

# THE DAY AHEAD

## MARKET RECAP at 4 pm ET

**Major stock indexes** ended marginally lower in volatile trading as optimism around Sino-U.S. trade talks was offset by President Donald Trump's threat to shut down the U.S. government. Most

**Treasuries** moved in the red as investors increased their bets on riskier assets. The **dollar** rose against a basket of currencies. In commodities, **oil** prices advanced, while **gold** prices were lower.

STOCKS	Close	Chng	%Chng	Yr-high	Yr-low
DJIA	24370.24	-53.02	-0.22	26951.81	23344.52
Nasdaq	7031.83	11.31	0.16	8133.30	6630.67
S&P 500	2636.79	-0.93	-0.04	2940.91	2532.69
Toronto	14667.83	-60.45	-0.41	16586.46	14610.18
FTSE	6806.94	85.40	1.27	7903.50	6673.57
Eurofirst	1358.81	19.92	1.49	1587.95	1337.26
Nikkei	21148.02	-71.48	-0.34	24448.07	20347.49
Hang Seng	25771.67	19.29	0.07	33484.08	24540.63

TREASURIES	Yield	Price
10-year	2.8772	-6 /32
2-year	2.7661	-2 /32
5-year	2.7411	-5 /32
30-year	3.1230	4 /32

FOREX	Last	% Chng
Euro/Dollar	1.1320	-0.31
Dollar/Yen	113.38	0.04
Sterling/Dollar	1.2494	-0.52
Dollar/CAD	1.3391	-0.01
TR/HKEX RMB	93.63	0.11

COMMODITIES (\$)	Price	Chng	% chng
Front Month Crude /barrel	51.72	0.72	1.41
Spot gold (NY/oz)	1242.40	-2.11	-0.17
Copper U.S. (front month/lb)	0.0277	0.0005	1.71
Reuters/CRB Index Total Return	188.14	0.17	0.09

S&P 500	Price	\$ Chng	% Chng
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GAINERS			
Broadcom Inc	246.84	7.59	3.17
Twitter Inc	34.45	1.02	3.05
Campbell Soup Co	38.83	1.11	2.94
PerkinElmer Inc	85.39	2.40	2.89

LOSERS			
Fluor Corp	33.82	-1.89	-5.29
National Oilwell Varco Inc	28.08	-1.08	-3.70
Darden Restaurants Inc	101.76	-3.60	-3.42
Invesco Ltd	17.37	-0.58	-3.23

## Coming Up



A file photo of shoppers waiting in line at Lululemon at the King of Prussia Mall in King of Prussia, Pennsylvania, U.S., December 8, 2018. REUTERS/Mark Makela

A report from the U.S. Commerce Department may show **consumer inflation** for November stayed flat, compared with a 0.3 percent rise in October. In the 12 months through November, inflation is expected to have increased at a slower pace of 2.2 percent, compared to 2.5 percent for the 12-month period ending October.

**Hess Corp** CEO **John Hess** meets with investors to present the company's strategy and goals to build on its shale oil production and investments in deep water discoveries off the coast of Guyana.

The **World Trade Organisation's General Council meeting** is likely to hear debate about the future of the organization and ongoing trade wars.

**Brazilian central bank** is expected to hold **interest rates** steady at 6.5 percent when it announces its monetary policy.

### LIVECHAT - EQUITIES WATCH

Join our Reuters correspondents in London and New York for a discussion on the stock markets and company earnings. (0900 ET/1400 GMT) To join the discussion, [click here](#)

## KEY ECONOMIC EVENTS

Events	ET	Poll	Prior
Core CPI mm, SA for Nov	0830	0.2 pct	0.2 pct
Core CPI yy, NSA for Nov	0830	2.2 pct	2.1 pct
CPI Index, NSA for Nov	0830	252.055	252.885
Core CPI Index, SA for Nov	0830	--	258.94
CPI mm, SA for Nov	0830	0.0 pct	0.3 pct
CPI yy, NSA for Nov	0830	2.2 pct	2.5 pct
CPI mm NSA for Nov	0830	--	0.180 pct
CPI index SA for Nov	0830	--	252.830
Federal budget for Nov	1400	--	-\$100 bln

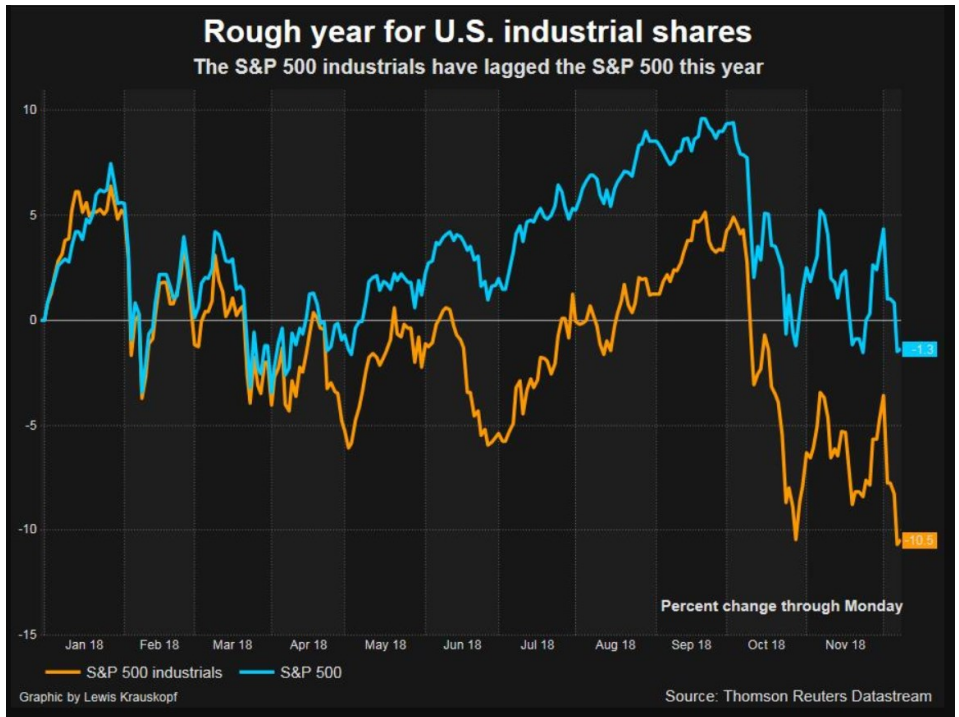


# Market Monitor

The **S&P 500** and **Dow** ended a volatile session down slightly as investor optimism over China-U.S. trade talks was offset by U.S. President Donald Trump's threat to shut down the U.S. government and by political uncertainty in Britain. Wall Street had a strong start to the session on news that U.S. and Chinese officials had discussed a road map for the next stage of trade talks, which Trump called "very productive." But later in the morning the mood soured as Trump publicly fought with Senate Democratic Leader Chuck Schumer and House Democratic Leader Nancy Pelosi and threatened a government shutdown at a meeting about funding for a border wall, dampening hopes for a deal ahead of a December deadline. **Consumer staples** ended up 0.9 percent, at 563.5. The S&P drew its biggest boost from **Microsoft**. The company shares rose 1.4 percent to \$109.1, at close. The **Dow Jones Industrial Average** ended down 0.2 percent, at 24,370.24, the **S&P 500** lost 0.04 percent, to 2,636.8 and the **Nasdaq Composite** added 0.2 percent, to 7,031.8, at close.

**Most Treasury yields** rose, as equities bounced amid positive developments in trade negotiations between the United States and China. Yields on U.S. 30-year bonds, which had been diverging from the rest of the market the last few sessions, turned higher in the afternoon trade. U.S. data showing an unexpected rise in producer prices last month, also nudged yields higher. \$38 billion three-year government notes were sold at a yield of 2.748 percent, which was the lowest yield for this debt maturity at an auction since July. The ratio of bids to the amount offered was 2.59, up from 2.54 at the prior three-year auction in November. **Benchmark 10-year notes** fell 6/32 to yield 2.8772 percent. **U.S. 30-year bonds** rose 4/32 to yield 3.1230 percent. Shorter-dated **2-year notes** fell 2/32 to yield 2.7661 percent.

The **dollar** rose against a basket of currencies, as China and the United States



[Click on the chart for a full-size image](#)

discussed plans for talks to avert a trade war between the world's two biggest economies. The sterling sagged after a report that said colleagues of Prime Minister Theresa May believed they had sufficient numbers to mount a no-confidence vote in her leadership, stoking anxiety about a chaotic British exit from the European Union. Measured against six major peers, the **dollar index** was up 0.27 percent at 97.48. The **sterling** was down 0.49 percent at \$1.2498. The **euro** was 0.30 percent lower at \$1.1321.

**Oil futures** advanced after paring most of their gains as stock markets turned negative on worries about a possible U.S. government shutdown. Prices rose over \$1 a barrel earlier in the session after Libya's National Oil Company (NOC) declared a force majeure on exports from the country's biggest oilfield, which was seized last weekend by a militia group. NOC said on Monday that the shutdown of the El Sharara oilfield would result in a production loss of 315,000 barrels per day (bpd), and an additional loss of 73,000

bpd at the El Feel oilfield. Russia said it planned to cut oil output by just 50,000 to 60,000 bpd in January, as it gradually builds to an agreed cut of 220,000 bpd. **Brent futures** were 0.6 percent higher at \$60.31 a barrel, while **U.S. West Texas Intermediate (WTI) crude** rose 1.4 percent to \$51.72 per barrel.

**Gold** prices fell as the U.S. dollar made gains. Gold investors are awaiting the Fed meeting on Dec. 18-19, where the central bank "could have more dovish language and cautious approach to future hikes," said George Gero, managing director at RBC Wealth Management. **Spot gold** fell 0.14 percent to \$1,242.78 per ounce, while **U.S. gold futures** was down 0.14 percent at \$1,242.78 per ounce. **Palladium** climbed 2.05 percent to \$1,242.49 an ounce. "There was some mention of tariff removal by the U.S. President on the autos, that certainly means better demand for vehicles that use palladium and there is a general concern that the palladium market is in a structural deficit," Melek of TD Securities said.



# Top News

## China detains former Canadian diplomat as Huawei CFO returns to court

Canada confirmed that one of its citizens was detained in China but said it saw no explicit connection to the arrest in Vancouver of a top executive at Huawei. Confirmation of the detention came soon after the executive, Huawei CFO Meng Wanzhou, returned to a packed Vancouver courtroom for a bail hearing in a case that has angered Beijing. Saying he was "deeply concerned," Public Safety Minister Ralph Goodale confirmed that Canada was aware a Canadian citizen was detained in China, but he provided no details on who it was. Former Canadian diplomat Michael Kovrig was the person detained, two sources had said earlier. Kovrig works for the International Crisis Group, an independent conflict resolution think-tank which said it was seeking his prompt and safe release. Tuesday is the third day of bail hearings in a British Columbia court, where a judge will weigh final issues in determining whether Meng should be freed on bail while awaiting extradition proceedings.

## Google has 'no plans' to launch Chinese search engine -CEO

Google has "no plans" to relaunch a search engine in China though it is continuing to study the idea, Chief Executive Sundar Pichai told a U.S. congressional panel amid increased scrutiny of big tech firms. But he added that internally Google has "developed and looked at what search could look like. We've had the project underway for a while. At one point, we've had over 100 people working on it is my understanding." Pichai said there are no current discussions with the Chinese government. He vowed that he would be "fully transparent" with policymakers if the company brings search products to China. Pichai did not say what steps Google would take to comply with Chinese laws if it re-entered the market. Under questioning from Democratic Representative David Cicilline, Pichai said he would "happy to engage" to discuss legislation that would empower the

Federal Trade Commission to address discriminatory conduct online. Much of the House hearing focused on Republican concerns that Google's search results are biased against conservatives and that the company had sought to influence the outcome of the 2016 presidential election. Democrats rejected that claim as "fantasy," and at least one said the search results highlighted more conservative voices.

## Verizon takes billions in charges for Oath, voluntary buyouts

Verizon said it will take a \$4.6 billion charge related to its Oath media assets - which includes digital media sites Yahoo and AOL - and a severance charge of up to \$2.1 billion for voluntary buyouts in the fourth quarter. The wireless carrier said in a regulatory filing that it saw fewer benefits than it expected from the combination of businesses that make up Oath. Verizon bought Yahoo for \$4.48 billion in 2017 and AOL for \$4.4 billion in 2015. In the third quarter, Oath's revenue fell 7 percent to \$1.8 billion, putting it far off from its goal of \$10 billion in revenue by 2020, which Verizon said it did not expect Oath to achieve. The company said the

severance charge was mainly due to the buyouts announced on Monday as well as other headcount reductions. It said severance charges in the fourth quarter would come to \$1.3 billion to \$1.6 billion after tax, with the Oath charge amounting to \$4.5 billion after tax. Analysts on average expect Verizon to post a profit of \$1.08 per share for the current quarter, according to IBES data from Refinitiv.

## Automakers rise on report of China moving to cut U.S. car tariffs

Automakers' shares rose following a report that China could move to cut tariffs on American-made cars, a step which was forecast by U.S. President Donald Trump after a meeting with China's president in Argentina. China is moving to cut import tariffs on American-made cars to 15 percent from the current 40 percent, Bloomberg reported, citing people familiar with the matter. The step hasn't been finalized and could still change, according to the report. Shares of automakers, including General Motors and Ford, rose on hopes that the move could revitalize sales that took a hit when China ramped up levies on U.S.-made cars. European auto stocks also rallied on the news, as



Google CEO Sundar Pichai is sworn in prior to testifying at a House Judiciary Committee hearing "examining Google and its Data Collection, Use and Filtering Practices" on Capitol Hill in Washington, December 11. REUTERS/Jim Young



several of the carmakers build SUVs in the United States and sell in China. A proposal to reduce tariffs on cars made in the U.S. to 15 percent has been submitted to China's Cabinet to be reviewed in the coming days, according to the report. The news would also be beneficial for Tesla that has been hit hard by increased tariffs on the electric cars it exports to China. GM's shares ended 1.2 percent higher at \$34.83, while Ford closed 0.53 percent up at \$8.57.

### McDonald's to curb antibiotic use in its beef supply

McDonald's said it plans to reduce the use of antibiotics in its global beef supply, fueling projections that other restaurants will follow suit. The move by the world's biggest fast-food chain addresses concerns that the overuse of antibiotics vital to fighting human infections in farm animals may diminish the drugs' effectiveness in people. McDonald's becomes the biggest beef buyer to tackle the issue in cattle, potentially creating a new standard for livestock producers and threatening sales by drug companies. "McDonald's iconic position and the fact that they're the largest single global purchaser of beef make it hugely important," said David Wallinga, a senior health adviser for the environmental group Natural Resources Defense Council. McDonald's said it will measure the use of antibiotics in its 10 biggest markets, including the United States, and set targets to curb their use by the end of 2020.

### Super Micro says review found no malicious chips in motherboards

Super Micro Computer told customers that an outside investigations firm had found no evidence of any malicious hardware in its current or older-model motherboards. In a letter to customers, the company said it was not surprised by the result of the review it commissioned in October after a Bloomberg article reported that spies for the Chinese government had tainted Super Micro equipment to eavesdrop on its clients. Super Micro had denied the allegations made in the report. A person familiar with the analysis told Reuters it had been conducted by global firm Nardello & Co and that customers could

ask for more detail on that company's findings. Nardello tested samples of motherboards in current production and versions that were sold to Apple and Amazon.com, which were both named in the article, the person said. It also examined software and design files without finding any unauthorized components or signals being sent out. He said the company was still reviewing its legal options.



### Dell gets shareholder approval for VMware deal

Dell said it has received shareholder approval for its earlier announced deal to buy back shares tied to its interest in software maker VMware, paving the way for it to return to the market. Dell said its Class C shares are expected to begin trading on the New York Stock Exchange on Dec. 28. The company sweetened the offer for the VMware tracking stockholders to \$23.9 billion from \$21.7 billion in November, helping it win backing from shareholders, including Carl Icahn, who had opposed the initial offer. Icahn, who owns 9.3 percent stake in Dell tracking stock, along with other hedge fund investors had opposed the first offer from Dell, saying it massively undervalued the tracking stock. Icahn, who owns 9.3 percent stake in Dell tracking stock, along with other hedge fund investors had opposed the first offer from Dell.

### EU opens \$22 billion Vodafone, Liberty Global deal inquiry

Vodafone's purchase of Liberty Global's assets in Germany and east Europe may damage competition in Germany and the Czech Republic, EU antitrust regulators said on Tuesday, as they opened a full-scale probe into the \$21.8 billion deal. The European Commission said some rivals might be shut out of the Czech market, where Vodafone offers mainly mobile telephony services and Liberty Global

offers fixed services. In Germany, the deal might reduce competition in the retail fixed telecoms markets and retail TV markets, curb investments in next-generation networks and give the merged firm more power as a TV broadcaster, the EU competition enforcer said. It saw no issues in Romania and Hungary and said it will decide whether to clear the deal by May 2. Vodafone said it still expected EU approval by mid-2019.

### WPP to splash out to reboot world's biggest ad group

WPP will invest to hire new creative staff and reduce costs by cutting offices and jobs under a plan by new boss Mark Read to steer the world's biggest advertising group back to growth. Read set out his vision after a loss of key clients led to several profit warnings and a 40 percent slump in its market value. Read said trading had improved slightly in the fourth quarter, clients remained supportive and the dividend would be maintained. WPP will spend 300 million pounds over three years to restructure and cut costs of 275 million pounds a year by 2021. Up to 3,500 jobs will go, while it will hire around 1,000 more to improve its senior leadership in its New York agencies. The company will also roll out its most successful technologies across the whole group to help clients. WPP said full-year organic net sales were set to fall 0.5 percent this year, compared with an October forecast of down 1 percent, and it warned that recent account losses from the likes of Ford would provide 'headwinds' in the first half of 2019.

### Boeing's 737 deliveries rise in November

Boeing delivered 61 of its best-selling 737 single-aisle aircraft in November, up from 50 a year earlier, suggesting that the planemaker may be finally moving past supplier problems that have dented production. Total deliveries for the first 11 months of 2018 rose to 704 from 680 in the same period a year earlier. Boeing expects to deliver 810-815 planes in 2018. Boeing delivered a total of 79 aircraft in November. The company's deliveries could take a hit if Indonesia's Lion Air decides to cancel orders for Boeing's 737 MAX jets following a crash that killed 189 people in October.





*The sun comes up, silhouetting the statue of Churchill and Big Ben, in Westminster, London, December 11. REUTERS/Toby Melville*

## Insight and Analysis

### Uber's dominant size may rob smaller Lyft of its IPO oxygen

Uber Technologies and smaller rival Lyft are driving side-by-side on the road to a stock market debut, and that may not bode well for Lyft as investors decide where to place their bets in the ride-hailing sector. Uber and Lyft both submitted confidential IPO filings with the U.S. Securities and Exchange Commission (SEC) last Thursday, suggesting that their public offerings could take place in close proximity, unless one decides to take a pause. Some IPO investors interviewed by Reuters said two IPOs in quick succession could force them to choose between Uber and the smaller and less diversified Lyft. The first company to debut will get to

define the sector in the eyes of stock market investors. Uber will likely draw investor attention to its larger market share and wider business operations, such as freight hauling and food delivery, while Lyft will play up its smaller but highly focused ride-hailing business, said people close to both companies.

### COLUMN —U.S. tariffs fail to dent Chinese aluminum export surge: Andy Home

The U.S. International Trade Commission has just slapped anti-dumping duties on imports of Chinese common aluminum alloy sheet. It's another brick in the trade wall being erected by the Trump administration as it seeks to insulate

domestic manufacturers from the flood of what it deems unfairly subsidised Chinese products. U.S. imports of Chinese alloy sheet surged by 731 percent between 2007 and 2017, with Chinese product accounting for nearly 40 percent of total imports last year, according to the U.S. Aluminum Association. The latest action builds on similar penal duties imposed on imports of Chinese foil and the broader "Section 232" tariffs on all imports of aluminum and steel. However, China's exports of aluminum products are still accelerating, with outbound flows on track to set a new record this year. Quite evidently, what the rest of the world regards as the core problem facing the aluminum sector has so far not been touched by U.S. trade measures.

## CANADA

## Coming Up

Statistics Canada is scheduled to report **industrial capacity utilisation** data for the third quarter. Industries are expected to have achieved an average capacity utilisation of 85.7 percent in the quarter, according to a Reuters Poll of economists.

TSE's S&P/TSX composite	Price	C\$ chng	% chng
<b>GAINERS</b>			
Nuvista Energy Ltd	3.84	0.37	10.66
Aphria Inc	8.20	0.67	8.90
Trican Well Service Ltd	1.28	0.08	6.67
Canopy Growth Corp	44.30	2.60	6.24
First Quantum Minerals Ltd	12.47	0.61	5.14
<b>LOSERS</b>			
Maxar Technologies Ltd	16.94	-1.25	-6.87
WestJet Airlines Ltd	18.36	-1.04	-5.36
Baytex Energy Corp	2.22	-0.09	-3.90
Alamos Gold Inc	4.69	-0.19	-3.89
Turquoise Hill Resources Ltd	2.25	-0.09	-3.85

## MARKET MONITOR

**Canada's main stock index** ended lower, after gaining over a percent in early trade. Toronto Stock Exchange's S&P/TSX composite index ended down 0.4 percent, at 14,667.8. **Cenovus Energy** rose 0.6 percent to \$10.10, after the company said it would reduce its capital spending for 2019 by 4 percent. **First Quantum Minerals** jumped 5.14 percent to \$12.47. **Finning International** shares rose after the company acquired mobile on-site refueling company 4Refuel. The company shares ended up 1.2 percent at \$24.83.

The U.S. dollar was down 0.2 percent against the Canadian dollar at C\$1.3392.

## Top News

### Enbridge says working on easing pipeline capacity shortages

Canada's largest pipeline operator Enbridge said it was working on alternatives to ease the ongoing pipeline capacity shortage in the country and is in talks with shippers for a new agreement for its Mainline system. Enbridge's Mainline system runs from western Canada to the United States and ships about 1.2 million barrels per day. Enbridge said it can increase pipeline capacity by 50,000 to 100,000 bpd on a short-term basis by the end of the first half of 2019. Crude production in Canada is expanding faster than pipeline capacity, which has led to the Canadian crude benchmark Western Canada Select trading at record lows compared to the U.S. benchmark West Texas Intermediate. Enbridge, which has aggressively sold assets as part of its debt reduction plan, said it has C\$1.8 billion worth of new investments. The company also said it would increase its dividend by 10 percent for 2019 and expects a further 10 percent increase for 2020.



A file photo of the entrance to Enbridge Inc.'s crude oil storage tank farm in Cushing, Oklahoma, March 24, 2016. REUTERS/Nick Oxford



# WEALTH NEWS

## U.S.—CHINA TRADE TALKS

### China, U.S. discuss road map for next stage of trade talks

China has agreed to cut tariffs on U.S.-built cars and auto parts to 15 percent from the current 40 percent, a Trump administration official said, setting the stage for a new talks aimed at easing the bitter trade war between the world's two largest economies. Washington still had not received documentation nor timing details of the tariff reduction, the official said, speaking on condition of anonymity. China's plan was communicated during a phone call between Chinese Vice Premier Liu He, U.S. Trade Representative Robert Lighthizer and Treasury Secretary Steven Mnuchin on Tuesday morning Beijing time, the official said. The two economies are expected to negotiate over U.S. demands for stronger Chinese protections for U.S. intellectual property, an end to forced technology transfers and greater market access to China for U.S. companies.



A file photo of U.S. President Donald Trump, U.S. Secretary of State Mike Pompeo, U.S. President Donald Trump's national security adviser John Bolton and Chinese President Xi Jinping attending a working dinner after the G20 leaders summit in Buenos Aires, Argentina December 1. REUTERS/Kevin Lamarque

## ECONOMIC DATA

### U.S. producer prices rise; oil likely to slow momentum

U.S. producer prices unexpectedly rose in November as increases in the costs for services offset a sharp decline for energy products, but the overall momentum in wholesale inflation appears to be slowing.

## FADING U.S. BONDS APPEAL

### Foreign investors spurn U.S. Treasuries as curve threatens to invert

A worrying sign of inversion in the U.S. Treasury bond curve is dulling the appeal of the developed world's highest-yielding bond market for foreign investors.

## COLUMN

### Struggling hedge funds cling to dollar, U.S. yield curve bets: McGeever

Hedge funds have struggled badly in 2018, but would be faring far worse were they not on the right side of two of the most reliable trades of the year: a flattening U.S. yield curve and a stronger dollar.

## WTI OUTLOOK

### U.S. expected to end 2018 as world's top oil producer - EIA

U.S. crude oil output growth was expected to slow slightly for this year compared with previous forecasts, the Energy Information Administration said, but at a record 10.88 million barrels per day, the nation will end 2018 as the world's top producer.

## EXTERNAL RESEARCH FUNDING SLASHED

### BlackRock and peers slash research budgets as new EU rules squeeze brokers

BlackRock and other investment houses have slashed their budgets for external research by as much as half after the introduction of new European Union rules, piling pressure on stockbrokers, a senior executive at the world's top asset manager said.

## BUYOUT OFFER DISMISSED

### Mitek rejects ASG's latest offer, says undervalues company

Mitek Systems rejected ASG Technologies' latest buyout offer, saying it undervalued the financial technology provider.







*Anti-Brexit protesters stand next to an illuminated sign outside the Houses of Parliament in London, December 10. REUTERS/Henry Nicholls*

## KEY RESULTS

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

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

*For questions or comments about this report, email us at: [TheDay.Ahead@thomsonreuters.com](mailto:TheDay.Ahead@thomsonreuters.com).*

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