	30.92	0.77	2.55
American Water Works Company Inc	110.72	2.45	2.26
HCP Inc	30.94	0.61	2.01
<b>LOSERS</b>			
Mylan NV	20.08	-2.09	-9.43
Arista Networks Inc	243.85	-20.37	-7.71
IPG Photonics Corp	142.41	-11.28	-7.34

## Coming Up

The U.S. Labor Department is likely to report a 0.7% rise in **import prices** in April, after having risen 0.6% in March. The department is also expected to report a 0.5% increase in **export prices** in April, after a 0.7% rise in March.



**Ralph Lauren Corp** is expected to report a fall in fourth-quarter sales, hurt by a stronger dollar and its move to pull inventory off department store shelves and sell more at full price to retain its brand cachet and boost margins. Investors will keep an eye out for the company's next fiscal year outlook and comments on Europe and China given the macro-economic issues plaguing the regions.

Federal Reserve Bank of New York is set to release the text of its President **John Williams'** remarks to panel "Past — Lessons Learned from an Evolving International Monetary System" at the closed Swiss National Bank-International Monetary Fund High-Level Conference on the International Monetary System in Zurich, Switzerland.

Federal Reserve Bank of Kansas City President **Esther George** is likely to participate in a question-and-answer session on "The Federal Reserve and the Economy" before the Economic Club of Minnesota.

### LIVECHAT - FED WATCH

Reuters reporters and editors tracking the Federal Reserve take questions on the economics, politics, trade matters and rates policies facing America's central bank and others whose decisions drive markets day in and day out. (0930 ET/1330 GMT) To join the conversation, [click here](#)

## KEY ECONOMIC EVENTS

Events	ET	Poll	Prior
Import prices mm for Apr	0830	0.7%	0.6%
Export prices mm for Apr	0830	0.5 %	0.7%

# Market Monitor

**Wall Street** shares sank after China defied Washington by announcing retaliatory tariffs, the latest salvo in the two countries' increasingly belligerent trade dispute, sending investors fleeing equities for less risky assets.

"With the ultimate trade outcome inherently uncertain and difficult to model or predict, investors are selling first and asking questions later," said Alec Young, managing director of Global Markets Research at FTSE Russell in New York. Michael O'Rourke, chief market strategist at JonesTrading in Greenwich, Connecticut, agreed. "The market is starting to realize the situation is as bad as it could be," O'Rourke said.

"There's a lot of risk here." Investors responded to that perceived risk by fleeing equities for safe-haven assets. The **CBOE Volatility index**, a gauge of investor anxiety, rose 26.31% to 20.26.

Shares of **Apple** sank 5.81%. Shares of **Tesla** fell 5.22%. The **Dow Jones Industrial Average** fell 2.38%, to 25,324.99, the **S&P 500** lost 2.41%, to 2,811.88 and the **Nasdaq Composite** dropped 3.41%, to 7,647.02.

**Treasury yields** fell as investors piled into low-risk assets after China announced plans to impose additional tariffs on U.S.-made goods in retaliation for a U.S. increase in duties on Chinese imports on Friday. "With rising protectionist measures, the damage to economic growth is increasing," said Stephen Gallagher, U.S. chief economist at Societe Generale. He estimated the latest round of U.S. and Chinese tariffs may reduce global economic growth by 0.15%. Benchmark **10-year notes** rose 15/32, yielding 2.40%. The **2-year notes** gained 4/32 to yield 2.18%.

S&P 500 and Benchmark Treasury yield



The Chinese **yuan** dropped against the dollar as the trade war between the United States and China escalated. The **dollar** rose 0.97% against the **yuan** at 6.91 yuan. Rising tensions between the two countries has also increased fears that China may sell its vast holdings of Treasuries as punishment or as a negotiation tactic against the United States. That hurt the greenback against safe-haven currencies the Japanese yen and Swiss franc. The **dollar** fell 0.55% against the **yen** at 109.33 yen and slipped 0.48% against the **Swiss franc** to 1.0067 franc. The **dollar index**, meanwhile, fell 0.03% to 97.31.

**Oil** fell, with Wall Street, as the negative turn in the U.S.-Chinese trade talks spooked investors, who had sent oil higher in early trade on concerns that tanker attacks in the Middle East could disrupt supplies. **Brent crude**

futures were down 1.09% at \$69.85 a barrel. **U.S. West Texas Intermediate (WTI)** crude futures fell 1.36% to \$60.82 a barrel. Oil was pressured by a slump in stocks and other risk assets as investors moved into safe havens like Treasury bonds in response to the intensifying U.S.-China trade war. Investors fear the trade war between the world's two largest economies could escalate further and derail the global economy. Earlier, oil prices had risen more than \$1 a barrel after Saudi Arabia said two Saudi oil tankers were among vessels attacked off the coast of the United Arab Emirates.

**Gold** prices climbed as investors sought a safe haven from market turmoil triggered by China announcing that it will retaliate over levies imposed by the Trump administration. **Spot gold** rose 1.07% to \$1,299.31 per ounce. **Gold futures** were 1.01% higher at \$1,300.40 an ounce.

# Top News

## Trump plans to meet Xi after China hits U.S. with new tariffs

U.S. President Donald Trump said he would meet with Chinese President Xi Jinping next month and that he expected their discussions would be "very fruitful," as the trade war between the world's two largest economies intensified. Earlier, China announced it would impose higher tariffs on a range of U.S. goods including frozen vegetables and liquefied natural gas, a move that followed Washington's decision last week to hike its own levies on \$200 billion in Chinese imports. Trump had warned Beijing not to retaliate. The U.S. president said he would meet Xi at a G20 summit in Japan in late June. Trump, who has embraced protectionism as part of an "America First" agenda, added that he had not yet decided whether to go ahead with tariffs on roughly another \$325 billion in goods from China. For its part, China said it plans to set import tariffs ranging from 5% to 25% on 5,140 U.S. products on a revised \$60 billion target list. It said the tariffs will take effect on June 1.

## In setback for Apple, U.S. Supreme Court lets App Store antitrust suit proceed

A divided U.S. Supreme Court gave the go-ahead to an antitrust lawsuit accusing Apple of forcing consumers to overpay for iPhone software applications, a decision that could lead to billions of dollars in damages and put at risk the company's lucrative way of selling apps. In a 5-4 ruling, the justices upheld a lower court's decision to allow the proposed class action lawsuit to proceed. The consumer plaintiffs claim Apple monopolized the market in violation of federal antitrust law by requiring that apps be sold through its App Store and extracting an excessive 30 percent commission on purchases. The Cupertino, California-

based technology company, backed by President Donald Trump's administration in the case, argued that it was only acting as an agent for app developers, who set their own prices and pay Apple's commission. The ruling, written by Justice Brett Kavanaugh, did not resolve the merits of the claim against Apple.

## Amazon rolls out machines that pack orders and replace jobs

Amazon.com is rolling out machines to automate a job held by thousands of its workers: boxing up customer orders. The company started adding technology to a handful of warehouses in recent years, which scans goods coming down a conveyor belt and envelopes them seconds later in boxes custom-built for each item, two people who worked on the project told Reuters. Amazon has considered installing two machines at dozens more warehouses, removing at least 24 roles at each one, these people said. These facilities typically employ more than 2,000 people. That would amount to more than 1,300 cuts across 55 U.S. fulfillment centers for standard-sized inventory. Amazon would expect to recover the costs in under two years, at \$1 million per machine plus operational

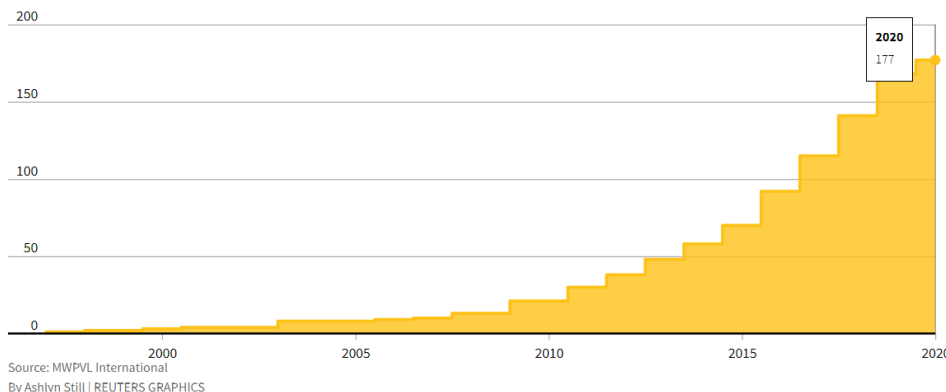
expenses, they said. The plan, previously unreported, shows how Amazon is pushing to reduce labor and boost profits as automation of the most common warehouse task – picking up an item – is still beyond its reach. The changes are not finalized because vetting technology before a major deployment can take a long time.

## Uber CEO expects further pressure as shares add to losses

Uber Technologies' shares fell, more than doubling their losses since the ride-hailing giant's poorly received market debut, and its chief executive officer said he expected the stock to remain under pressure in the coming months. The fall in shares comes against the backdrop of a global stock market selloff sparked by renewed trade tensions between the United States and China. The stock hit a low of \$36.58, valuing the company at about \$14 billion less than the IPO price of \$45. Uber's stock "did not trade as well as we had hoped post-IPO", Chief Executive Dara Khosrowshahi wrote in a memo to employees that was seen by Reuters. "Sentiment does not change overnight, and I expect some tough public market times over the coming months. But we have all the

### GROWTH OF AMAZON WAREHOUSES IN THE U.S.

Estimated cumulative total as of May 2019. Includes all known current and future fulfillment centers and specialty facilities run by Amazon and third parties.



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

capital we need to demonstrate a path to improved margins and profits," Khosrowshahi added. Uber extended its slide, falling 10.37% and ride-hailing peer Lyft dropped 5.75% for the day.

## Facebook raises minimum wages for U.S. contract workers to \$20/hour

Facebook said it was raising its minimum wage for all U.S. contract workers, reacting to rising costs of living as it faces intense scrutiny over the treatment of ordinary employees and their pay. The company raised its minimum wage to \$20 per hour in the San Francisco Bay Area, New York and Washington D.C. and to \$18 per hour in Seattle. It said it was clear that \$15 an hour would not now meet the needs of the workers it employs through third-party contractors as cooks, cleaners, security guards or drivers. The world's largest social media company also said it will pay at least \$22 per hour for content reviewers in the Bay Area, New York City and Washington, D.C., \$20 per hour to those living in Seattle and \$18 per hour in all other metro areas in the United States.

## Bed Bath & Beyond long-time CEO steps down following investor pressure

Bed Bath & Beyond's long-time Chief Executive Officer Steven Temares stepped down, following pressure from a group of activist investors that had been pushing for his ouster and a shakeup of the home goods retailer's board. The group, comprising Legion Partners Asset Management LLC, Macellum Advisors GP LLC and Ancora Advisors LLC, piled pressure on the company since March, citing its inability to grow sales and margins. The retailer has struggled to keep pace with changing consumer tastes and shopping habits, reporting 1.1% growth in sales last year compared with over 22% in 2003, when Temares took over as CEO. The company's shares have lost nearly 80% of their value in the

past five years. Temares also resigned as a member of the board, bringing its size to nine.

## Slack listing planned for June 20 in wake of underwhelming Uber IPO

Slack Technologies plans to go public on June 20, the company said, a test of investor appetite for loss-making technology stocks in the wake of Uber Technologies' underwhelming market debut. Slack is one of the most high-profile companies left to go public in 2019 and its debut could be a bellwether for other tech listings this year. Slack reported losses from operations of \$143.85 million for 2018, a fraction of the \$3 billion lost from operations by Uber in 2018. Slack is seeking to go public via a direct listing instead of an IPO, which has been the traditional route to the public markets for companies like Google parent Alphabet, Facebook and Uber. The June listing date could still be subject to change, Jesse Hulsing, Slack vice president of investor relations, told an investor event, which was webcast.

## Bar rises for shale takeovers as Chevron bows out of Anadarko fight

Chevron Chief Executive Michael Wirth's decision to opt out of a bidding war for Anadarko Petroleum has raised the bar for deals, and dampened expectations that oil majors will drive a new wave of consolidation in U.S. shale. The decision will make rivals think twice about splurging on companies operating in the largest U.S. oilfield, but will not put an end to shale deals given the weak valuations of independents, analysts said. Even Wirth refused to rule out another deal. "We are always scanning the landscape for opportunities," Wirth said in an interview on Thursday. However, Wirth added that Chevron has a "rich queue" of existing projects. "We have no intention to do an acquisition unless it's exceptionally good for us," he said. Investor reaction to the Chevron-Occidental contest for Anadarko also

may cause potential for the majors to think twice before getting involved in a bidding contest.

## Weatherford says expects to file pre-packaged bankruptcy plan

Weatherford International said it would soon have debtor-in-possession financing that would allow it to file a plan for Chapter 11 bankruptcy and emerge quickly with little debt. The company said it expects to enter into two processes of debtor-in-possession financing, including a revolving credit facility of up to \$750 million provided by banks or other lenders and a loan facility of up to \$1 billion. As part of the restructuring plan, all its existing unsecured notes will be exchanged for 99% of shares of the reorganized company and \$1.25 billion of new senior unsecured notes, as part of its Chapter 11 bankruptcy. The new unsecured notes will have a maturity period of seven years, it said in an SEC filing.

## Brazil's CAOA eyes Chinese partner to take over Ford plant

The founder of Brazilian automaker CAOA said he is negotiating with Chinese business executives to make a joint acquisition of a Ford Motor plant near Sao Paulo. Ford and CAOA have been in talks since March over the potential sale of the 11.8 million-square-foot plant in Sao Bernardo do Campo, slated to be shut down this year as the automaker exits its South American heavy truck business. "We already met with Chinese (businessmen) that are interested in making cars with us," Carlos Alberto de Oliveira Andrade, told reporters after a meeting with Brazil's finance minister in Brasilia. Still, Andrade said that any investments could be held up if the legislature does not approve a difficult and sweeping pension reform, which economists say is crucial to balancing Brazil's federal budget and which has become the government's top priority.





A Muslim man stands in front of the Abbraar Masjid mosque after a mob attack in Kaniyama, Sri Lanka, May 13. REUTERS/Dinuka Liyanawatte

## Insight and Analysis

### Foreign investors flock to U.S. corporate bond market for yield

Foreign investors have had to pay up to hedge U.S. dollar-denominated assets over the last year, but this has yet to stop them from plowing money into the U.S. corporate bond market, the world's largest. Robust returns for U.S. corporate debt assets and expectations of solid U.S. economic growth for the remainder of the year have outweighed concerns about costly dollar hedges for many foreign buyers. A surprise shift in the Federal Reserve's monetary policy stance earlier this year from a tightening bias to a neutral one helped unleash foreign demand for U.S. corporate bonds.

### FOCUS-TV networks emerge as obstacles on YouTube's hunt for ads

Three years ago, the beginning of the end of the U.S. television business looked certain when one of the largest ad buying agencies vowed to move a big chunk of its purchases to YouTube from TV budgets. The TV business did not die; far from it. Instead, data compiled by ad tracking firm MediaRadar at Reuters' request shows some advertisers are spending more on television networks' online properties and less on Alphabet's video service. The data may partially explain why Google's parent had its slowest quarterly revenue growth in three years.

### COLUMN- Hedge funds cautious on oil as economic outlook darkens

Hedge fund managers have started to turn more bearish on oil as concerns about a slowing global economy and an over-extended price rally outweigh fears about sanctions and supply disruptions. Hedge funds and other money managers were net sellers of 25 million barrels of futures and options in the six major contracts linked to petroleum prices in the week to May 7. Portfolio managers have now sold a total of 42 million barrels in the last two weeks, after buying 609 million over the previous 15 weeks since Jan. 8, according to position records published by regulators and exchanges.

# CANADA

## Market Monitor



REUTERS/Mark Blinch

Canada's main stock index fell for the third straight day, as an escalating trade row between the United States and China had investors worrying

about the damage it could cause to global economic growth.

The **Toronto Stock Exchange's S&P/TSX composite index** was down 0.64%, at 16,193.41.

The largest percentage gainers on the TSX were shares of **WestJet Airlines**, which jumped 59.88% after the company said it will be acquired by private equity firm Onex Corp.

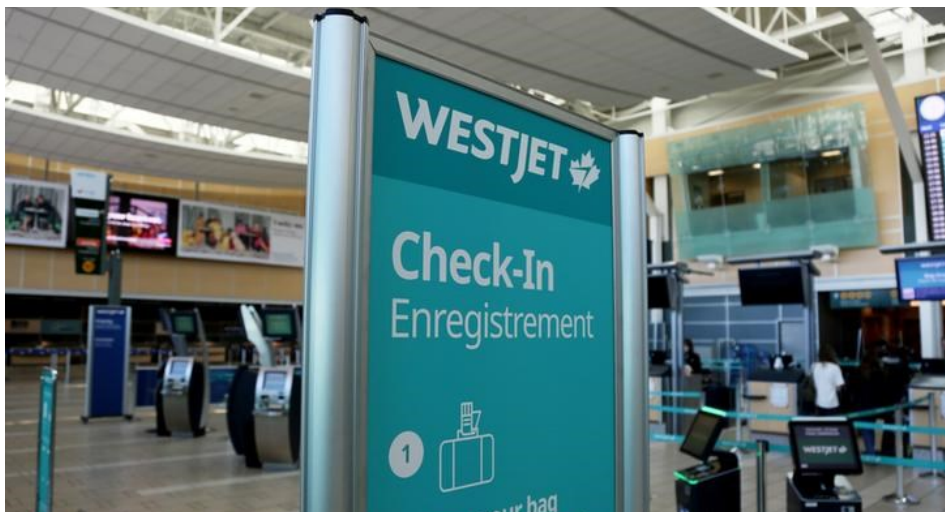
The **U.S. dollar** rose 0.42% against its **Canadian counterpart** to C\$1.3468.

### COMING UP

**Aurora Cannabis Inc** is expected to report a surge in third-quarter revenue as the company benefits from higher sales and production capacity after Canada legalized recreational marijuana. Investors will look out for commentary on how the pot firm tackles supply constraints, and seals deals with licensed producers.

TSE's S&P/TSX composite	Price	C\$ chng	% chng
<b>GAINERS</b>			
WestJet Airlines Ltd	29.61	11.09	59.88
Pretium Resources Inc	11.00	0.74	7.21
Alamos Gold Inc	6.39	0.42	7.04
<b>LOSERS</b>			
Canopy Growth Corp	58.88	-4.81	-7.55
Hexo Corp	8.86	-0.69	-7.23
Sierra Wireless Inc	17.69	-1.31	-6.89

## Top News



WestJet airline signage is pictured at Vancouver's international airport in Richmond, British Columbia, February 5. REUTERS/Ben Nelms

### Onex to buy WestJet for \$2.6 billion in largest PE-backed aviation deal

WestJet Airlines accepted a C\$3.5 billion cash buyout offer from private equity group Onex. The deal is the largest private equity acquisition of an airline. Onex first approached

WestJet's board in March and conducted a strategic review. The private equity firm is not new to investing in the aerospace industry - it bought Spirit Aerosystems from Boeing in 2005 and exited its investment in 2014, having made \$3.2 billion. The

WestJet purchase will be led by Onex Partners, Onex's private equity platform focused on larger investments. The airline's board has urged shareholders to vote in favor. The deal is subject to a number of conditions, including court and shareholder approval and receipt of certain regulatory approvals, including under the Canada Transportation Act. The deal, which has a value of \$5 billion including debt, is expected to close in the latter part of this year or early next year. AltaCorp analyst Chris Murray said it may take until 2020 to see a potential close to the transaction because of the "significant number of steps required between now and the close of any transaction, with a number of interested stakeholders expected to weigh in on the merits of the acquisition." CIBC Capital Markets and BofA Merrill Lynch were the financial advisers to WestJet, while Barclays, Morgan Stanley and RBC Capital Markets advised Onex.

# WEALTH NEWS

## FED WEIGHS IN

### Fed officials see risks in weaker inflation expectations, trade row

A drop in the consumer outlook for inflation and intensifying trade tensions drew caution from Federal Reserve officials as policymakers faced fresh market volatility and a renewed set of risks. Fed officials have largely discounted the trade war in their economic and policy outlooks, arguing that the likely impact on growth in U.S. gross domestic product would be small unless the trade tensions persist and intensify. Fed President Eric Rosengren said that while the U.S. is "strong enough" to weather the trade storm, "if it starts to be a situation where we expect tariffs to be high for a long period of time, it does start to disrupt trade patterns."



A file photo of the Federal Reserve building, in Washington, DC, August 22, 2018.

## FUNDRAISING

### Impossible Foods raises \$300 million with investors eager for bite of meatless burgers

Impossible Foods, which makes a meatless plant-based burger and is backed by celebrities like Serena Williams and Katy Perry, said it has raised \$300 million in the latest round of funding ahead of a possible initial public offering.

## OPEC'S STRATEGY

### Oil supply crunch to test OPEC's spare capacity

Oil production capacity could fall to under one percent of global oil demand by the end of the year if OPEC compensates falling production from Iran and Venezuela, leaving oil prices exposed to swings in the event of unplanned outages, analysts say.

## TREASURY YIELD

### U.S. yield curve between 3-month and 10-year rates inverts again

The U.S. Treasury bond yield curve between three-month and 10-year rates inverted for the second time in under a week as escalating trade tensions raised concern that the U.S. economy could tip into recession.

## NEW BOARD NOMINATIONS

### Neuberger urges Verint shareholders to back its three board nominees

Asset manager Neuberger Berman urged the shareholders of data analytics company Verint Systems to vote for its three director nominees after the company rejected them last month.

## AUTO SAFETY REGULATION

### U.S. drops plan to require vehicle brake-throttle override system

The Trump administration said it will drop rules first proposed in 2012 that would have required automakers to install brake-throttle override systems to prevent runaway vehicles.

## DEAL TALK

### Deutsche Bank talks with UBS on asset management deal stall – sources

Talks have stalled between Deutsche Bank and UBS on a tie up of their asset management businesses due to differences over who would control the combined entity, people familiar with the matter said.



## ON THE RADAR

Events	ET	Poll	Prior
<b>Wed:</b> NY Fed Manufacturing for May	0830	8.50	10.1
Retail sales ex-autos mm for Apr	0830	0.7%	1.2%
Retail sales mm for Apr	0830	0.2%	1.6%
Retail ex gas/autos for Apr	0830	--	0.9%
Retail control for Apr	0830	0.4%	1%
Retail sales YoY for Apr	0830	--	3.62%
Industrial production mm for Apr	0915	0.0%	-0.1%
Capacity utilization SA for Apr	0915	78.7%	78.8%
Manufacturing output mm for Apr	0915	0.1%	0%
Industrial production YoY for Apr	0915	--	2.77%
Business inventories mm for Mar	1000	0%	0.3%
Retail inventories ex-auto rev for Mar	1000	--	0%
NAHB Housing Market Index for May	1000	64	63
Net L-T flows, exswaps for Mar	1600	--	51.9 bln
Foreign buying, T-bonds for Mar	1600	--	19.9 bln
Overall net capital flows for Mar	1600	--	-21.6 bln
Net L-T flows, inclusion swaps for Mar	1600	--	33.1 bln
<b>Thu:</b> Building permits: number for Apr	0830	1.290 mln	1.288 mln
Build permits: change mm for Apr	0830	--	-0.2%
Housing starts number for Apr	0830	1.205 mln	1.139 mln
House starts mm: change for Apr	0830	--	-0.3%
Initial jobless claims	0830	220,000	228,000
Jobless claims 4-week average	0830	--	220,250
Continued jobless claims	0830	1.680 mln	1.684 mln
Philly Fed Business Index for May	0830	9	8.5
Philly Fed 6M Index for May	0830	--	19.1
Philly Fed Capex Index for May	0830	--	30.9
Philly Fed Employment for May	0830	--	14.7
Philly Fed Prices Paid for May	0830	--	21.6
Philly Fed New Orders for May	0830	--	15.7
<b>Fri:</b> Leading index change mm for Apr	1000	0.2%	0.4%
U Mich Sentiment Preliminary for May	1000	97.5	97.2
U Mich Conditions Preliminary for May	1000	112.2	112.3
U Mich Expectations Preliminary for May	1000	86.8	87.4
U Mich 1 year inflation preliminary for May	1000	--	2.5%
U Mich 5-year inflation preliminary for May	1000	--	2.3%



## KEY RESULTS

Company Name*	Quarter	ET	Smart Estimates	EPS Estimates**	Year Ago	Rev Estimates (mln)
Agilent Technologies	Q2	AMC	\$0.72	\$0.72	\$0.65	\$1,268.45
Ralph Lauren	Q4	BMO	\$0.91	\$0.90	\$0.90	\$1,474.56

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

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

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

*The Day Ahead - North America is compiled by Sourav Bose and Swathi Nair in Bengaluru.*

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