The Weekly Market View

August 06 2018

ADCB

US equities shrugged off trade tensions

Global equity markets were mixed amidst the re-escalation of trade war tensions. Trade war concerns resurfaced after the Trump administration hinted at the possibility of doubling the tariff rate on USD200bn of Chinese imports, from previously indicated rate of 10% to 25%. China responded with its "tit-for-tat" plans of imposing tariffs on USD60bn worth of US imports. The uncertainty on global trade put pressure on risk assets, particularly the European equities which remain most sensitive to the escalation of trade risks. On the other hand, US equities shrugged off these concerns and outperformed last week, again highlighting their relative resilience during times of increased volatility. The dollar strengthened versus other currencies as the Fed maintained status quo while the BoJ only made minor tweaks in its yield curve control policy (putting an end to stimulus exit expectations). The Bank of England raised policy rates in line with market expectations but struck a dovish bias in its forward guidance, thus pushing the pound lower. Broad dollar strength did not bode well for emerging market equities as well as commodities. Trade tensions put pressure on commodities- particularly copper while gold prices slumped to the lowest level in a year. Oil prices also declined lower with Brent crude falling by 1.5% over the week. Separately, the US treasuries sold off and the bond yields reached 3% on hawkish Fed remarks while markets tested the BoJ's new policy changes. However, the 10-year yields retraced below 3% as the BoJ purchased bonds to limit the sell-off and also on account of increased safe-haven appetite after China's trade remarks last Friday.

Prerana Seth
Fixed Income Strategist
Tel: +971 (0)2 696 2878
prerana.seth@adcb.com

Luciano Jannelli, Ph.D., CFA
Head Investment Strategy
Tel: +971 (0)2 696 2340
luciano.jannelli@adcb.com

Mohammed Al Hemeiri
Analyst
Tel: +971 (0)2 696 2236
mohammed.alhemeiri@adcb.com

Visit Investment Strategy Webpage to read our other reports

Trade timeline, US CPI, China July releases in focus this week

Trade talks will remain in focus and the next two weeks will be very crucial as negotiations may take place ahead of the tariff timetable. The public hearing on the proposal of doubling the tariff rate on USD200bn is scheduled on August 20-23rd with the final implementation to begin from August 30th. China has already responded with its plans of imposing tariffs on additional USD60bn worth of US imports. While this may appear small when compared with US tariffs, the escalation appears large relative to the actual size of US imports into China (around USD130bn). At the same time, there have been indications of bilateral talks between US Treasury Secretary Steven Mnuchin and Chinese Vice Premier Liu He to re-negotiate the trade terms. Nevertheless, uncertainty on trade is likely to remain and we do not expect any positive development to happen on the US-China trade front anytime soon. In terms of economic data next week, with trade talks in focus, investors will be closely looking at the July releases of China trade data for hints of any possible impact of the US tariffs on USD34bn of Chinese imports which took place that month. Elsewhere, it will be a far lighter week in the US with the CPI release being the main highlight. In the UK, all eyes will be on the 2Q GDP data which is expected to pick up from previous month, justifying last week's BoE rate hike while GDP growth in Japan could see a rebound in the second quarter.

Past week global markets' performance

Index Snapshot (World Indices)

Index	Latest	Weekly Chg %	YTD %
S&P 500	2,840.4	0.8	6.2
Dow Jones	25,462.6	0.0	3.0
Nasdaq	7,812.0	1.0	13.2
DAX	12,615.8	-1.9	-2.3
Nikkei 225	22,525.2	-0.8	-1.1
FTSE 100	7,659.1	-0.5	-0.4
Sensex	37,556.2	0.6	10.3
Hang Seng	27676.3	-3.9	-7.5
Regional Markets (Sunday to Thursday)			
ADX	4811.4	-0.4	9.4
DFM	2973.9	1.1	-11.8
Tadaw ul	8253.5	-0.6	14.2
DSM	9981.2	3.6	17.1
MSM30	4326.67	-0.3	-15.2
BHSE	1349.2	-1.5	1.3
KWSE	5206.1	-0.3	-
MSCI			
MSCI World	2,155.4	-0.0	2.5
MSCI EM	1,073.3	-1.7	-7.3

Global Commodities, Currencies and Rates

Commodity	Latest	Weekly Chg %	YTD %
ICE Brent USD/bbl	73.2	-1.5	9.5
Nymex WTI USD/bbl	68.5	-0.3	13.4
Gold USD/t oz	1214.9	-0.9	-6.7
Silver USD/t oz	15.4	-0.6	-9.0
Platinum USD/t oz	831.0	-0.0	-10.5
Copper USD/MT	6167.0	-1.4	-13.8
Alluminium	2007.25	-2.5	-11.1
Currencies			
EUR USD	1.1568	-0.8	-3.6
GBP USD	1.3001	-0.8	-3.8
USD JPY	111.25	0.2	-1.3
CHF USD	0.9941	-0.0	-2.0
Rates			
USD Libor 3m	2.3430	0.0	38.3
USD Libor 12m	2.8274	0.2	34.2
UAE Eibor 3m	2.5618	2.7	42.7
UAE Eibor 12m	3.3275	2.9	29.1
US 3m Bills	2.0018	1.0	45.5
US 10yr Treasury	2.9488	-0.2	22.6

Summary market outlook

Bonds	
Global Yields	The US Treasuries sold-off and the 10-year yield reached 3% on hawkish Fed comments and markets testing BoJ's new yield curve policy. However, safe-haven appetite later during the week pushed the 10-year yield lower to settle below 3%. Overall, we expect the 10-year yield to remain consolidated below 3% as further uptick in yields will only trigger a buying opportunity for long-duration fixed income investors.
Stress and Risk Indicators	The VIX remained unchanged, in line with equity market activity. We believe that volatility is unlikely to remain low given the backdrop of markets' fear of central bank policy normalization and trade tensions.
Equity Markets	
Local Equity Markets	GCC markets were mixed, with global trade concerns and lower oil prices weighing on the sentiment. We remain neutral on GCC equities given the potential for further dollar strength and range-bound oil prices, but we maintain our overweight call on Saudi equities.
Global Equity Markets	Global equities were choppy as trade tensions re-escalated as China responded with more tariffs on US imports. European equities were the worst hit as they remain sensitive to the global trade uncertainty. Stronger dollar and trade worries also did not bode well for emerging market equities. On the other hand, US equities outperformed last week, shrugging off the trade tensions. Overall, we believe that the global risk reward trade-off has deteriorated with cooling growth, higher US rates and a stronger US dollar, such that we move neutral on global equities.
Commodities	
Precious Metals	Gold prices slumped to a new one-year low with stronger dollar bias. We remain overweight on gold as a risk hedge against ongoing political and (potential) inflationary risks.
Energy	Oil prices declined with Brent crude prices falling the most on escalation of trade tensions. We expect oil to continue trading in the broad range seen over the past 12 months. An enduring break-out at the upper end will be challenging given US production and stronger dollar to act as a ceiling on oil prices, but temporary break-out could occur if Iran related geopolitical tensions flare.
Industrial Metals	Industrial metals continue to struggle and copper remained the most under pressure amidst new US-China trade threats. We do not recommend industrial metals exposure as China reigns in demand.
Currencies	
EURUSD	The euro weakened versus the dollar as Eurozone 2Q GDP disappointed. We expect the euro to remain under pressure due to the diverging monetary policies between the Fed and the ECB.
Critical levels	**R2** 1.1630 **R1** 1.1599 **S1** 1.1549 **S2** 1.1529
GBPUSD	The pound depreciated versus the dollar after the Bank of England's dovish rate hike. Whilst we see the pound sterling at some point recovering with the UK staying in the EU in all but name, it will for now remain under pressure due to political uncertainty, economic weakness and Brexit negotiations.
Critical levels	**R2** 1.3074 **R1** 1.3038 **S1** 1.2970 **S2** 1.2939
USDJPY	The yen was flat versus the dollar. We believe there will remain a bias for yen strength as emerging markets concerns will not abate soon.
Critical levels	**R2** 112.17 **R1** 111.71 **S1** 110.95 **S2** 110.64

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
08/08/2018	MBA Mortgage Applications	3-Aug	--	-2.60%	All eyes will be on CPI.
08/09/2018	Initial Jobless Claims	4-Aug	220K	218K	
08/09/2018	Wholesale Inventories MoM	Jul F	0.00%	0.00%	
08/10/2018	CPI YoY	Jul	2.90%	2.90%	
08/10/2018	Real Avg Hourly Earning YoY	Jul	--	0.00%	

Japan

	Indicator	Period	Expected	Prior	Comments
08/08/2018	BoP Current Account Balance	Jun	¥1222.2b	¥1938.3b	Final Q2 GDP growth will be the main point out of Japan.
08/09/2018	Machine Tool Orders YoY	Jun p	--	11.40%	
08/10/2018	PPI YoY	Jul	2.90%	2.80%	
08/10/2018	GDP SA QoQ	2Q P	0.30%	-0.20%	

Eurozone

	Indicator	Period	Expected	Prior	Comments
08/07/2018	Current Account Balance (GE)	Jun	21.2b	12.6b	Focus will be on ECB economic bulletin.
08/07/018	Trade Balance	Jun	-5600m	-6005m	
08/09/2018	ECB Publishes Economic Bulletin	Jul F	55.1	55.1	

United Kingdom

	Indicator	Period	Expected	Prior	Comments
08/07/2018	Halifax House Prices MoM	Jul	0.20%	0.30%	GDP data will be closely watched.
08/10/2018	Trade Balance	Jun	-£2500	-£2790	
08/10/2018	Industrial Production YoY	Jun	0.70%	0.80%	
08/10/2018	GDP QoQ	2Q P	0.40%	0.20%	
08/10/2018	GDP YoY	2Q P	1.30%	1.20%	

China and India

	Indicator	Period	Expected	Prior	Comments
08/07/2018	Foreign Reserves	Jul	$3107bn	$3112bn	All eyes will be on China July releases for foreign reserves, exports and CPI. In India, focus will be on industrial production.
08/08/2018	Exports YoY (CH)	Jul	10.00%	11.30%	
08/09/2018	CPI YoY (CH)	Jul	2.00%	1.90%	
08/10/2018	Aggregate Financing CNY (CH)	Jul	1100.0b	1180.0b	
08/10/2018	New Yuan Loans CNY (CH)	Jul	1200.0b	1840.0b	
08/10/2018	Industrial Production YoY (IN)	Jun	--	3.20%	
08/12/2018	Exports YoY (IN)	Jul	--	17.60%	

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

Disclaimer

ADCB Asset Management Limited (“AAML”), is a member of ADCB Group, licensed by Financial Services Regulatory Authority in Abu Dhabi Global Markets under financial services permission number 170036.

This publication is intended for general information purposes only. It should not be construed as an offer, recommendation or solicitation to purchase or dispose of any securities or to enter in any transaction or adopt any hedging, trading or investment strategy. Neither this publication nor anything contained herein shall form the basis of any contract or commitment whatsoever. Distribution of this publication does not oblige ADCB Group to enter into any transaction.

The content of this publication should not be considered as legal, regulatory, credit, tax or accounting advice. Anyone proposing to rely on or use the information contained in the publication should independently verify and check the accuracy, completeness, reliability and suitability of the information and should obtain independent and specific advice from appropriate professionals or experts regarding information contained in this publication. Investment products are not available to US persons.

Information and opinions contained herein is are based on various sources, including but not limited to public information, annual reports and statistical data that AAML considers accurate and reliable. However, AAML makes no representation or warranty as to the accuracy or completeness of any statement made in or in connection with this publication and accepts no responsibility whatsoever for any loss or damage caused by any act or omission taken as a result of the information contained in this publication. This publication is intended for customers who are either retail or professional investors.

Charts, graphs and related data or information provided in this publication are intended to serve for illustrative purposes only. The information contained in this publication is prepared as of a particular date and time and will not reflect subsequent changes in the market or changes in any other factors relevant to their determination. All statements as to future matters are not guaranteed to be accurate. AAML expressly disclaims any obligation to update or revise any forward looking statement to reflect new information, events or circumstances after the date of this publication or to reflect the occurrence of unanticipated events.

ADCB Group does and may at any time solicit or provide commercial banking, investment banking, credit, advisory or other services to the companies covered in its publications. As a result, recipients of this publication should be aware that any or all of foregoing services may at time give rise to a conflict of interest that could affect the objectivity of this publication. Opinions expressed herein may differ from opinions expressed by other businesses or affiliates of ADCB Group.

Past performance does not guarantee future results. Investment products are not bank deposits and are not guaranteed by ADCB Group. They are subject to investment risk, including possible of loss of principal amount invested. This publication may not be reproduced or circulated without ADCB Group written authority. The manner of circulation and distribution may be restricted by law or regulation in certain jurisdictions. Persons who come into possession of this document are required to inform themselves of, and to observe such restrictions. Any unauthorized use, duplication, or disclosure of this document is prohibited by law and may result in prosecution.