

Dollar weakens while curve steepens amidst choppy trading week

Global equities had a turbulent week amidst the second week of the earnings season, trade worries and Trump questioning Fed policy. US equities were mostly flat in spite of tech-heavy Nasdaq reaching a record high early last week. Financial stocks outperformed this week, helped by the steepening of the treasury yield curve. In fact, the main highlights of the week were dollar weakness and steepening of the US treasury yield curve. In his testimony to the US senate, Fed Chair Jerome Powell presented a bullish outlook on US economy, stressing the strong performance of the labor market and acknowledging to stick to gradual rate hikes. The dollar strengthened while the yield curve remain flat in reaction to the Fed testimony. However, on Thursday, President Trump attacked the Fed's tightening policy and said that higher rates and a stronger dollar were hurting the economy. Markets were surprised by these comments and reacted with the dollar weakening and posting the largest decline in four months while the yield curve steepened. In spite of the dollar weakness, emerging markets underperformed. Dollar weakness also failed to provide any respite to commodities. Gold prices fell during the week. Oil prices led by Brent crude declined by 3% over the week on concerns of increased global supply. Nevertheless, GCC local market equities held up well on the back of positive 2Q earnings results, particularly from UAE financials.

US 2Q GDP, ECB MPC meeting in focus

Recent market's reactions to Trump's remarks on Fed policy seem exaggerated, in our view. While these remarks have raised doubts on the Fed's independence, there is not much the Trump administration can do to control the Fed's action other than influencing the Fed policy by appointing the board of governors. This also explains that after Trump's interview (and tweets), the White House released a statement saying it supports the Fed's independence. Also, the US President complaining about Fed's policy is not entirely unprecedented. The central bank is likely to ignore these comments and to further prove its independence from political pressure, it will continue to hike rates in order to manage its objective of controlling inflation. In fact, the case for rate hikes is likely to strengthen this week especially if there is an upward surprise in the 2nd quarter advance estimate of the GDP release. The market is already expecting the GDP to grow at a rate of 4%, the fastest since 2014. In addition, the ECB is also scheduled to meet this week and could stress on how it plans on deploying the bond redemptions from its outstanding holdings. A dovish bias from the ECB coupled with an upbeat 2Q US GDP will only push the dollar higher. The short-dated Treasury bonds are also likely to come under pressure with heavy bond issuance scheduled for the week. Separately, it will be an important week for corporate earnings with top technology companies like Alphabet, Facebook and Amazon lined up for releasing their 2Q earnings reports.

Past week global markets' performance

Index Snapshot (World Indices)

Index	Latest	Weekly Chg %	YTD %
S&P 500	2,801.8	0.0	4.8
Dow Jones	25,058.1	0.2	1.4
Nasdaq	7,820.2	-0.1	13.3
DAX	12,561.4	0.2	-2.8
Nikkei 225	22,697.9	0.4	-0.3
FTSE 100	7,678.8	0.2	-0.1
Sensex	36,496.4	-0.1	7.2
Hang Seng	28224.5	-1.1	-5.7

Regional Markets (Sunday to Thursday)

ADX	4770.1	1.6	8.4
DFM	2926.0	0.9	-13.2
Tadaw ul	8450.0	0.5	16.9
DSM	9420.7	0.9	10.5
MSM30	4448.28	-0.2	-12.8
BHSE	1354.7	0.8	1.7
KWSE	5210.9	0.1	-
MSCI			
MSCI World	2,139.2	0.2	1.7
MSCI EM	1,070.1	-0.5	-7.6

Global Commodities, Currencies and Rates

Commodity	Latest	Weekly Chg %	YTD %
ICE Brent USD/bbl	73.1	-3.0	9.3
Nymex WTI USD/bbl	68.3	-0.8	13.0
Gold USD/t oz	1229.5	-1.2	-5.6
Silver USD/t oz	15.5	-1.9	-8.4
Platinum USD/t oz	828.6	-0.1	-10.7
Copper USD/MT	6073.0	-1.5	-15.1
Alluminium	2024	-2.1	-10.4

Currencies

EUR USD	1.1724	0.3	-2.3
GBP USD	1.3136	-0.7	-2.8
USD JPY	111.41	-0.9	-1.1
CHF USD	0.9923	-0.9	-1.8

Rates

USD Libor 3m	2.3416	0.2	38.2
USD Libor 12m	2.8016	0.5	33.0
UAE Eibor 3m	2.5200	-1.7	40.4
UAE Eibor 12m	3.2268	-2.4	25.2
US 3m Bills	1.9685	0.1	43.1
US 10yr Treasury	2.8931	2.3	20.3

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Summary market outlook

Bonds

Global Yields

The 10-year US Treasury yields jumped while the yield curve steepened after the President Trump complained about Fed's tightening policy. 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 mostly ended the week in the positive territory, receiving boost from positive earnings report. 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 mainly choppy in the second week of earnings results amidst concerns on Fed policy and trade tensions. US equities were mostly flat in spite of NASDAQ reaching a new record high early last week. Financial stocks within US rallied with the steepening of the yield curve. Emerging market equities remained under pressure even though the dollar weakened on Trump's comments. 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 in spite of dollar weakness. We remain overweight on gold as a risk hedge against ongoing political and (potential) inflationary risks.

Energy

Oil prices dropped over the week, led by Brent Crude on concerns of increasing global supply. 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, even though the dollar weakened. We do not recommend industrial metals exposure as China reigns in demand.

Currencies

EURUSD

The euro ended flat versus the dollar. We expect the euro to remain under pressure due to the diverging monetary policies between the Fed and the ECB.

Critical levels



GBPUSD

The pound weakened versus the dollar as disappointing inflation data reduced BoE rate hikes expectations. 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 appreciated versus the dollar. 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
07/23/2018	Chicago Fed Nat Activity Index	Jun	0.25	-0.15	
07/23/2018	Existing Home Sales MoM	Jun	0.20%	-0.40%	
07/25/2018	MBA Mortgage Applications	20-Jul	--	-2.50%	
07/25/2018	New Home Sales MoM	Jun	-2.90%	6.70%	
07/26/2018	Wholesale Inventories MoM	Jun P	0.50%	0.60%	All eyes will be on the 2 nd quarter advance release of GDP.
07/26/2018	Durable Goods Orders	Jun P	3.00%	-0.40%	
07/27/2018	GDP Annualized QoQ	2Q A	4.30%	2.00%	
07/27/2018	Core PCE QoQ	2Q A	2.20%	2.30%	
07/27/2018	U. of Mich. Sentiment	Jul F	97.1	97.1	

Japan

	Indicator	Period	Expected	Prior	Comments
07/24/2018	Nikkei PMI Mfg	Jul P	--	53	
07/27/2018	CPI YoY	Jul	0.70%	0.60%	Focus will be on PMI and inflation.
07/27/2018	CPI Ex-Fresh Food YoY	Jul	0.70%	0.70%	

Eurozone

	Indicator	Period	Expected	Prior	Comments
07/23/2018	Consumer Confidence	Jul A	-0.7	-0.5	
07/24/2018	Markit Manufacturing PMI	Jul P	54.7	54.9	
07/25/2018	IFO Expectations (GE)	Jul	98.3	98.6	Market attention will be on the ECB meeting.
07/26/2018	ECB MPC meeting	26-Jul	No change		
07/27/2018	PPI YoY	Jun	--	2.70%	

United Kingdom

	Indicator	Period	Expected	Prior	Comments
07/28/2018	Nationwide House PX MoM	Jul	0.10%	0.50%	Light week ahead.

China and India

	Indicator	Period	Expected	Prior	Comments
					No important data releases scheduled for the week.



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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