Markets recover but remain choppy amidst geopolitical tensions

The risk-off sentiment softened a bit with most of the global market equity indices recording modest gains and recouping some of the previous week's loss. Within the developed markets, the US equities performed the best and the tech-heavy NASDAQ outperformed the most, mainly helped by rally in Facebook stocks as markets reacted positively to Mark Zuckerberg's congressional testimony. Energy stocks also outperformed, boosted by the jump in oil prices. Concerns on US-China trade tensions dissipated last week with Trump administration advocating a softer stance on trade tariffs and a further softer stance indicated by China. Chinese President Xi Jinping pointed at lower protection barriers, pledged to ease access for sectors like banking and manufacturing and at the same time, address complaints on intellectual property rights from offshore companies. While the probability of full-blown trade war declined over last week, market jittery rose again with the escalation of geopolitical tensions in Syria (post the Trump's missile attack tweet). As a result, safe-haven assets including gold, yen and US Treasuries were mostly flat as the risk-off sentiment and volatility in the markets did not fade away completely. The dollar remained directionless against majority of the currencies, but EM currencies suffered losses on concerns over US imposing sanctions on Russia. Elsewhere, energy had a spectacular week with oil prices rising by 8.2% over the week, jumping to the highest level since 2014 on increased Middle-East tensions and also on reports of OPEC countries curbing production.

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Light week ahead but markets to be occupied with geopolitical tensions

The upcoming week will be jam-packed with another set of company earnings releases. Markets are expecting S&P 500 companies to report an earnings increase of 18.5% in the first quarter according to Thomson Reuters. However, a week where the focus should ideally be on the company earnings results, markets could be more occupied with the ongoing geopolitical tensions in the Middle East. So far, the launch of missile strikes by US, UK and France over the weekend appear to be one-off with no retaliation from Russia and its allies. In addition, the fact that missile strikes have been relatively limited compared to history of previous similar military strikes on Syria also indicates that the recent tensions may not be escalated further. However, markets are still likely to remain mostly side-lined this week and may return their focus on other events unless there is no resurgence in these geopolitical tensions. In addition, continued noise from the Trump administration with President Trump fighting against Mr Robert Mueller's investigation and release of the provocative book by Trump's former FBI James Comey could also keep the markets a bit edgy. In terms of data releases, it is a relatively light week in the US with retail sales data the only important data indicator. Elsewhere, focus will be on China 1Q GDP data and Eurozone CPI releases.

Past week global markets' performance

Index Snapshot (World Indices)

Index	Latest	Weekly Chg %	YTD %
S&P 500	2,656.3	2.0	-0.6
Dow Jones	24,360.1	1.8	-1.5
Nasdaq	7,106.7	2.8	2.9
DAX	12,442.4	1.6	-3.7
Nikkei 225	21,778.7	1.0	-4.3
FTSE 100	7,264.6	1.1	-5.5
Sensex	34,192.7	1.7	0.4
Hang Seng	30808.4	3.2	3.0
Regional Markets (Sunday to Thursday)			
ADX	4653.0	1.1	5.8
DFM	3094.4	0.8	-8.2
Tadawul	7824.1	-1.8	8.3
DSM	8918.5	1.6	4.6
MSM30	4776.55	-0.9	-6.3
BHSE	1291.5	0.5	-3.0
KWSE	6633.4	-	3.5
MSCI			
MSCI World	2,089.0	1.8	-0.7
MSCI EM	1,170.1	0.7	1.0

Global Commodities, Currencies and Rates

Commodity	Latest	weekly Chg %	YTD %
ICE Brent USD/bbl	72.6	8.2	8.5
Nymex WTI USD/bbl	67.4	8.6	11.5
Gold USD/t oz	1346.2	1.0	3.3
Silver USD/t oz	16.7	1.7	-1.7
Platinum USD/t oz	931.3	1.5	0.3
Copper USD/MT	6830.0	1.9	-4.6
Alluminium	2291	13.1	1.5
Currencies			
EUR USD	1.2331	0.4	2.7
GBP USD	1.4238	1.0	5.4
USD JPY	107.35	0.4	-5.0
CHF USD	0.9622	0.3	1.3
Rates			
USD Libor 3m	2.3528	0.7	38.9
USD Libor 12m	2.7309	0.8	29.6
UAE Eibor 3m	2.3868	0.3	33.0
UAE Eibor 12m	2.9377	3.0	14.0
US 3m Bills	1.7486	2.4	27.1
US 10yr Treasury	2.8267	1.9	17.5

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Summary market outlook

Bonds	
Global Yields	Long-end US Treasury yields were mostly flat as risk-off mood prevailed in the markets amidst rise in geopolitical tensions. The curve flattened to the tightest level since 2007 as market expectations of a June rate hike rose above 80% post the inflation data. 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 declined slightly, yet 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 geopolitical concerns.
Equity Markets	
Local Equity Markets	Majority of the GCC equity indices ended the week in the positive territory with Saudi Arabia being the only exception. Saudi underperformed mainly on rise in geopolitical tensions in Syria. 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 recovered and posted weekly gains with the ease in trade war worries. A softer stance on trade arguments both from US and China helped the sentiment. The tech stocks recorded gains, mainly driven by the rally in Facebook stocks. Energy stocks also outperformed, reacting to the jump in oil prices. Even though, trade war concerns eased, the risk off sentiment did not fade away completely with renewed risk of geopolitical tensions arising. While we recommend not to buy into any dips right now, we maintain our view that strong economic fundamentals along with robust corporate earnings growth argue for our overweight stance on equities.
Commodities	
Precious Metals	Gold prices were mostly flat amidst the rise in geopolitical concerns. We remain overweight on gold as a risk hedge against ongoing political and (potential) inflationary risks.
Energy	Oil prices jumped to the highest level since 2014, boosted by increased Middle-east tensions and on reports of reduction in OPEC production. 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 rallied with the ease in trade war concerns. 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. We expect the euro to remain range bound with a minor upward bias.
GBPUSD	The pound strengthened slightly versus the dollar. We expect sterling to remain under pressure due to political uncertainty, economic weakness and Brexit negotiations.
USDJPY	The yen was also flat versus the dollar as markets still remained in risk-off mode. We believe there will remain a bias for yen weakness given divergent monetary policies between Japan and the US.

Critical levels	R2	R1	S1	S2
EURUSD	1.2367	1.2349	1.2310	1.2251
GBPUSD	1.4327	1.4283	1.4207	1.4176
USDJPY	108.10	107.72	107.03	106.71

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

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Forthcoming important economic data

United States

	Indicator	Period	Expected	Prior	Comments
04/16/2018	Retail Sales Advance MoM	Mar	0.40%	-0.10%	All eyes will be on retail sales, housing market, and industrial production. Also MBA will be important.
04/16/2018	NAHB Housing Market Index	Apr	70	70	
04/17/2018	Housing Starts	Mar	1266K	1236K	
04/17/2018	Housing Starts MoM	Mar	2.40%	-7.00%	
04/17/2018	Industrial Production MoM	Mar	0.40%	1.10%	
04/17/2018	Capacity Utilization	13-Apr	77.90%	78.10%	
04/18/2018	MBA Mortgage Applications	14-Apr	--	-1.90%	
04/19/2018	Initial Jobless Claims				

Japan

	Indicator	Period	Expected	Prior	Comments
04/17/2018	Industrial Production MoM	Feb F	--	4.10%	Industrial production and trade balance will be important.
04/18/2018	Trade Balance	Mar	¥499.2b	¥3.4b	
04/20/2018	Natl CPI YoY	Mar	1.10%	1.50%	
04/20/2018	Natl CPI Ex Fresh Food, Energy YoY	Mar	0.50%	0.50%	
04/20/2018	Tertiary Industry Index MoM	Feb	0.00%	-0.60%	

Eurozone

	Indicator	Period	Expected	Prior	Comments
04/18/2018	CPI Core YoY	Mar F	1.00%	1.00%	All focus will be on CPI and PPI.
04/18/2018	CPI YoY	Mar F	1.40%	1.40%	
04/20/2018	PPI YoY (GE)	Mar	2.00%	1.80%	
04/20/2018	Consumer Confidence	Apr A	-0.1%	0.1%	

United Kingdom

	Indicator	Period	Expected	Prior	Comments
04/16/2018	Rightmove House Prices MoM	Apr	--	1.50%	Attention will be on CPI and retail sales.
04/18/2018	CPI YoY	Mar	2.70%	2.70%	
04/18/2018	CPI Core YoY	Mar	2.50%	2.40%	
04/18/2018	RPI YoY	Mar	3.50%	3.60%	
04/19/2018	Retail Sales Ex Auto Fuel YoY	Mar	1.40%	1.10%	
04/19/2018	Retail Sales Inc Auto Fuel MoM	Mar	-0.60%	0.80%	

China and India

	Indicator	Period	Expected	Prior	Comments
04/16/2018	WPI YoY (IN)	Mar	2.50%	2.48%	All eyes will be on China GDP, retail sales, and industrial production. In India WPI will be important.
04/17/2018	GDP YoY (CH)	1Q	6.80%	6.80%	
04/17/2018	Retail Sales YoY (CH)	Mar	9.70%	9.40%	
04/17/2018	Industrial Production YoY (CH)	Mar	6.40%	6.20%	
04/17/2018	Fixed Assets Ex Rural YTD YoY (CH)	Mar	7.70%	2.48%	

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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