The Weekly Market View

July 30 2018

Relief rally as trade tensions ease

Global equity markets rallied as concerns of trade tensions eased and number of companies reported better than expected earnings in the second quarter. The main driver was the ceasefire agreement on trade between the US and the European Union as President Trump and European Union Council Jean-Claude Juncker agreed on working towards zero trade tariffs on non-auto industrial goods and further reduce trade barriers and increase trade in services, chemicals, pharmaceuticals, medical products and soybean. The main relief came for the EU in the form of the US-previously threatening to put a levy on cars imports- agreeing on having discussion on the same while the EU agreed on buying more soybeans and liquefied natural gas from the US. European equities benefitted the most on the de-escalation of trade tensions and also received boost from positive earnings results. Within US, industrial centric Dow Jones outperformed the most while S&P 500 ended the week mostly flat. The tech-heavy NASDAQ posted a negative return for the week, coming under immense pressure after Facebook shares plunged by 19% on disappointing company revenues while the Twitter also reported a decline in active users. In spite of the ease in trade tensions, the dollar advanced further versus the euro, receiving boost from strong US GDP numbers and the ECB indicating to keep rates on hold until summer of 2019. Oil prices also rose higher as trade tensions softened. The US treasuries ended the week flat but were mostly volatile due to concerns of a potential BoJ exit from monetary stimulus.

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Central bank meetings in focus

Trade worries may take a backseat with the recent progress in trade talks between the US and the EU. However, we do not believe that trade war risks have completely dissipated. There is still massive uncertainty on how these trade discussions between the US and the EU will proceed with lack of clarity and detailing on the kind of deal which could be struck between the two economies. The steel and aluminium tariffs still remain in place (under discussions as per the US-EU statement). Separately, China has been the main target for the US and in addition to the 25% tariff on USD50bn worth of Chinese imports, US is on track to add 10% levy on additional USD200bn worth of Chinese imports by end of August and has threatened to impose tariffs on all Chinese imports. Separately, the focus in the upcoming week will be on the central bank meetings across the globe. All eyes will be on the BoJ meeting especially after increasing speculation of a potential exit from monetary stimulus driving the yen and global bond markets. Given the low inflation backdrop, we believe that the BoJ will not signal any exit from its loose monetary policies. However, at the same time, the central bank may tweak its yield curve control policy in a bid to reduce the negative impact on its regional financial institutions. No rate hikes are expected at the upcoming FOMC meeting this week, but discussions on the recent flattening of the yield curve and the appropriate neutral fed fund rate could drive the markets. On the other hand, markets are expecting the Bank of England to raise rates this week in spite of disappointing inflation numbers. In emerging markets, all eyes will be on the RBI meeting which is expected to hike rates amidst increasing inflationary pressures.

Past week global markets' performance

Index Snapshot (World Indices)

Index	Latest	Weekly Chg %	YTD %
S&P 500	2,818.8	0.4	5.4
Dow Jones	25,451.1	1.6	3.0
Nasdaq	7,737.4	-1.3	12.1
DAX	12,860.4	2.5	-0.4
Nikkei 225	22,712.8	1.4	-0.2
FTSE 100	7,701.3	0.6	0.2
Sensex	37,336.9	1.7	9.6
Hang Seng	28804.3	1.9	-3.7
Regional Markets (Sunday to Thursday)			
ADX	4844.2	1.7	10.1
DFM	2948.8	0.6	-12.5
Tadawul	8367.7	-1.0	15.8
DSM	9607.9	1.8	12.7
MSM30	4335.91	-2.2	-15.0
BHSE	1367.9	0.8	2.7
KWSE	5226.0	0.2	-
MSCI			
MSCI World	2,156.1	0.8	2.5
MSCI EM	1,092.4	2.1	-5.7

Global Commodities, Currencies and Rates

Commodity	Latest	Weekly Chg %	YTD %
ICE Brent USD/bbl	74.3	1.7	11.1
Nymex WTI USD/bbl	68.7	1.2	13.7
Gold USD/t oz	1224.2	0.0	-6.0
Silver USD/t oz	15.5	0.8	-8.4
Platinum USD/t oz	831.1	0.3	-10.5
Copper USD/MT	6251.5	1.6	-12.7
Alluminium	2058.5	0.0	-8.8
Currencies			
EUR USD	1.1657	-0.4	-2.9
GBP USD	1.3105	-0.0	-3.0
USD JPY	111.05	-0.3	-1.5
CHF USD	0.9945	0.2	-2.0
Rates			
USD Libor 3m	2.3424	0.3	38.3
USD Libor 12m	2.8214	0.8	33.9
UAE Eibor 3m	2.5238	0.6	40.6
UAE Eibor 12m	3.2718	-0.7	26.9
US 3m Bills	1.9813	1.3	44.0
US 10yr Treasury	2.9542	0.0	22.8

Summary market outlook

Bonds	
Global Yields	The 10-year US Treasury yields ended the week flat but remained volatile on increasing speculation of a BoJ exit. 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 rallied on ease in trade tensions after the US-EU meet and positive earnings report for the second quarter. Europeans equities outperformed the most as de-escalation of trade tensions and strong company earnings boosted risk appetite. Emerging market equities also performed well, despite stronger dollar, mainly due to ease in trade tensions and China announcing additional fiscal stimulus. 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 ended the week flat. We remain overweight on gold as a risk hedge against ongoing political and (potential) inflationary risks.
Energy	Oil prices rose during the week, receiving boost from the ease in 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 ended in the positive territory on reports of China fine-tuning its fiscal and monetary policy and ease in trade worries. We do not recommend industrial metals exposure as China reigns in demand.
Currencies	
EURUSD	The euro weakened versus the dollar as the ECB signaled no rate hikes until summer of 2019. We expect the euro to remain under pressure due to the diverging monetary policies between the Fed and the ECB.
Critical levels	R2 1.1691 · R1 1.1674 · S1 1.1630 · S2 1.1604
GBPUSD	The pound ended flat 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	R2 1.3155 · R1 1.3130 · S1 1.3081 · S2 1.3058
USDJPY	The yen weakened versus the dollar. We believe there will remain a bias for yen strength as emerging markets concerns will not abate soon.
Critical levels	R2 111.48 · R1 111.27 · S1 110.82 · S2 110.58

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
07/31/2018	PCE Core YoY	Jun	2.00%	2.00%	All eyes will be om FOMC meeting. Also, PCE core and labour market data will be important.
07/01/2018	MBA Mortgage Applications	27-Jul	--	-0.20%	
07/01/2018	Markit Manufacturing PMI	Jul F	55.5	55.5	
07/01/2018	FOMC Rate Decision	1-Aug	No change		
07/02/2018	Initial Jobless Claims	28-Jul	220k	217k	
07/02/2018	Durable Goods Orders	Jun F	--	1.00%	
0703/2018	Trade Balance	Jun	-$46.1b	-$43.1b	
07/03/2018	Unemployment Rate	Jul	3.90%	4.00%	
07/03/2018	Average Hourly Earnings YoY	Jul	2.70%	2.70%	
07/03/2018	Labor Force Participation Rate	Jul	--	62.90%	

Japan

	Indicator	Period	Expected	Prior	Comments
07/31/2018	Jobless Rate	Jun	-0.6	-0.6	Focus will be on BOJ meeting.
07/31/2018	Industrial Production MoM	Jun p	-0.30%	-0.20%	
07/31/2018	BOJ MPC Meeting	31-Jul	No change		
08/01/2018	Nikkei PMI Mfg	Jul F	--	51.6	

Eurozone

	Indicator	Period	Expected	Prior	Comments
07/30/2018	Consumer Confidence	Jul F	-0.6	-0.6	CPI and PPI will be the main releases for this week.
07/30/018	CPI YoY (GE)	Jul P	2.10%	2.10%	
08/01/2018	Markit Manufacturing PMI	Jul F	55.1	55.1	
08/02/2018	PPI YoY	Jun	3.50%	3.00%	
08/03/2018	Retail Sales MoM	Jun	0.40%	0.00%	

United Kingdom

	Indicator	Period	Expected	Prior	Comments
08/01/2018	Nationwide House PX MoM	Jul	0.10%	0.50%	Attention will be on BOE meeting.
08/02/2018	BOE MPC Meeting	Aug	25bp hike		

China and India

	Indicator	Period	Expected	Prior	Comments
08/01/2018	Caixin PMI Mfg (CH)	Jul	50.9	51	Main focus will be on RBI meeting.
08/01/2018	Nikkei PMI Mfg (IN)	Jul	--	53.1	
08/01/2018	RBI MPC Meeting (IN)	1-Aug	25bp hike	4.00%	

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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