The Weekly Market View

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Markets recover on strong US jobs data

Global equity markets had a roller coaster week, beginning the week with a sell-off amidst concerns on Italian politics and political instability in Europe, but recovering towards the end of the week on a strong US jobs report. US equities recovered the most, ending the week in positive territory and hence were the best performers last week. Global growth concerns and political risk in Italy kept European stocks under pressure. The US dollar remained resilient in spite of the pressure on European markets stabilizing toward the end of the week. On the other hand, safe-haven assets including US treasuries and the yen rallied as the risk-off sentiment prevailed. Gold, however, recorded a weekly loss given the prospects of higher US dollar rates. US treasuries rallied the most with the 10-year yield posting its largest one-day decline since the Brexit referendum.10 year Treasury yields consolidated in spite of the better than expected labor market release. The yield curve flattened further as the strong data bolstered the case of two more Fed rate hikes this year. Robust labor market data also helped in calming the markets with non-farm payrolls rising at a better than expected pace of 223K in May and the unemployment rate dropping further to 3.8% in May. More importantly, signs of an improved pace of hiring feeding into higher wages was finally visible with average hourly earnings rising by 2.7% on year-on year basis. Oil was also resilient with Brent crude ending the week almost flat. However WTI crude prices dropped as stronger dollar and rising US crude production weighed on the market. Regional equity markets stabilized during the week with the flattish trend in Brent crude prices.

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Light data week but focus to remain on trade talks

The upcoming week is relatively light in terms of data releases. However, the focus will be on the trade talks which are expected to add noise to the market. Trade tensions are growing between the US and the EU after the US decided to go ahead with tariffs on aluminium and steel imports from the EU, Canada and Mexico, putting an end to the two-month exemption. The EU has pledged to retaliate with counter-tariff measures and indicated it is not open for further negotiations with the US. In addition, US-China trade tensions will also remain in the spotlight with the ongoing trade negotiations between the two countries ending on Sunday with no conclusive decision. Adding to the trade talks, geopolitical tensions will come at the forefront as we edge closer to the US-North Korea summit on June 12 in Singapore. With signs of global growth cooling even before the trade-related uncertainty started to kick in, we believe that the global risk-return trade-off has started to look less appealing. As a result, we are making changes on our global asset allocation by going neutral on global equities by closing our call on Japanese and Swiss equities. We maintain our overweight stance on US equities which should benefit from the growth divergence between the US and its developed market peers. On the other hand, emerging markets remain most at risk with cooling global growth and ongoing China tightening risks. Hence, we remain underweight on emerging market equities and additionally close our overweight call on Indonesia hard currency sovereign bonds.

Past week global markets' performance

Index Snapshot (World Indices)

Index	Latest	Weekly Chg %	YTD %
S&P 500	2,734.6	0.5	2.3
Dow Jones	24,635.2	-0.5	-0.3
Nasdaq	7,554.3	1.6	9.4
DAX	12,724.3	-1.7	-1.5
Nikkei 225	22,171.4	-1.2	-2.6
FTSE 100	7,701.8	-0.4	0.2
Sensex	35,227.3	0.9	3.4
Hang Seng	30492.9	-0.3	1.9
Regional Markets (Sunday to Thursday)			
ADX	4566.1	1.5	3.8
DFM	2987.3	1.1	-11.4
Tadawul	8316.6	2.4	15.1
DSM	8931.0	-1.2	4.8
MSM30	4602.08	0.9	-9.8
BHSE	1265.6	0.2	-5.0
KWSE	4746.9	-0.1	-
MSCI			
MSCI World	2,109.2	-0.1	0.3
MSCI EM	1,130.2	-0.6	-2.4

Global Commodities, Currencies and Rates

Commodity	Latest	Weekly Chg %	YTD %
ICE Brent USD/bbl	76.8	0.5	14.8
Nymex WTI USD/bbl	65.8	-3.0	8.9
Gold USD/t oz	1293.4	-0.8	-0.7
Silver USD/t oz	16.4	-0.6	-3.1
Platinum USD/t oz	904.3	0.3	-2.6
Copper USD/MT	6814.0	-1.0	-4.8
Alluminium	2318	2.2	2.6
Currencies			
EUR USD	1.1659	0.1	-2.9
GBP USD	1.3346	0.3	-1.2
USD JPY	109.54	0.1	-2.9
CHF USD	0.9882	-0.3	-1.4
Rates			
USD Libor 3m	2.3213	0.1	37.0
USD Libor 12m	2.7181	-0.5	29.0
UAE Eibor 3m	2.5575	3.5	42.5
UAE Eibor 12m	3.0484	-1.2	18.3
US 3m Bills	1.9046	0.8	38.4
US 10yr Treasury	2.9022	-1.0	20.7

Summary market outlook

Bonds	
Global Yields	The 10-year US Treasury bonds rallied last week on increased safe-haven appetite. 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, tracking the roller coaster sentiment in equity markets. 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 were resilient as the oil price stabilized and Saudi Arabia continued to advance. 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 had another mixed week as markets assessed the various geopolitical developments. US equities recorded positive gains and were the top performers this week. On the other hand, European equities underperformed the most, weighed by the political uncertainty in Italy. 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 came down with the stronger US dollar and increased chances of more Fed rate hikes. We remain overweight on gold as a risk hedge against ongoing political and (potential) inflationary risks.
Energy	Brent Crude stabilized, whilst WTI Crude came down with the stronger greenback and rising US production. 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 were mostly mixed, weighed by the dollar strength. We do not recommend industrial metals exposure as China reigns in demand.
Currencies	
EURUSD	The euro was flat versus the dollar as political uncertainty eased in Italy. We expect the euro to remain under pressure.
Critical levels	R2 1.1766 R1 1.1713 S1 1.1612 S2 1.1564
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 1.3429 R1 1.3387 S1 1.3279 S2 1.3213
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 110.41 R1 109.98 S1 108.86 S2 108.19

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
06/04/2018	Factory Orders	Apr	-0.50%	1.60%	Market attention will be on MBA, Trade balance, goods order, and initial jobless.
06/04/2018	Durable Goods Orders	Apr F	--	-1.70%	
06/06/2018	MBA Mortgage Applications	1-Jun	--	-2.90%	
06/06/2018	Trade Balance	Apr	-$49.1b	-$49.0b	
06/07/2018	Initial Jobless Claims	2-Jun	225K	221K	
06/08/2018	Wholesale Inventories MoM	Apr F	0.00%	0.00%	

Japan

	Indicator	Period	Expected	Prior	Comments
06/08/2018	BoP Current Account Balance	Apr	¥2147.8b	¥3122.3b	GDP growth will be the main point out of Japan.
06/08/2018	GDP SA QoQ	1Q F	-0.20%	-0.20%	

Eurozone

	Indicator	Period	Expected	Prior	Comments
06/04/2018	PPI YoY	Apr	2.40%	2.10%	Focus will be on PPI, and GDP. Also, retail sales will be important.
06/05/018	Retail Sales YoY	Apr	1.70%	0.80%	
06/07/2018	GDP SA QoQ	1Q F	0.40%	0.40%	
06/08/2018	Trade Balance	Apr	20.2b	25.2b	

United Kingdom

	Indicator	Period	Expected	Prior	Comments
06/07/2018	Halifax House Prices MoM	May	1.00%	-3.10%	House Prices will be important.

China and India

	Indicator	Period	Expected	Prior	Comments
06/05/2018	BoP Current Account Balance (IN)	1Q	-$12.40b	-$13.50b	All eyes will be on China May releases for foreign reserves. Exports, and CPI. In India, focus will be on the RBI meeting.
06/06/2018	RBI Meeting (IN)	6-Jun	No change		
06/07/2018	Foreign Reserves (CH)	May	$3106.00b	$3124.85b	
06/08/2018	Exports YoY (CH)	May	11.10%	12.90%	
06/09/2018	CPI YoY (CH)	May	1.90%	1.80%	

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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