

## Equities moved higher on earnings optimism

Global equities edged higher in spite of a continuing escalation in the trade war tones. The technology heavy NASDAQ reached new record highs amidst optimism about the second quarter corporate earnings results. Japanese equities outperformed the most, mainly on account of yen depreciation as the dollar surged higher. Emerging market equities held up well in spite of a stronger dollar bias. In spite of the risk-on appetite, trade worries and its impact on global growth concerns remained dominant in the market. The US dollar continued its advance versus other major currencies. The euro further depreciated versus the dollar on dovish commentary from the ECB while the pound weakened on Brexit-related volatility. The 10-year US treasury yields were mostly unchanged in spite of the strong CPI report while the 2-year treasury yields inched higher, further tightening the 10-2yr yield spread to 25bp. The US headline CPI rose by 2.9% y-o-y while core CPI also increased by 2.3% y-o-y, the fastest pace in six years. Producer prices also reported an increase of 3.4% y-o-y in June, the fastest increase in almost seven years, indicating the possible impact of the trade tariffs. On the other hand, oil prices declined for the week, struggling amidst the US-China trade-war concerns.

## 2Q corporate earnings, Powell's testimony, Trade tariffs in focus

Trade war concerns may have taken a backseat toward the second half of last week with China not responding on US' threat of additional tariffs on USD 200bn worth of Chinese goods and the markets' focus turning on corporate earnings results. However, trade tensions will come back in focus with the imposition of tariffs on an additional USD16bn worth of Chinese imports coming into effect on July 20. In addition to the trade worries, global growth concerns may also linger on investors' minds, especially after reports of China 2Q GDP expanding at a slower pace. Markets will be closely watching out for the Fed Chair Jerome Powell's testimony as he will deliver his semi-annual monetary policy report to the US senate on July 17. In spite of the recent trade war concerns and flattening yield curve pointing to a growth moderation, the Fed Chair is unlikely to indicate any change in his rate hike stance and will stick to the prospects of gradual monetary tightening. However, we could see some relief for the markets coming from the corporate earnings as the 2Q earnings season kick-offs this week. Market analysts are expecting another strong quarter with earning growth of around 21 percent.

## Past week global markets' performance

### Index Snapshot (World Indices)

Index	Latest	Weekly Chg %	YTD %
S&P 500	2,801.3	1.5	4.8
Dow Jones	25,019.4	2.3	1.2
Nasdaq	7,826.0	1.8	13.4
DAX	12,540.7	0.4	-2.9
Nikkei 225	22,597.4	3.7	-0.7
FTSE 100	7,661.9	0.6	-0.3
Sensex	36,541.6	2.5	7.3
Hang Seng	28525.4	0.7	-4.7

### Regional Markets (Sunday to Thursday)

ADX	4687.0	1.6	6.6
DFM	2884.2	-0.0	-14.4
Tadaw ul	8362.4	1.7	15.7
DSM	9318.5	-0.1	9.3
MSM30	4440.8	-1.8	-12.9
BHSE	1342.5	0.5	0.8
KWSE	5213.4	1.5	-

### MSCI

MSCI World	2,134.6	1.0	1.5
MSCI EM	1,075.6	1.5	-7.1

### Global Commodities, Currencies and Rates

Commodity	Latest	Weekly Chg %	YTD %
ICE Brent USD/bbl	75.3	-2.3	12.7
Nymex WTI USD/bbl	71.0	-3.8	17.5
Gold USD/t oz	1244.3	-0.9	-4.5
Silver USD/t oz	15.8	-1.4	-6.6
Platinum USD/t oz	829.2	-1.8	-10.7
Copper USD/MT	6166.0	-2.5	-13.8
Alluminium	2066.75	-2.1	-8.5

### Currencies

EUR USD	1.1685	-0.5	-2.7
GBP USD	1.3222	-0.5	-2.2
USD JPY	112.38	1.7	-0.3
CHF USD	1.0017	1.3	-2.7

### Rates

USD Libor 3m	2.3360	0.2	37.9
USD Libor 12m	2.7869	0.5	32.3
UAE Eibor 3m	2.6375	4.6	46.9
UAE Eibor 12m	3.2893	6.7	27.6
US 3m Bills	1.9660	1.3	42.9
US 10yr Treasury	2.8271	0.2	17.5

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## Summary market outlook

### Bonds

#### Global Yields

The 10-year US Treasury bond yields were mostly unchanged in spite of strong CPI report while the 2-year treasury yields rose thus flattening the yield curve further. 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 declined to two-week low amidst equity market rally. However, 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 mostly ended the week in the positive territory, led by Saudi equities. 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 moved higher as optimism over corporate earnings overtook trade-related concerns. The tech-heavy NASDAQ rose to a new record high on higher earnings expectations. However, Japanese equities outperformed the most mainly on account of yen weakness. Emerging market equities also help up well in spite of the strong dollar bias. 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 declined as the dollar surged higher. We remain overweight on gold as a risk hedge against ongoing political and (potential) inflationary risks.

#### Energy

Oil prices dropped over the week on US-China trade war concerns and reports of Saudi offering extra crude to its customers. 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 remained weak, mainly due to stronger dollar. We do not recommend industrial metals exposure as China reigns in demand.

### Currencies

#### EURUSD

The euro weakened versus the dollar on dovish commentary from the ECB. We expect the euro to remain under pressure.

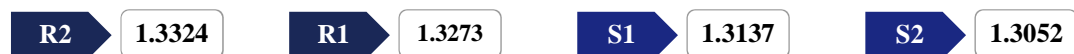
#### Critical levels



#### GBPUSD

The pound sterling weakened versus the dollar due to Brexit-related volatility. 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



#### USDJPY

The yen fell versus the dollar on account of broad dollar demand. We believe there will remain a bias for yen strength as emerging markets concerns will not abate soon.

#### Critical levels



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
07/16/2018	Retail Sales Advance MoM	Jun	0.50%	0.80%	
07/17/2018	Capacity Utilization	Jun	78.20%	77.90%	
07/17/2018	NAHB Housing Market Index	Jul	69	69	
07/18/2018	MBA Mortgage Applications	13-Jul	--	2.50%	NAHB housing market, and capacity utilization will be the main releases.
07/18/2018	Housing Starts	Jun	1320K	1350K	
07/18/2018	Housing Starts MoM	Jun	-2.20%	5.00%	
07/19/2018	Initial Jobless Claims	14-Jul	221K	214K	

### Japan

	Indicator	Period	Expected	Prior	Comments
07/09/2018	Trade Balance	Jun	¥531.2b	-¥578.3b	
07/19/2018	Exports YoY	Jun	7.00%	8.10%	
07/19/2018	Machine Tool Orders YoY	Jun F	--	11.40%	Trade balance will be important.
07/20/2018	Natl CPI Ex Fresh Food YoY	Jun	0.80%	0.70%	
07/20/2018	Natl CPI Ex Fresh Food, Energy YoY	Jun	0.40%	0.30%	

### Eurozone

	Indicator	Period	Expected	Prior	Comments
07/18/2018	CPI Core YoY	Jun F	1.00%	1.00%	
07/18/2018	CPI YoY	Jun F	2.00%	1.90%	All eyes will be on Eurozone CPI.
07/20/2018	PPI YoY	Jun	3.00%	2.70%	
07/20/2018	ECB Current Account SA	May	--	28.4b	

### United Kingdom

	Indicator	Period	Expected	Prior	Comments
07/16/2018	Rightmove House Prices MoM	Jul	--	0.40%	
07/18/2018	CPI YoY	Jun	2.60%	2.40%	Attention will be on CPI and retail sales.
07/18/2018	CPI Core YoY	Jun	2.10%	2.10%	
07/19/2018	Retail Sales Ex Auto Fuel YoY	Jun	3.70%	4.40%	
07/19/2018	Retail Sales Inc Auto Fuel MoM	Jun	0.10%	1.30%	

### China and India

	Indicator	Period	Expected	Prior	Comments
07/16/2018	GDP YoY (CH)	2Q	6.70%	6.80%	All eyes will be on China GDP, retail sales and industrial production. In India, WPI will be important.
07/16/2018	Retail Sales YoY (CH)	Jun	8.80%	8.50%	
07/16/2018	Industrial Production YoY (CH)	Jun	6.50%	6.80%	
07/16/2018	Fixed Assets Ex Rural YTD YoY	Jun	6.00%	6.10%	
07/16/2018	WPI YoY (IN)	Jun	5.23%	4.43%	



## Sources

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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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