The Weekly Market View

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ADCB

Tit-for-tat trade announcements rock the markets

The majority of the equity market indices ended lower as another bout of volatility struck the markets with further escalations of trade war threats. Market concerns remain centered on the tit-for-tat trade announcements between China and the US. The technology stocks were the most under pressure on the uncertainty of a trade war, pushing the NASDAQ lower by 2.1% over the week. The week began with China's retaliatory announcement targeting roughly 130 US products. On Tuesday, the US responded by forming a list of tariffs on USD50bn of 1300 Chinese products. On Wednesday, China again retaliated with tariffs on USD50bn of soybeans, cars and aircraft and other imports from the US, with finally the Trump administration announcing on Thursday that it's considering to put tariffs on an additional USD100bn of imports from China. However the risk on sentiment slightly improved on Friday as White house officials tried to ease the concerns by indicating that the current trade tariffs were mainly proposals and there was room for further negotiations, thus limiting the decline in equities. Safe-haven assets including gold and yen were mostly flat over the week. The recent risk-off sentiment seems to have put a cap on 10-year US treasury yields which remained below 2.8%. Oil prices fell significantly, most likely on trade uncertainty adding to global growth concerns.

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Fed minutes and US CPI releases due next week, but focus will be on trade

Recent sell-off in equity markets highlight market's rising concerns on the possibility of a full-blown trade war. However, the correction has not been excessive as US equities have declined by 2.6% on year-to-date basis, 10% from the record highs and about 6.4% since Trump's announcement on aluminium and steel tariffs in February. This indicates that whilst markets may be fearing a trade war, they still refuse to completely believe it. We believe that a full-blown global trade war is still unlikely as China has many reasons to accommodate. Yet, the likelihood of a trade war has risen and we expect trade uncertainty to linger through May and well into June. We do not expect any proposal of additional tariffs will be introduced by either side for now. In fact, the next 60 days, both the US and China will be attempting to strike a deal. However, given the backdrop of strong US growth, overconfidence on the part of US could derail a negotiated solution. In fact, as far as the confrontation is concerned, it appears to be more about strategic containment of China (its increasing dominance as a global high tech power) rather than about US protecting its commercial interests i.e. the US will continue to run a current account deficit given it spends more than it produces. In a scenario where tariffs are imposed by June, a full blown trade war would become a concrete risk and such prospects would likely trigger a major sell-off in equity markets. As a result, we stick to our recommendation of not buying into equity market dips as long as there is no additional clarity on US and China attempting to come to a negotiated solution.

Past week global markets' performance

Index Snapshot (World Indices)

Index	Latest	Weekly Chg %	YTD %
S&P 500	2,604.5	-1.4	-2.6
Dow Jones	23,932.8	-0.7	-3.2
Nasdaq	6,915.1	-2.1	0.2
DAX	12,241.3	1.2	-5.2
Nikkei 225	21,567.5	0.5	-5.3
FTSE 100	7,183.6	1.8	-6.6
Sensex	33,627.0	2.0	-1.3
Hang Seng	29844.9	-0.8	-0.2
Regional Markets (Sunday to Thursday)			
ADX	4688.6	2.3	6.6
DFM	3083.4	-1.7	-8.5
Tadawul	7953.4	2.0	10.1
DSM	8792.9	1.4	3.2
MSM30	4798.9	1.3	-5.9
BHSE	1282.9	-1.6	-3.7
KWSE	6633.4	-	3.5
MSCI			
MSCI World	2,052.8	-0.7	-2.4
MSCI EM	1,162.0	-0.8	0.3

Global Commodities, Currencies and Rates

Commodity	Latest	weekly Chg %	YTD %
ICE Brent USD/bbl	67.1	-4.5	0.4
Nymex WTI USD/bbl	62.1	-4.4	2.7
Gold USD/t oz	1333.0	0.6	2.3
Silver USD/t oz	16.4	0.1	-3.3
Platinum USD/t oz	917.4	-1.6	-1.2
Copper USD/MT	6703.0	0.3	-6.3
Alluminium	2026.25	1.8	-10.3
Currencies			
EUR USD	1.2281	-0.3	2.3
GBP USD	1.4092	0.5	4.3
USD JPY	106.93	0.6	-5.4
CHF USD	0.9591	0.5	1.6
Rates			
USD Libor 3m	2.3375	1.1	38.0
USD Libor 12m	2.7083	1.7	28.5
UAE Eibor 3m	2.3827	3.4	32.7
UAE Eibor 12m	2.9345	5.2	13.9
US 3m Bills	1.7077	0.5	24.1
US 10yr Treasury	2.7735	1.3	15.3

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Summary market outlook

Bonds	
Global Yields	Long-end US Treasury yield were mostly flat as risk-off mood prevailed in the markets amidst rising trade war concerns. Overall, we expect 10-year yield to consolidate below 3%.Further uptick in yields will only trigger a buying opportunity for long-duration fixed income investors.
Stress and Risk Indicators	The VIX index remained at high levels amidst the trade war uncertainty. Volatility is unlikely to decline significantly given the backdrop of markets' fear of central bank policy normalization and lingering trade war uncertainty. .
Equity Markets	
Local Equity Markets	GCC equity performed well in spite of global equity market sell-off and decline in oil prices. We remain neutral on GCC equities given the potential for further dollar strength and range-bound oil prices. We maintain our tactical call on Saudi equities on the back of their inclusion onto the MSCI watch list for potential promotion into the MSCI Emerging Markets index.
Global Equity Markets	Global equities were rocked again by trade war uncertainty with markets digesting the tit-for-tat trade announcements by US and China. The technology stocks were the worst hit by these trade war concerns. However, the decline in equities were limited as trade war concerns eased by end of week with White house officials indicating at the likelihood of negotiations between the two countries. In spite of the recent surge in volatility, we believe that strong economic fundamentals along with robust corporate earnings growth support the case for our overweight stance on equities.
Commodities	
Precious Metals	Gold prices were mostly flat amidst trade war concerns. We remain overweight on gold as a risk hedge against ongoing political and (potential) inflationary risks.
Energy	Oil prices fell significantly as markets assessed the impact of trade war uncertainty on the global growth. We expect oil to continue trading in the broad range seen over the past 12 months. A break out at the upper end will be challenging given US production will likely act as a ceiling on oil prices.
Industrial Metals	Industrial metals were mixed as the dollar remained flat. Longer-term we do not recommend industrial metals exposure due to concerns around Chinese growth prospects post the Party Congress.
Currencies	
EURUSD	The euro remained flat versus the dollar even though CPI release was within expectations. We expect the euro to remain range bound with a minor upward bias.
Critical levels	R2 1.2338 · R1 1.2310 · S1 1.2234 · S2 1.2187
GBPUSD	The pound was mostly unchanged in spite of weak economic data. We expect sterling to remain under pressure due to political uncertainty, economic weakness and Brexit negotiations.
Critical levels	R2 1.4183 · R1 1.4137 · S1 1.4015 · S2 1.3938
USDJPY	The yen was also flat versus the dollar as markets continued to remain risk-off. We believe there will remain a bias for yen weakness given divergent monetary policies between Japan and the US.
Critical levels	R2 107.77 · R1 107.35 · S1 106.64 · S2 106.35

Note: R2, R1, S2 and S1 refer to Bloomberg calculated weekly technical resistance and support levels

Forthcoming important economic data

United States

	Indicator	Period	Expected	Prior	Comments
04/10/2018	Wholesale Inventories MoM	Feb F	0.8%	1.10%	All eyes will be on the Fed minutes and inflation release
04/11/2018	MBA Mortgage Applications	6-Arp	--	-3.30%	
04/11/2018	CPI YoY	Mar	2.40%	2.20%	
04/11/2018	CPI Core YoY	Mar	2.10%	1.80%	
04/11/2018	Real Avg Hourly Earning YoY	Mar	--	0.40%	
04/11/2018	FOMC minutes	21-Mar	-	-	
04/13/2018	U. of Mich. Sentiment	Apr p	100.6	101.4	

Japan

	Indicator	Period	Expected	Prior	Comments
04/09/2018	BoP Current Account Balance	Feb	¥2196.0b	¥607.4b	Bop current account, trade balance and PPI will be important.
04/09/2018	Trade Balance BoP Basis	Feb	¥249.7b	-¥666.6b	
04/10/2018	Machine Tool Orders YoY	Mar p	--	39.50%	
04/11/2018	PPI MoM	Mar	2.00%	2.50%	

Eurozone

	Indicator	Period	Expected	Prior	Comments
04/09/2018	Trade Balance	Feb	20.1b	17.4b	Attention will be on retail sales, and German CPI.
04/11/2018	Retail Sales YoY	Feb	0.60%	-0.80%	
04/13/2018	CPI YoY (GE)	Mar F	1.60%	1.60%	

United Kingdom

	Indicator	Period	Expected	Prior	Comments
04/09/2018	Halifax House Prices MoM	Mar	0.1%	0.4%	Trade balance and industrial production will be the main releases for this week.
04/11/2018	Trade Balance	Feb	-£2600	-£3074	
04/11/2018	Industrial Production YoY	Feb	2.90%	1.60%	

China and India

	Indicator	Period	Expected	Prior	Comments
04/08/2018	Foreign Reserves (CH)	Mar	$3146.00b	$3134.48b	All eyes will be on China March releases for foreign reserves, exports, and CPI. In India
04/10/2018	Aggregate Financing CNY (CH)	Mar	1900.0b	1173.6b	
04/10/2018	New Yuan Loans CNY (CH)	Mar	1200.0b	--	
04/12/2018	CPI YoY (IN)	Mar	--	4.44%	
04/12/2018	Industrial Production YoY (IN)	Feb	--	7.50%	
04/13/2018	Exports YoY (CH)	Mar	11.90%	44.50%	
04/13/2018	Exports YoY (IN)	Feb	--	4.50%	

Sources

All information in this report has been obtained from the following sources except where indicated otherwise:

1. Bloomberg
2. Wall Street Journal
3. RTTNews
4. Reuters
5. Gulfbase
6. Zawya

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