The Weekly Market View

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Markets cautiously advance ahead of G7 summit

Global equity markets advanced, albeit on a cautious note ahead of the G7 summit last weekend, and also amidst another set of strong economic data coming out of the US. US stocks got the much-expected kick start at the beginning of the week on the robust US payroll data and continued to rise higher after the upbeat PMI releases in the middle of the week. Dow Jones was the best performer, followed by Japanese equities. The weaker dollar also contributed in boosting the risk-off sentiment. The dollar weakened mainly versus the euro as the euro advanced on the ECB Chief Economic advisor signaling at the possibility of a first formal round of talks on withdrawing the asset-purchases program. European bond yields led by German bunds came under pressure on a hawkish interpretation of these comments with the sell-off in fixed income spilling over to US treasuries. The 10-year US Treasury yield moved above 2.9%, yet did not breach the 3% mark as markets sought for US assets amidst the widespread sell-off in emerging market fixed income. In spite of the weakness in the US dollar, emerging market currencies tumbled last week with the central banks of Turkey and India surprising the markets by raising policy rates (more than expected in case of Turkey). The central bank of Brazil had to intervene in the FX market by rolling out FX swap auctions in order to limit the real's plunge. Elsewhere, oil prices dropped over the week as market assessed mixed signals relating to the supply outlook from Saudi and Russia.

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Be ready for an eventful week

The upcoming week is extremely crucial for global markets with the line-up of political events led by the historical and much-awaited US-North Korea Summit on Tuesday, 12 June in Singapore followed with the G3 central bank meetings, beginning with the Fed on 13th June, ECB on 14th June and finally the BoJ on 15th June. At the US-North Korea Summit, the US administration is likely to push for a clear and definitive path of abandoning of the nuclear program by North Korea while North Korea will focus on pursuing for a more secure position and "permanent and durable peace keeping" on the Korean peninsula. It is challenging to predict what could be the possible outcome of the Summit, whether it will prove successful and what its impact on sentiment will be, but we expect that the markets will mostly remain sidelined. In addition to the summit, attention will be on the Fed meeting where the central bank is expected to raise rates by 25bp, but could make revisions in its dot plot and economic projections. It will also be interesting to see whether the Fed takes into account the recent tightening of financial conditions and also the emerging market stress, with India and Indonesia central bank governors urging for a cautious Fed stance last week. From the Fed, the focus will move to the ECB especially after last week's comments by the ECB chief economic advisor Peter Praet hinting at the possibility of the holding of the first formal talks on when and how to end the bond-buying program. Whilst we believe that discussions about the exit strategy could take place, we are unlikely to see any announcement at least until July or even September given the backdrop of continuous softness in economic data and increased trade war risks. Lastly, while the markets will be mainly occupied with the heavy political and economic schedule, the risks of a potential trade war have intensified with the tumultuous end to the G7 summit after the US backed out of the negotiated G7 statement. One can expect further retaliation from the US's trading partners gathering steam in the coming weeks.

Past week global markets' performance

Index Snapshot (World Indices)

Index	Latest	Weekly Chg %	YTD %
S&P 500	2,779.0	1.6	3.9
Dow Jones	25,316.5	2.8	2.4
Nasdaq	7,645.5	1.2	10.8
DAX	12,766.6	0.3	-1.2
Nikkei 225	22,694.5	2.4	-0.3
FTSE 100	7,681.1	-0.3	-0.1
Sensex	35,443.7	0.6	4.1
Hang Seng	30958.2	1.5	3.5
Regional Markets (Sunday to Thursday)			
ADX	4662.6	2.1	6.0
DFM	3041.7	1.8	-9.7
Tadawul	8344.4	0.2	15.5
DSM	9242.3	3.5	8.4
MSM30	4596.51	-0.1	-9.9
BHSE	1263.8	-0.1	-5.1
KWSE	4805.5	1.2	-
MSCI			
MSCI World	2,137.7	1.4	1.6
MSCI EM	1,135.4	0.5	-2.0

Global Commodities, Currencies and Rates

Commodity	Latest	Weekly Chg %	YTD %
ICE Brent USD/bbl	76.5	-0.4	14.3
Nymex WTI USD/bbl	65.7	-0.1	8.8
Gold USD/t oz	1298.2	0.4	-0.4
Silver USD/t oz	16.8	2.3	-0.9
Platinum USD/t oz	907.4	0.3	-2.2
Copper USD/MT	7262.5	6.6	1.5
Alluminium	2302	-0.7	1.9
Currencies			
EUR USD	1.1769	0.9	-2.0
GBP USD	1.3405	0.4	-0.8
USD JPY	109.55	0.0	-2.9
CHF USD	0.9857	-0.3	-1.2
Rates			
USD Libor 3m	2.3263	0.4	37.3
USD Libor 12m	2.7403	0.6	30.1
UAE Eibor 3m	2.4575	-3.2	36.9
UAE Eibor 12m	3.1284	-2.8	21.4
US 3m Bills	1.9071	0.1	38.6
US 10yr Treasury	2.9461	1.5	22.5

Summary market outlook

Bonds	
Global Yields	The 10-year US Treasury bonds ended above 2.9% on ECB officials indicating exit talks at the upcoming MPC meeting. 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 was mostly unchanged as equity markets advanced. However, volatility is unlikely to remain low given the backdrop of markets' fear of central bank policy normalization and geopolitical concerns.
Equity Markets	
Local Equity Markets	GCC markets had a positive week, shrugging off the oil price decline and mainly on talks of Saudi and Qatar inclusion in the MSCI index. We remain neutral on GCC equities given the potential for further dollar strength and range-bound oil prices, but we maintain our call on Saudi equities on the back of their inclusion into the MSCI watch list for potential promotion into the MSCI Emerging Markets index.
Global Equity Markets	Global equities cautious advanced ahead of the G& summit. US equities outperformed the most, helped by upbeat economic data and weaker dollar. European equities ended the week flat on trade war concerns and disappointing economic data. 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 arrested its previous week's loss as the US dollar weakened. We remain overweight on gold as a risk hedge against ongoing political and (potential) inflationary risks.
Energy	Oil prices ended the week lower as markets remain perplexed about the future supply outlook. 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 moved higher, helped by weak dollar. We do not recommend industrial metals exposure as China reigns in demand.
Currencies	
EURUSD	The euro advanced versus the dollar on ECB hinting at exit talks. We expect the euro to remain under pressure.
Critical levels	R2 1.1869 · R1 1.1819 · S1 1.1723 · S2 1.1677
GBPUSD	The pound sterling was almost unchanged 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 1.3484 · R1 1.3445 · S1 1.3360 · S2 1.3315
USDJPY	The yen ended the week flat versus the dollar driven by safe-have appetite. We believe there will remain a bias for yen strength as emerging markets concerns will not abate soon.
Critical levels	R2 110.19 · R1 109.87 · S1 109.21 · S2 108.88

Note: R2, R1, S2 and S1 refer to Bloomberg calculated weekly technical resistance and support levels

Forthcoming important economic data

United States

Date	Indicator	Period	Expected	Prior	Comments
06/12/2018	CPI YoY	May	2.70%	2.50%	All eyes on the FOMC meeting.
06/12/2018	Real Avg Hourly Earning YoY	May	-	0.20%	
06/13/2018	FOMC Meeting	13-Jun	25bp hike	-	
06/14/2018	Retail Sales Advance MoM	May	0.40%	0.30%	
06/15/2018	Industrial Production MoM	May	0.20%	0.70%	
06/15/2018	Capacity Utilization	May	78.10%	78.00%	
06/15/2018	U. of Mich. Sentiment	Jun P	98.5	98	

Japan

Date	Indicator	Period	Expected	Prior	Comments
06/11/2018	Machine Tool Orders YoY	May P	-	22.00%	Focus will be on the BoJ meeting.
06/12/2018	PPI YoY	May	2.10%	2.00%	
06/12/2018	Tertiary Industry Index MoM	Apr	0.60%	-0.30%	
06/15/2018	BOJ MPC meeting	15-Jun	No change	-	

Eurozone

Date	Indicator	Period	Expected	Prior	Comments
06/14/018	ECB Meeting	14-Jun	No Change		ECB meeting will be the main highlight.
06/15/2018	CPI Core YoY	May F	1.10%	1.10%	

United Kingdom

Date	Indicator	Period	Expected	Prior	Comments
06/13/2018	CPI YoY	May	2.40%	2.40%	Attention will be on the inflation and retail sales release
06/13/2018	CPI Core YoY	May	2.10%	2.10%	
06/14/2018	Retail Sales Ex Auto Fuel YoY	May	2.50%	1.50%	

China and India

Date	Indicator	Period	Expected	Prior	Comments
06/09/2018	CPI YoY (CH)	May	1.80%	1.80%	All eyes will be on China CPI, retail sales, and Industrial Production. In India, focus will be on CPI and Wholesale Prices.
06/10/2018	Aggregate Financing CNY (CH)	May	1300.0b	1560.0b	
06/10/2018	New Yuan Loans CNY (CH)	May	1200.0b	1180.0b	
06/12/2018	CPI YoY (IN)	May	4.80%	4.58%	
06/14/2018	Retail Sales YoY (CH)	May	9.60%	9.40%	
06/14/2018	Industrial Production YoY (CH)	May	7.00%	7.00%	
06/14/2018	Wholesale Prices YoY (IN)	May	4.00%	3.18%	
06/15/2018	Exports YoY (IN)	May	-	5.20%	

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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