

Risk-off gathers steam

Trade concerns dominated the equity market sentiment and risk-off appetite gathered steam over the week. The Trump administration signaled the possibility of more trade sanctions, barring Chinese investment into US tech firms and imposing new limits on US tech exports to China. President Trump advocated a rather benign stance later during the week, helping the markets to recoup some of the early-week losses, yet markets ended in negative territory for the week. European markets were the worst hit amidst the trade worries, while in the US the technology-heavy NASDAQ underperformed the most after outperforming the previous week. The S&P 500 ended the week lower by 1.3% and recorded its worst daily decline in three months last Monday. The dollar continued to climb higher as trade woes drove investors into owning more safe-haven US assets. The dollar strength proved detrimental for emerging market equities, which have now become the worst performers since the beginning of the year. The risk-off sentiment boosted appetite for safe-haven assets, mainly US treasuries. The 10-year US treasury yield declined to the lowest level in a month. Gold, however, remained under pressure due to strong dollar appetite. Elsewhere, oil prices jumped to the highest level in almost three years on concerns of declining US inventories and on reports that the Trump administration will make it more difficult for Iran to export crude.

Trade policy, US payrolls and global PMIs to be the main focus

Global equity markets have posted their worst performance in the first-half of the year since 2010 amidst trade conflict concerns, central bank policy normalization and a cooling global growth outlook. In the upcoming week, in spite of a short-trading week in the US, investors will be yet again occupied with further updates on trade policy. The first round of tariffs on China are set to kick in on Friday, July 6, adding more pressure on Chinese assets and therefore, emerging market assets too. The Chinese yuan has posted its worst monthly slide on record in June which only highlights the possibility of more intervention by Chinese policymakers- who are known to be proactive. Focus will also be central bank policy normalization with markets closely tracking the FOMC minutes which could throw more light on the upward revisions of the dot projections for 2018 and 2019. Finally, monthly US payroll data is scheduled to be released on Friday, July 6. While a softer gain of 195k in non-farm payrolls is expected, average hourly earnings is slated to rise by 2.8% yoy. Finally, PMI releases across the globe will be closely observed for any signs of further softness in global growth.

Past week global markets' performance

Index Snapshot (World Indices)

Index	Latest	Weekly Chg %	YTD %
S&P 500	2,718.4	-1.3	1.7
Dow Jones	24,271.4	-1.3	-1.8
Nasdaq	7,510.3	-2.4	8.8
DAX	12,306.0	-2.2	-4.7
Nikkei 225	22,304.5	-0.9	-2.0
FTSE 100	7,636.9	-0.6	-0.7
Sensex	35,423.5	-0.7	4.0
Hang Seng	28955.1	-1.3	-3.2

Regional Markets (Sunday to Thursday)

ADX	4560.0	0.2	3.7
DFM	2821.0	-3.7	-16.3
Tadaw ul	8314.2	-0.4	15.1
DSM	9024.0	0.2	5.9
MSM30	4571.75	-0.5	-10.3
BHSE	1311.0	0.3	-1.6
KWSE	4890.4	1.4	-
MSCI			
MSCI World	2,089.3	-1.2	-0.7
MSCI EM	1,069.5	-1.7	-7.7

Global Commodities, Currencies and Rates

Commodity	Latest	Weekly Chg %	YTD %
ICE Brent USD/bbl	79.2	5.1	18.5
Nymex WTI USD/bbl	74.2	8.1	22.7
Gold USD/t oz	1252.6	-1.4	-3.9
Silver USD/t oz	16.1	-2.1	-4.8
Platinum USD/t oz	853.3	-2.7	-8.1
Copper USD/MT	6646.0	-2.4	-7.1
Alluminium	2164	-1.3	-4.2
Currencies			
EUR USD	1.1684	0.3	-2.7
GBP USD	1.3207	-0.4	-2.3
USD JPY	110.76	0.7	-1.7
CHF USD	0.9906	0.3	-1.6
Rates			
USD Libor 3m	2.3358	-0.1	37.9
USD Libor 12m	2.7641	-0.5	31.2
UAE Eibor 3m	2.4300	-2.2	35.4
UAE Eibor 12m	3.2884	2.9	27.6
US 3m Bills	1.9123	0.3	39.0
US 10yr Treasury	2.8601	-1.2	18.9

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

Summary market outlook

Bonds					
Global Yields	The 10-year US Treasury bonds rallied as investors rushed to safe-havens amidst the escalating trade tensions. Overall, we expect the 10-year yield to consolidate 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 equity markets sell-off. 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 had a mixed week in spite of jump in oil prices, but weighed down by dollar strength. 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 sold amidst escalating trade tensions. European equities were the worst hit while in the US, tech-heavy Nasdaq underperformed the most. Emerging market equities continued their slide on broad dollar strength and risk-off sentiment. 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 fell during the week, weighed by stronger US dollar. We remain overweight on gold as a risk hedge against ongoing political and (potential) inflationary risks.				
Energy	Oil prices jumped to a new three-year record high on concerns of falling US inventories and reports of US planning to curb Iranian crude exports. 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 ended lower this week on the back of strong dollar appetite. We do not recommend industrial metals exposure as China reigns in demand.				
Currencies					
EURUSD	The euro ended flat versus the dollar with the post Euro summit strength covering previous losses. We expect the euro to remain under pressure.				
Critical levels	<table border="0"> <tr> <td>R2 → 1.1781</td> <td>R1 → 1.1733</td> <td>S1 → 1.1593</td> <td>S2 → 1.1503</td> </tr> </table>	R2 → 1.1781	R1 → 1.1733	S1 → 1.1593	S2 → 1.1503
R2 → 1.1781	R1 → 1.1733	S1 → 1.1593	S2 → 1.1503		
GBPUSD	The pound sterling depreciated versus the dollar. 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	<table border="0"> <tr> <td>R2 → 1.3311</td> <td>R1 → 1.3259</td> <td>S1 → 1.3111</td> <td>S2 → 1.3014</td> </tr> </table>	R2 → 1.3311	R1 → 1.3259	S1 → 1.3111	S2 → 1.3014
R2 → 1.3311	R1 → 1.3259	S1 → 1.3111	S2 → 1.3014		
USDJPY	The yen ended the week lower versus the dollar on account of broad dollar strength. We believe there will remain a bias for yen strength as emerging markets concerns will not abate soon.				
Critical levels	<table border="0"> <tr> <td>R2 → 111.29</td> <td>R1 → 111.03</td> <td>S1 → 110.41</td> <td>S2 → 110.06</td> </tr> </table>	R2 → 111.29	R1 → 111.03	S1 → 110.41	S2 → 110.06
R2 → 111.29	R1 → 111.03	S1 → 110.41	S2 → 110.06		

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
07/02/2018	Markit Manufacturing PMI	Jun F	54.7	54.6	
07/03/2018	Factory Orders	May	0.00%	-0.80%	
07/03/2018	Durable Goods Orders	May F	-0.50%	-9.60%	
07/04/2018	MBA Mortgage Applications	29-Jun	--	-4.90%	
07/05/2018	Initial Jobless Claims	30-Jun	225K	227K	
07/05/2018	FOMC Meeting Minutes	13-Jun	--	--	Focus will be on FOMC meeting minutes and US labour market releases.
07/06/2018	Trade Balance	May	-\$43.6b	-\$46.2b	
07/06/2018	Change in Nonfarm Payrolls	Jun	195K	223K	
07/06/2018	Unemployment Rate	Jun	3.80%	3.80%	
07/06/2018	Average Hourly Earnings YoY	Jun	2.80%	2.70%	
07/06/2018	Labor Force Participation Rate	Jun	62.70%	62.70%	

Japan

	Indicator	Period	Expected	Prior	Comments
07/02/2018	Tankan Large All Industry Capex	2Q	9.30%	2.30%	Japan PMI Manufacturing will be important.
07/02/2018	Nikkei PMI Mfg	Jun F	--	53.1	

Eurozone

	Indicator	Period	Expected	Prior	Comments
07/02/2018	Markit Manufacturing PMI	Jun F	55	55	
07/02/018	PPI YoY	May	2.70%	2.00%	Attention will be on PPI and retail sales.
07/03/2018	Retail Sales YoY	May	1.60%	1.70%	

United Kingdom

	Indicator	Period	Expected	Prior	Comments
07/06/2018	Halifax House Prices MoM	Jun	0.20%	1.50%	Light week ahead.

China and India

	Indicator	Period	Expected	Prior	Comments
07/02/2018	Caixin PMI Mfg (CH)	Jun	51.1	51.1	China and India PMI releases will be closely watched.
07/02/2018	Nikkei PMI Mfg (IN)	Jun	--	51.2	

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.