

# THE DAY AHEAD

## MARKET RECAP at 4 pm ET

**Wall Street** ended slightly lower as worries about the U.S.-China trade war resurfaced and optimism surrounding a potential U.S.-Mexico deal faded. An increase in U.S. producer inflation and strong Treasury auction flattened the **yield curve**, while the **dollar** edged down. **Oil** steadied, supported by expectations that OPEC will extend supply cuts. **Spot gold** prices fell.

STOCKS	Close	Chng	%Chng	Yr-high	Yr-low
DJIA	26050.82	-11.86	-0.05	26951.81	21712.53
Nasdaq	7822.57	-0.60	-0.01	8176.08	6457.13
S&P 500	2885.72	-1.01	-0.03	2954.13	2443.96
Toronto	16248.76	32.50	0.20	16672.71	13776.88
FTSE	7398.45	22.91	0.31	7528.93	6599.48
Eurofirst	1499.05	9.89	0.66	1541.32	1308.86
Nikkei	21204.28	69.86	0.33	22362.92	19241.37
Hang Seng	27789.34	210.70	0.76	30280.12	24896.87

TREASURIES	Yield	Price
10-year	2.1448	-1/32
2-year	1.9317	-2/32
5-year	1.9171	-1/32
30-year	2.6178	3/32

FOREX	Last	% Chng
Euro/Dollar	1.1327	0.13
Dollar/Yen	108.48	0.05
Sterling/Dollar	1.2723	0.32
Dollar/CAD	1.3285	0.15
TR/HKEX RMB	93.15	0.04

COMMODITIES (\$)	Price	Chng	% chng
Front Month Crude /barrel	53.32	0.06	0.11
Spot gold (NY/oz)	1326.68	-1.05	-0.08
Copper U.S. (front month/lb)	0.0268	0.0001	0.30
CRB Index Total Return	183.17	0.85	0.46

S&P 500	Price	\$ Chng	% Chng
<b>GAINERS</b>			
Albemarle Corp	73.46	2.53	3.57
Schlumberger NV	36.69	1.22	3.44
Regions Financial Corp	14.46	0.47	3.36
<b>LOSERS</b>			
Raytheon Co	177.66	-9.53	-5.09
L3 Technologies Inc	243.14	-11.35	-4.46
Harris Corp	188.14	-8.44	-4.29

## Coming Up



A file photo of shoppers carrying bags at the King of Prussia Mall, Pennsylvania, December 8, 2018. REUTERS/Mark Makela

Investors will closely watch the U.S. Labor Department's **consumer price index** report for May, with Fed policymakers scheduled to meet on

June 18-19. According to a Reuters survey of economists, core consumer prices probably increased 0.2% last month after nudging up 0.1% in April.

## KEY ECONOMIC EVENTS

Events	ET	Poll	Prior
Core CPI mm, SA for May	0830	0.2%	0.1%
Core CPI yy, NSA for May	0830	2.1%	2.1%
CPI Index, NSA for May	0830	256.195	255.548
Core CPI Index, SA for May	0830	--	261.74
CPI mm, SA for May	0830	0.1%	0.3%
CPI yy, NSA for May	0830	1.9%	2.0%
Real weekly earnings mm for May	0830	0.1%	-0.4%
CPI mm NSA for May	0830	--	0.530%
CPI Index SA for May	0830	--	254.960
Cleveland fed CPI for May	1100	--	0.2%
TR IPSOS PCSI for Jun	1100	--	62.57
Federal budget for May	1400	-\$185.5 bln	\$160 bln



A file photo of clothes displayed in a Lululemon Athletica retail store in New York, U.S., March 30, 2017. REUTERS/Brendan McDermid

Canadian yoga apparel maker **Lululemon Athletica Inc** is expected to post a higher first-quarter profit compared with a year earlier, driven by

strong online and in- store sales. Investors will be looking out for comments on the company's international expansion plans and its

push towards menswear.

Executives from main oil companies are expected to participate in a conference in the southern province of Neuquen, in Argentina, to discuss the future of **Vaca Muerta**, a formation that could house one of the biggest reserves of shale gas and oil in the world. Businessmen want to be sure the next government, whoever takes office in December, will respect current contracts and keep Vaca Muerta as a strategic resource to help the country become a net energy exporter and recover from its cyclical crisis.

Brazilian statistics agency IBGE is expected to report **retail sales** rose 2.85% in April, compared with a year earlier.

### LIVECHAT-EQUITIES WATCH

Join our Reuters correspondents in London and New York for a discussion on the stock markets and company earnings. (0900 ET/1300 GMT) To join the conversation, [click here](#)

## KEY RESULTS

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



# Market Monitor

**Stocks** ended near flat as investors paused following a run of gains and as fresh worries emerged over the United States' trade war with China. Industrials and utilities indexes led the way lower. The **S&P 500 industrial index** fell 0.90%. The **Dow Jones Industrial Average** fell 0.05% to 26,048.51, the **S&P 500** lost 0.03%, to 2,885.72 and the **Nasdaq Composite** dropped 0.01% to 7,822.57.

An uptick in U.S. inflation and strong results from a \$38 billion Treasury auction drove **short-dated yields** higher, flattening the yield curve. Underlying U.S. producer prices increased for a second straight month in May. The report from the Labor Department will likely support the Federal Reserve's view that recent weak price readings are probably transitory, and that inflation will gradually move toward the central bank's 2% target. That narrowed the **spread between two- and 10-year yields** to 21.50 bps from 23.9 on Monday. The Treasury department sold \$38 billion of **three-year notes** at a high yield of 1.861%. The bid-to-cover ratio was 2.62 - the highest since September 2018. Indirect bidders took 56.6% of the supply, while direct bidders took 13.37% and primary dealers took 30.02%. The **10-year notes** fell 1/32 to a yield of 2.14%. The **30-year bonds** were up 3/32, yielding 2.61% and the **2-year notes** dipped 2/32 to yield 1.93%.

The **dollar index** dropped slightly as investors focused on the U.S.-China trade war and economic data for signals of growth and whether the U.S. Federal Reserve is likely to cut rates in



File photo of a trader working on the floor at the New York Stock Exchange, in New York, June 4. REUTERS/Brendan McDermid

the coming months. Investors are concerned that trade wars are harming global growth, and increasing the likelihood that the U.S. central bank will need to cut rates to stimulate growth. The **dollar index** was down 0.05% at 96.71.

**Spot gold** was slightly lower as investors booked profits following robust gains over the past weeks, while rising hopes of a trade deal between China and the United States lifted equities. However, increasing expectations the U.S. Federal Reserve would proceed with an interest rate cut this year pressured the dollar, supporting bullion rates. **Spot gold** was down 0.08% to \$1,326.69 per ounce, while **U.S. gold futures** were up 0.1% at \$1,330.60 per ounce.

**Oil prices** were steady, weighed by concerns about a global economic slowdown that could dent crude demand, but supported by expectations that OPEC and its allies will extend their supply curbs. Market participants were also awaiting further direction from weekly data on U.S. crude stockpiles, which analysts expect to show a 500,000-barrel drawdown last week from nearly two-year highs. Supporting oil prices was optimism that the Organization of the Petroleum Exporting Countries and other producers such as Russia would extend an output cut deal that has been in place since the beginning of the year to prop up prices. **Brent crude futures** were up 0.02% at \$62.30 a barrel, while **U.S. crude futures** edged up 0.11% to \$53.32 a barrel.



# Top News

## Ten U.S. states sue to stop Sprint-T-Mobile deal, saying consumers will be hurt

Ten states led by New York and California filed a lawsuit to stop T-Mobile's \$26 billion purchase of Sprint, warning that consumer prices will jump due to reduced competition. The complaint comes as the U.S. Justice Department is close to making a final decision on the merger, which would reduce the number of nationwide wireless carriers to three from four. The all-Democratic attorneys general from the 10 states, including Colorado, Connecticut, the District of Columbia, Maryland, Michigan, Mississippi, Virginia and Wisconsin, say the reduced competition would cost Sprint and T-Mobile subscribers more than \$4.5 billion annually, according to the complaint. The complaint was filed in the U.S. District Court for the Southern District of New York.

## Foxconn has enough capacity outside China to meet Apple's U.S. demand

Foxconn said it had enough capacity outside China to meet Apple's demand in the American market if the need should arise for the iPhone maker to adjust its production lines due to the U.S.-China trade war. "Twenty-five percent of our production capacity is outside of China and we have enough capacity to meet Apple's demand in the U.S. market," a member of the Taiwanese firm's proposed new board, Liu Young-way, said. He added that if Apple needs, Foxconn could adjust its production lines accordingly. Liu was speaking at Foxconn's first investor conference in Taipei, where the company also said it was well positioned to tackle the "increasingly tough" trade war situation with its production lines across 16 countries. Separately, Apple said it had decided



A smartphone with the Sprint logo is seen in front of a screen projection of the T-Mobile logo, in this picture illustration taken April 30, 2018. REUTERS/Dado Ruvic

to cancel plans for a second data centre in Denmark and the company will expand its other site in the country instead. To read more, [click here](#).

## Boeing May deliveries fall 56% as 737 MAX grounding continues to weigh

Boeing said it handed over 56% fewer airplanes in May compared with a year earlier, as deliveries of its top-selling 737 MAX jet remained suspended following a deadly crash in March. Total deliveries fell to 30 planes, compared with 68 in 2018. Net orders for the first five months remained in negative territory, with a total of minus 125 net orders. The company has been facing its worst ever crisis after an Ethiopian Airlines 737 MAX plane crashed, killing all 157 people on board, in the second fatal accident involving the jet in just five months. This is the last order and delivery update from Boeing before the Paris Airshow, which kicks off next week. Boeing reiterated on Sunday it was working with global regulators to certify

a software update and related training and education material to safely return the plane to service.

## Beyond Meat slides after lead underwriter downgrades stock

Shares of Beyond Meat fell after one of the stock's lead underwriters, J.P. Morgan, downgraded it, saying the exponential growth expected from the plant-based burger was now priced in. Beyond Meat has surged over 69% in two days since it forecast overall sales in 2019 to more than double. J.P. Morgan analyst Ken Goldman cut the stock rating to 'neutral' from 'overweight' and said it was "purely a valuation call". The stock, which has quadrupled in value since debut in May, is "beyond our price target", he said. Shares of the company were down 25% at \$126.04.

## U.S. Senator Warren urges antitrust chief to recuse himself from Google, Apple probes

Democratic U.S. Senator Elizabeth Warren called on the Justice

Department's antitrust division chief, Makan Delrahim, to recuse himself from the department's antitrust investigations into Google and Apple, saying his past lobbying for the companies raised conflict of interest concerns. In a letter to Delrahim, Warren said Alphabet's Google had hired him in 2007 to lobby federal antitrust officials on behalf of the company's proposed acquisition of online advertising company DoubleClick Inc, and he had reported an estimated \$100,000 in income from Google in that year. She said Apple had hired Delrahim in 2006 and 2007 to lobby the government on its behalf on patent reform issues.

### Amazon to shut restaurant delivery service in U.S.

Amazon.com said it would end its U.S. restaurant food delivery service on June 24, giving in to intense competition from GrubHub, DoorDash, Uber's Uber Eats services. "A small fraction of Amazon employees are affected by this decision, and many of those affected have already found new roles at Amazon," the company said. "Employees will be offered personalized support to find a new role within, or outside of, the company." Separately, Knowles, a major supplier of microphones to Apple's iPhone and many other smart devices, released a new chip that will allow battery-powered wireless headphones to respond to Amazon's Alexa voice assistant by saying the assistant's name. To read more, [click here](#)

### Crocs to cut Chinese production for U.S. market

Crocs will aim to cut the volume of its shoes and accessories produced in China for the U.S. market by more than two-thirds over the next year, as it guards against the impact of President Donald Trump's trade war with Beijing. Crocs also said it will have to wear costs of \$5 million over the next year, assuming a 25% tariff takes effect on Aug. 1. The company made \$1.09

billion in sales last year and earned about \$50.4 million. Crocs, which typically sources footwear from several third-party manufacturers, primarily in Vietnam and China, said it would source less than 10% of U.S. products from China by 2020 compared to about 30% currently.

### Merck's Keytruda wins FDA approval to treat head and neck cancer

Merck said its blockbuster cancer drug Keytruda won approval from the U.S. Food and Drug Administration to treat a type of head and neck cancer. The drug was approved for use as a monotherapy, as well as in combination with a common chemotherapy regimen, to treat previously untreated patients with head and neck squamous cell carcinoma, Merck said. Keytruda, first approved for advanced melanoma in 2014, is Merck's most important growth driver. It has overtaken Bristol's Opdivo as the industry's immuno-oncology leader with sales expected to top \$10 billion this year and \$20 billion in 2024, according to IBES data from Refinitiv.

### Ford denies it is in the self-driving slow lane

Ford Motor may be taking a cautious

approach to its autonomous driving programme, but its chairman rejected claims that the U.S. automaker was falling behind its peers. "I don't agree," Bill Ford said at an auto tech conference in Tel Aviv when asked about losing market share. "Our self-driving system, Argo, is incredibly competitive. On the technology side, we are right up there with the very best in terms of time of development but we want to take great care before we let people in these vehicles."

### Albemarle declines to participate in LME lithium contract

Albemarle said it will not participate in the London Metal Exchange's plan to launch a new contract for the white metal, depriving it of a key source of pricing data. The move reflects a view by some that lithium, used to make electric car batteries, is a specialty chemical rather than a basic commodity, and should be priced on a contract-by-contract basis. The LME, owned by Hong Kong Exchanges and Clearing, on Monday chose Fastmarkets to provide a reference price for the contract. The LME said in a statement to Reuters that it respects the right of companies to operate in whatever ways best suit their needs.



A file photo of the logo of Amazon at the company logistics centre in Boves, France, May 13. REUTERS/Pascal Rossignol





A tiger lays in a pool of water inside a cage at a zoo, during hot and humid weather in Lahore, Pakistan June 10. REUTERS/Mohsin Raza

## Insight and Analysis

### Under pressure, Fed faces an outlook clouded by trade wars and signs of weakness

U.S. President Donald Trump's attacks on the Federal Reserve have broken one set of precedents, his talk of stacking the central bank with political allies has strained another, and his on-again off-again tariff threats have made the economic outlook harder than ever to predict. While the Fed may well find reason to cut interest rates in recent weak job and inflation readings, doing so could also put a safety net under Trump policies that, to many policymakers, have done more harm than good.

### COLUMN-Hedge funds sell oil as economic fears intensify: Kemp

Hedge fund managers are liquidating bullish oil positions at the fastest rate since the fourth quarter of 2018 amid increasing fears about the health of the global economy. Hedge funds and other money managers were net sellers of 104 million barrels of futures and options linked to the six most important petroleum contracts in the week to June 4. Fund managers have sold a total of 290 million barrels of petroleum in the last six weeks, after buying 609 million in the previous 15 weeks since Jan. 8.

### Spooked public investors reach fork in risky road as asset growth slows

Global public institutions including central banks, sovereign wealth funds and public sector pension funds are increasingly worried about a worldwide economic downturn and are taking divergent investment strategies to adapt. An annual survey of 750 institutions from 183 countries with assets valued at \$37.8 trillion, equivalent to 43% of the global economy, found that 43% had sought to raise their risk budget and move into higher-yielding assets, while 37% had simply accepted a lower return.





# CANADA

## Market Monitor

Canada's main stock index rose, as higher oil prices aided the energy sector, against the backdrop of optimism in global financial markets over signs of stimulus in the Chinese economy.

The **Toronto Stock Exchange's S&P/TSX Composite index** was up 0.20% at 16,248.76.

The **U.S. dollar** rose 0.14% against its

Canadian counterpart to C\$ 1.3283.



### Coming Up

No major events are scheduled for the day.

TSE's S&P/TSX composite	Price	C\$ chng	% chng
<b>GAINERS</b>			
New Gold Inc	1.04	0.10	10.64
Canfor Corp	9.29	0.64	7.40
BRP Inc	46.59	3.04	6.98
<b>LOSERS</b>			
Spin Master Corp	42.47	-2.53	-5.62
Colliers International Group Inc	88.97	-2.77	-3.02
Allied Properties Real Estate Investment Trust	48.19	-1.44	-2.90

## Top News

### Construction firm SNC-Lavalin names interim CEO, announces strategic review

SNC-Lavalin Group, weighed by weakness in its mining division and a surprise loss last month in its construction business, named an interim CEO and announced a quick strategic review, boosting its slumping shares as investors hoped for a turnaround. Chief Operating Officer Ian Edwards will take over as interim president and CEO from Neil Bruce as the company's shares hover near 15-year lows. Bruce, who has been at the helm for more than three years, will remain as an adviser to the board until the end of the year. "The Board of Directors has asked Mr. Edwards to undertake a review of the strategic direction of the Company on an expedited basis and to develop a plan for sustainable success," the company said. SNC is also cutting costs and is weighing options to increase shareholder value and announced its exit from 15 countries earlier this year and reported a surprise quarterly loss

in its main engineering and construction unit. Analysts at National Bank of Canada Financial Markets applauded the strategic review which appears to prioritize consistency and cash flow. "If the company itself cannot get there, a privatization should also be strongly considered. We believe many shareholders will agree with our take on what makes sense from a directional perspective..." added the analysts, rating the company's shares "outperform".

### Zambian government has no plans to seize First Quantum -sources

Zambia has no plans to seize the assets of Quantum Minerals and the copper producer intends to stay in the country despite the government's move to wrest control of a rival miner, government and industry sources told Reuters. Canadian-listed First Quantum has looked on nervously as the Zambian government appointed a provisional liquidator to run Vedanta's Konkola Copper Mines (KCM), claiming KCM has breached the terms of its

license. The move has unnerved international miners concerned about rising resource nationalism in Zambia and neighboring countries. First Quantum, scarred by having its operations in Democratic Republic of Congo seized in 2010, is embroiled in a dispute with the Zambian government after being handed a \$5.8 billion bill last year for unpaid import duties. "The government will not touch First Quantum," one source close to the government said. "Vedanta is very different from First Quantum." Two sources close to the company said First Quantum would stay, but would freeze investment and might put operations on hold. Still, the company cannot mine at a loss, and, if necessary, would suspend production and cut jobs, shrinking the tax revenues Zambia desperately needs as its debts mount, one source said. At the time of its first quarter results in April, First Quantum CEO Philip Pascall said the company would be "very cautious" about capital expenditure in Zambia. Pascall, who

attended boarding school in Zimbabwe, has weathered previous changes in the Zambian tax regime and the sources say he will do so again. "That's the smart thing to do to wait for relations to be less toxic," another of the sources said. The sources and the industry as a whole, however, acknowledge Zambia is high-risk as it grapples with mounting debts and as politicians are already positioning ahead of elections scheduled for 2021.

### Alberta govt in talks about offloading crude-by-rail contracts

The Alberta government has started talks with the private sector about Canadian oil producers taking over crude-by-rail contracts signed by the previous government, Alberta Premier Jason Kenney said. The talks follow newly elected Kenney's campaign promise to scrap the former New Democratic Party government's C\$3.7 billion crude-by-rail deals, which he has slammed as poor value for taxpayers. "There are confidential conversations going on between our government and private sector actors. Our strong preference is that the private sector take over those contracts," Kenney told reporters in Calgary. Although talks are underway, the crude-by-rail program will not start up in July as originally planned by the NDP, said a government source with knowledge of the situation, who is not authorized to speak about the matter. The two largest contracts signed were with Canadian National Railway and Canadian Pacific Railway to move the rail cars. The programme was meant to start transporting 20,000 barrels per day next month, ramping up to 120,000 bpd by mid-2020. "Those contracts were signed in the last days of the NDP government and pay above

the market rate," the source said. "The sticking point is whether the railways are willing to come to the table to offer commercial terms that would be attractive to producers to ship their oil, and whether some or most of the oil producers can agree to conditions under which they can contract directly with the railways," he added.

### U.S. seeks to help countries boost key minerals' output to reduce reliance on China

The United States will team up with Canada and Australia to help countries around the world develop their reserves of minerals like lithium, copper and cobalt, the State Department said, part of a multi-pronged strategy to reduce global reliance on China for materials crucial

to high-tech industries. "Over 80 percent of the global supply chain of rare earth elements ... is controlled by one country," the State Department said. Under the plan, the U.S. will share mining expertise with other countries to help them discover and develop their resources, and advise on management and governance frameworks to help ensure their industries are attractive to international investors. A U.S. official said Canada and Australia were partnering, and that other allies could join later. Canada's Ambassador to the United States, David MacNaughton, said Canadian officials have met with the State Department several times to discuss critical minerals and environmental issues around global mining and looks forward to advancing the initiative.



A file photo of Jason Kenney meeting with the media in Edmonton, Alberta, Canada April 17. REUTERS/Candace Elliott



# WEALTH NEWS

## U.S. – MEXICO DEAL

### Mexico reveals border infrastructure plan; Trump vows migration deal details

Mexico must significantly improve border infrastructure on its southern frontier with Guatemala to succeed on its deal with the United States to reduce migration, Mexico's foreign minister said.

## ECONOMIC DATA

### Underlying U.S. producer inflation boosted by services

Underlying U.S. producer prices increased solidly for a second straight month in May, boosted by a surge in the cost of hotel accommodation and gains in portfolio management service fees. Core producer prices rose 0.4% last month, matching April's gain. The core PPI increased 2.3% in the 12 months through May after rising 2.2% in April. Weaker energy and food prices, partially offset the increase in prices of services last month. That led the producer price index for final demand to edge up 0.1% in May after gaining 0.2% in April. In the 12 months through May, the PPI climbed 1.8%, slowing from April's 2.2% advance.



A file photo of customers shopping for a turkey at a Walmart store in Chicago, November 20, 2018. REUTERS/Kamil Krzaczynski

## TRADE NEGOTIATIONS

### Trump defends tariff strategy, China says 'not afraid' of trade war

U.S. President Donald Trump defended the use of tariffs as part of his trade strategy while China vowed a tough response if the United States insists on escalating trade tensions amid ongoing negotiations.

## CEO SPEAKS

### Uber chief executive laments U.S. trade policy for lackluster IPO

Uber Technologies' Chief Executive Dara Khosrowshahi said the company's initial public offering last month was hurt by U.S. trade tensions even as he downplayed recent volatility in the stock price.

## BOND MARKET

### Investors most neutral on U.S. Treasuries since January – survey

Bond investors turned the most neutral on longer-dated U.S. Treasuries in about five months as U.S. President Donald Trump calling off tariffs on Mexico offset weaker-than-expected data on U.S. payrolls in May, a J.P. Morgan survey showed.

## PAYMENT SYSTEM

### Visa looks to speed up cross-border payments with new network launch

Visa has launched a new network to help financial institutions process cross-border payments globally on behalf of corporate clients faster and at a lower operational cost, it said.

## NEW LISTING

### SolarCity competitor Sunnova plans IPO -sources

Sunnova Energy, which finances and manages residential solar and storage systems across the United States, is planning a stock market flotation that could value the company at more than \$1 billion, including debt, people familiar with the matter said.





*A Palestinian worker carries clay pots as the sun penetrates the ceiling of a pottery workshop in Gaza City June 11. REUTERS/Mohammed Salem*

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