The Weekly Market View

August 13 2018

ADCB بنك أبوظبي التجاري

Risk-off sentiment gathers steam on account of Turkish Lira crisis

Equity markets across the globe came under pressure as markets feared increased risk of contagion arising out of the Turkish lira crisis. The Turkish lira dropped to its lowest level on record, as relationship between US and Turkey strained further with President Trump doubling the steel and aluminium tariffs on Turkey. The slump in lira continued even after the new economic plan announced by the Turkish Finance Minister failed to meet markets' expectations. The lira crisis sent tremors across most of the emerging market assets. However the sell-off was not only restricted to emerging markets, but European equities also came under pressure. In fact, European equities underperformed the most, dragged lower by European banks due to increased concerns of European banks' exposure to Turkish borrowers. The dollar strengthened further, reaching close to its one-year record high as emerging market currencies and the euro weakened on Turkey concerns. Investors sought after safe-haven assets including US treasuries and German bunds. The 10-year US treasury yields ended 3bp lower on account of the increased risk-off sentiment. On the other hand, gold and yen remained under pressure due to broad dollar strength. Oil prices also ended the week lower in spite of China announcing its plans of exempting crude oil from the list of US imports on which it intends to impose tariffs. Local equity markets came under pressure, particularly on Sunday, amidst the increased volatility in global equity markets.

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Light week ahead but Turkey crisis to dominate

The slide in Turkish lira and the US doubling tariffs on Turkey have unnerved the global markets, raising fears of increased contagions risks. Turkish lira is now ranked the worst performing currency on a year-to-date basis, even overtaking Argentina Peso. It will be very challenging to see any improvement in Turkey's current economic and geopolitical backdrop. Even without the imposition of US sanctions and tariffs, Turkey was already facing long-term economic challenges with high inflation and extreme reliance on external funding. With the continued lira weakness, the economy is in need of massive rate hikes which looks difficult especially after the the central bank has become less proactive in responding to increasing inflation pressures post elections. In addition, the stronger dollar bias is only likely to make the situation worse for many Turkish borrowers to repay their foreign currency debt. Separately, European banks are also likely to remain under scrutiny, given their exposure to Turkish borrowers. According to the BIS data, Spanish banks have lent the most to Turkish borrowers (USD80bn), followed by Italian banks (USD40bn) and French banks (USD20bn). Overall, *we believe that emerging market assets will remain under pressure with the rise in geopolitical risks, explaining our underweight stance on emerging market equities and bonds.* The recent actions by US administration has also raised the risk of second round sanctions on Russia (could cover financial markets) following the recent round of sanctions which target mainly US exports of "national security goods" (effective 22nd August). Hence, *we take profit on our overweight call on Russian dollar bonds as investors will start pricing in higher political risk premium, if there is further escalation from the US administration.*

Past week global markets' performance

Index Snapshot (World Indices)

Index	Latest	Weekly Chg %	YTD %
S&P 500	2,833.3	-0.2	6.0
Dow Jones	25,313.1	-0.6	2.4
Nasdaq	7,839.1	0.3	13.6
DAX	12,424.4	-1.5	-3.8
Nikkei 225	22,298.1	-1.0	-2.1
FTSE 100	7,667.0	0.1	-0.3
Sensex	37,869.2	0.8	11.2
Hang Seng	28366.6	2.5	-5.2
Regional Markets (Sunday to Thursday)			
ADX	4872.0	1.4	10.8
DFM	2920.1	-1.9	-13.4
Tadawul	8176.2	-0.8	13.1
DSM	9886.9	-0.1	16.0
MSM30	4431.21	1.4	-13.1
BHSE	1349.6	-0.3	1.3
KWSE	5280.9	0.7	-
MSCI			
MSCI World	2,139.8	-0.7	1.7
MSCI EM	1,062.4	-1.0	-8.3

Global Commodities, Currencies and Rates

Commodity	Latest	Weekly Chg %	YTD %
ICE Brent USD/bbl	72.8	-0.5	8.9
Nymex WTI USD/bbl	67.6	-1.3	11.9
Gold USD/t oz	1210.6	-0.4	-7.1
Silver USD/t oz	15.3	-0.7	-9.6
Platinum USD/t oz	827.6	-0.4	-10.8
Copper USD/MT	6120.0	-0.8	-14.5
Alluminium	2088	4.0	-7.5
Currencies			
EUR USD	1.1413	-1.3	-4.9
GBP USD	1.2758	-1.9	-5.6
USD JPY	110.83	-0.4	-1.7
CHF USD	0.9952	0.1	-2.1
Rates			
USD Libor 3m	2.3193	-1.0	36.9
USD Libor 12m	2.8155	-0.4	33.6
UAE Eibor 3m	2.5750	4.0	43.5
UAE Eibor 12m	3.3045	0.7	28.2
US 3m Bills	2.0427	2.0	48.5
US 10yr Treasury	2.8732	-2.6	19.4

Summary market outlook

Bonds	
Global Yields	The US Treasuries rallied as investors sought after safe-haven assets amidst rise in risk-off sentiment. 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 index jumped in reaction to the contagion fears of Turkish lira crisis. 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 weak, tracking the global equity sell-off and lower oil prices and stronger dollar 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 came under pressure as fears of contagion rose with the record slump of Turkish lira. European equities were the lowest hit and underperformed the most, dragged lower by European banks on concerns of their exposure to Turkish borrowers. Contagions fears also sent tremors across emerging market assets, pulling EM equities lower. US equities also ended the week almost flat. 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 dropped lower on account of dollar strength. We remain overweight on gold as a risk hedge against ongoing political and (potential) inflationary risks.
Energy	Oil prices declined in spite of China announcing its plans of not putting tariffs on US oil imports. 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 were mixed amidst the backdrop of broad dollar strength. We do not recommend industrial metals exposure as China reigns in demand.
Currencies	
EURUSD	The euro weakened versus the dollar on concerns of European bank's vulnerability to the lira crisis. We expect the euro to remain under pressure due to the diverging monetary policies between the Fed and the ECB.
Critical levels	R2 1.1625 — R1 1.1519 — S1 1.1348 — S2 1.1282
GBPUSD	The pound depreciated versus the dollar with markets pricing in higher probability of no-deal hard Brexit. 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 1.2912 — R1 1.2835 — S1 1.2702 — S2 1.2646
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 111.49 — R1 111.16 — S1 110.51 — S2 110.52

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
08/15/2018	MBA Mortgage Applications	10-Aug	--	-3.00%	Eyes will be on MBA Mortgage and Retail sales. Also, Industrial Production will be important.
08/15/2018	Retail Sales Advance MoM	Jul	0.10%	0.50%	
08/15/2018	Industrial Production MoM	Jul	0.30%	0.60%	
08/15/2018	Capacity Utilization	Jul	78.20%	78.00%	
08/15/2018	NAHB Housing Market Index	Jul	67	68	
08/16/2018	Housing Starts	Jul	1260K	1173K	
08/16/2018	Housing Starts MoM	Jul	7.40%	-12.30%	
08/17/2018	U. of Mich. Sentiment	Aug P	98	97.9	

Japan

	Indicator	Period	Expected	Prior	Comments
08/14/2018	Industrial Production MoM	Jun F	--	-2.10%	Trade Balance will be important.
08/16/2018	Trade Balance	Jul	-¥41.2b	¥721.4b	
08/16/2018	Exports YoY	Jul	6.30%	6.70%	

Eurozone

	Indicator	Period	Expected	Prior	Comments
08/14/2018	GDP SA QoQ (GE)	2Q P	0.40%	0.30%	Focus will be on ECB Current Account SA.
08/17/018	ECB Current Account SA	Jun	--	22.4b	
08/17/2018	CPI Core YoY	Jul F	1.10%	1.10%	
08/17/2018	CPI YoY	Jul F	2.10%	2.00%	

United Kingdom

	Indicator	Period	Expected	Prior	Comments
08/15/2018	CPI YoY	Jul	2.50%	2.40%	Attention will be on CPI and retail sales.
08/15/2018	CPI Core YoY	Jul	1.90%	1.90%	
08/15/2018	RPI YoY	Jul	3.40%	3.40%	
08/16/2018	Retail Sales Ex Auto Fuel YoY	Jul	2.70%	3.00%	
08/16/2018	Retail Sales Inc Auto Fuel MoM	Jul	0.20%	-0.50%	

China and India

	Indicator	Period	Expected	Prior	Comments
08/10/2018	Aggregate Financing CNY (CH)	Jul	1100.0b	1180.0b	All eyes will be on China July releases for retail sales and Industrial Production. In India, focus will be on WPI.
08/10/2018	New Yuan Loans CNY (CH)	Jul	1275.0b	1840.0b	
08/12/2018	Exports YoY (IN)	Jul	--	17.60%	
08/13/2018	CPI YoY (IN)	Jul	4.47%	5.00%	
08/14/2018	Retail Sales YoY (CH)	Jul	9.10%	9.00%	
08/14/2018	Industrial Production YoY (CH)	Jun	6.30%	6.00%	

08/14/2018	WPI YoY (IN)	Jul	5.24%	5.77%

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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