

Rotation into US equities

Global equities remained volatile ahead of the final imposition of the US tariffs on China goods last Friday. However, rotation into US equities was evident in spite of being a holiday-shortened week. European equities were also higher on the back of strong momentum in services PMI. On the other hand, Japanese equities underperformed the most mainly on account of trade-related concerns. Emerging market equities also remained under pressure even though the dollar shed off some of its previous gains. The dollar weakened slightly versus other currencies as Fed minutes and moderate wage gains raised doubts on the prospective hawkishness of US monetary policy. In the Fed June minutes, members expressed their concerns on the global trade policy and the possible risks of weakness in emerging markets weighing on business sentiment. In addition, even though the non-farm payrolls exceeded market expectations last week, average hourly earnings slightly moderated from previous month, suggesting less pressure on the Fed to hike rates. Thus 10-year US treasury yields declined further amidst the backdrop of trade tensions. Gold prices also benefitted from the safe-haven demand and weakness in dollar. Finally, oil prices edged lower, mainly on account of the US-China trade war concerns and also on reports of Saudi having increased production even before the OPEC's decision of reducing supply.

Trade policy, US CPI and China releases to be the main focus

The US imposition of tariffs on USD34bn worth of Chinese import came into effect last Friday which was followed with Beijing announcing tariffs on US goods. With reports of the Trump administration looking into imposing tariffs on another USD16bn of Chinese imports and also suggesting the final total could reach USD550bn, trade policy is likely to remain the main focus for the weeks to come. Meanwhile, the pain of the trade talks and its negative impact on business sentiment is being reflected in the recent global manufacturing PMI indicators. At the same time, the trend of growth divergence between US and other economies was again evident in the June PMI indicators. With less historical data available on the impact of the trade tariffs on economic growth, we believe that the Fed will be looking at the trend in both hard and soft economic indicators more closely. The Fed already expressed concerns about trade policy uncertainties, however we believe that it may be too early for the central bank to make changes to its projected rate hike path- which was recently altered in the June meeting- unless rapid deceleration is visible in economic activity. With the Fed sticking to its rate hikes this year, investors rotating into US assets amidst the trade tensions and increasing divergence between the monetary policies of other advanced economies, the dollar will remain strong. In terms of economic releases this week, the focus will be on the US and Eurozone CPI releases and in emerging markets, all eyes will be on the June releases of various economic indicators from China.

Past week global markets' performance

Index Snapshot (World Indices)

Index	Latest	Weekly Chg %	YTD %
S&P 500	2,759.8	1.5	3.2
Dow Jones	24,456.5	0.8	-1.1
Nasdaq	7,688.4	2.4	11.4
DAX	12,496.2	1.5	-3.3
Nikkei 225	21,788.1	-2.3	-4.3
FTSE 100	7,617.7	-0.3	-0.9
Sensex	35,657.9	0.7	4.7
Hang Seng	28315.6	-2.2	-5.4
Regional Markets (Sunday to Thursday)			
ADX	4603.2	-0.4	4.7
DFM	2880.4	0.6	-14.5
Tadaw ul	8177.6	-1.9	13.2
DSM	9260.0	1.6	8.6
MSM30	4523.79	-0.8	-11.3
BHSE	1330.8	1.3	-0.1
KWSE	5087.6	3.9	-
MSCI			
MSCI World	2,113.7	1.2	0.5
MSCI EM	1,060.0	-0.9	-8.5

Global Commodities, Currencies and Rates

Commodity	Latest	Weekly Chg %	YTD %
ICE Brent USD/bbl	77.1	-2.9	15.3
Nymex WTI USD/bbl	73.8	-0.5	22.1
Gold USD/t oz	1255.5	0.2	-3.6
Silver USD/t oz	16.0	-0.4	-5.3
Platinum USD/t oz	844.4	-1.0	-9.0
Copper USD/MT	6326.0	-4.8	-11.6
Alluminium	2111.25	-2.4	-6.5
Currencies			
EUR USD	1.1746	0.5	-2.2
GBP USD	1.3283	0.6	-1.7
USD JPY	110.47	-0.3	-2.0
CHF USD	0.9893	-0.1	-1.5
Rates			
USD Libor 3m	2.3386	0.1	38.0
USD Libor 12m	2.7840	0.7	32.1
UAE Eibor 3m	2.5713	6.3	43.2
UAE Eibor 12m	3.1988	6.2	24.1
US 3m Bills	1.9404	1.5	41.0
US 10yr Treasury	2.8217	-1.3	17.3

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 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 had a mixed week with some profit-taking in 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 were volatile but rotation into US equities was evident in spite of holiday short week. US equities outperformed the most, led by tech heavy Nasdaq. European equities also ended higher on positive services PMI data. On the other hand, Japanese equities underperformed the most on the back of trade concerns while emerging market equities were also sold in spite of the dollar weakness last week. 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 as the dollar pared its previous gains. We remain overweight on gold as a risk hedge against ongoing political and (potential) inflationary risks.

Energy Oil prices declined amidst the escalating US-China trade war tensions and on reports that Saudi increased oil production in June outweighing supply concerns coming out of Venezuela and US sanctions on Iran. 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 in spite of sluggish dollar appetite. We do not recommend industrial metals exposure as China reigns in demand.

Currencies

EURUSD The euro slightly strengthened versus the dollar. We expect the euro to remain under pressure.

Critical levels R2 1.1824 R1 1.1785 S1 1.1690 S2 1.1634

GBPUSD The pound sterling appreciated versus the dollar on the back of strong services PMI. 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 1.3346 R1 1.3314 S1 1.3228 S2 1.3172

USDJPY The yen was mostly flat versus the dollar in spite of weak dollar demand. We believe there will remain a bias for yen strength as emerging markets concerns will not abate soon.

Critical levels R2 110.95 R1 110.71 S1 110.31 S2 110.14

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
07/11/2018	MBA Mortgage Applications	6-Jul	--	-0.50%	Focus will be on inflation data.
07/11/2018	Wholesale Inventories MoM	May F	0.40%	0.50%	
07/12/2018	Initial Jobless Claims	7-Jul	225K	231K	
07/12/2018	CPI YoY	Jun	2.90%	2.80%	
07/12/2018	Core CPI YoY	Jun	2.30%	2.20%	
07/12/2018	Real Avg Hourly Earning YoY	Jun	--	0.00%	
07/13/2018	Univ. of Mich. Sentiment	Jul P	98	98.2	

Japan

	Indicator	Period	Expected	Prior	Comments
07/09/2018	BoP Current Account Balance	May	¥1266.0b	¥1845.1b	Current account balance, PPI and tertiary industry index will be important.
07/10/2018	Machine Tool Orders YoY	Jun P	--	14.90%	
07/11/2018	PPI YoY	Jun	2.80%	2.70%	
07/11/2018	Tertiary Industry Index MoM	May	-0.30%	1.00%	
07/13/2018	Industrial Production MoM	May F	--	-0.20%	
07/13/2018	Capacity Utilization MoM	May	--	1.80%	

Eurozone

	Indicator	Period	Expected	Prior	Comments
07/09/2018	Trade Balance (GE)	May	20.2b	20.4b	Attention will be on trade balance and CPI.
07/10/2018	Industrial Production YoY	May	0.50%	2.10%	
07/12/2018	CPI YoY	Jun F	2.10%	2.10%	

United Kingdom

	Indicator	Period	Expected	Prior	Comments
07/10/2018	Trade Balance	May	-£3378	-£5280	Trade Balance data will be important.
07/10/2018	Industrial Production YoY	May	1.90%	1.80%	

China and India

	Indicator	Period	Expected	Prior	Comments
07/09/2018	Foreign Reserves (CH)	Jun	\$3101.80b	\$3110.62b	All eyes will be in China June releases for foreign reserves, exports and CPI. In India export will be important.
07/10/2018	CPI YoY (CH)	Jun	1.90%	1.80%	
07/10/2018	Aggregate Financing CNY (CH)	Jun	1400.0b	760.8b	
07/10/2018	New Yuan Loans CNY (CH)	Jun	1520.0b	1150.0b	
07/12/2018	Industrial Production YoY (CH)	May	5.90%	4.90%	
07/12/2018	Exports YoY (IN)	Jun	--	20.20%	
07/13/2018	Exports YoY (CH)	Jun	10.40%	12.60%	

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.