The Weekly Market View

March 26 2018

Trade war fears grip the markets

Equity markets across the globe were sold over the week as markets' fear of a possible full-blown trade war fueled the risk-off sentiment. US stock markets underperformed the most, posting the biggest weekly loss in more than two years as markets turned nervous about the impact of the trade war concerns and further shake-up in the Trump administration. The technology stocks were most under pressure amidst the trade uncertainty and Facebook privacy scandal row. Market participants flocked to safe-havens including gold, yen and US Treasuries. On the other hand, the dollar weakened against majority of the currencies. Oil prices jumped during the week, boosted by the weaker dollar and the appointment of Mr. John Bolton (viewed as antagonist of the Iran nuclear deal) as the national security advisor. The escalation of the trade war overshadowed the much-awaited Fed March meeting where the central bank raised interest rates by 25bp as expected. More importantly, the Fed raised its economic outlook and also upgraded the "DoT" plot with additional rate hikes in 2019 and 2020. The short-term yields edged higher in reaction to the Fed's move and the yield curve flattened further.

Core PCE this week- but "trade" to keep markets occupied

The upcoming week is likely to be short (ahead of Easter festivities) and light in terms of economic data releases. The main data release is the Core PCE- Fed's preferred gauge of inflation- due to be published on 29th March Markets will also be closely tracking the China Manufacturing PMI release at the end of the week. Yet, attention will be mainly centred around the developments on the US-China trade tariffs. We believe the key trade problems will be confined between the US and China (regard only a small part of the two countries' GDP) and expect some de-escalation to take place over the next weeks. In fact, the S&P 500 futures rebounded this morning, mostly on Treasury Secretary Steven Mnuchin's comments, who was confident that the two super powers will be able to avert a full-blown trade war by reaching a mutual agreement on trade. At the same time, given the unprecedented nature of the ongoing trade crisis, we expect that the last week's volatility is likely to stay in the near term. In addition, we believe that if the current situation deteriorates, it will only benefit the dollar and dollar assets as the trade concerns will reduce confidence in US trading partners. As per the recent PMI indicators, we are already seeing this divergence in terms of growth with economic activity picking up in US whereas growth seems to be slowing down in Europe, China and Japan.

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

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Past week global markets' performance

Index Snapshot (World Indices)

Index	Latest	Weekly Chg %	YTD %
S&P 500	2,588.3	-6.0	-3.2
Dow Jones	23,533.2	-5.7	-4.8
Nasdaq	6,992.7	-6.5	1.3
DAX	11,886.3	-4.1	-8.0
Nikkei 225	20,617.9	-4.9	-9.4
FTSE 100	6,921.9	-3.4	-10.0
Sensex	32,596.5	-1.7	-4.3
Hang Seng	30309.3	-3.8	1.3
Regional Markets (Sunday to Thursday)			
ADX	4577.8	1.0	4.1
DFM	3149.5	-1.4	-6.5
Tadawul	7840.9	1.5	8.5
DSM	8825.7	0.3	3.5
MSM30	4800.93	-1.9	-5.9
BHSE	1333.9	-1.4	0.2
KWSE	6662.4	-1.4	4.0
MSCI			
MSCI World	2,036.6	-4.6	-3.2
MSCI EM	1,172.1	-3.4	1.2

Global Commodities, Currencies and Rates

Commodity	Latest	weekly Chg %	YTD %
ICE Brent USD/bbl	70.5	6.4	5.4
Nymex WTI USD/bbl	65.9	5.7	9.0
Gold USD/t oz	1347.3	2.5	3.4
Silver USD/t oz	16.6	1.4	-2.2
Platinum USD/t oz	948.9	-0.1	2.2
Copper USD/MT	6658.0	-3.8	-7.0
Alluminium	2036.75	-1.3	-9.8
Currencies			
EUR USD	1.2353	0.5	2.9
GBP USD	1.4132	1.4	4.6
USD JPY	104.74	-1.2	-7.6
CHF USD	0.9474	-0.5	2.8
Rates			
USD Libor 3m	2.2916	4.1	35.3
USD Libor 12m	2.6664	2.0	26.6
UAE Eibor 3m	2.2617	5.5	26.0
UAE Eibor 12m	2.8160	1.4	9.3
US 3m Bills	1.7154	-3.0	24.7
US 10yr Treasury	2.8135	-1.1	17.0

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Summary market outlook

Bonds	
Global Yields	Long-end US Treasury yield remained stable, benefitting from the safe-haven appetite. The short-end yields came under pressure as the Fed pointed at more rate hikes in 2019 and 2020 at the FOMC meeting. Overall, we expect 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 jumped higher, tracking the decline in the equity market. Volatility is unlikely to decline significantly given the backdrop of markets' fear of central bank policy normalization.
Equity Markets	
Local Equity Markets	GCC equity markets had a mixed week, though Saudi stocks outperformed over the week. We remain neutral on GCC equities given the potential for further dollar strength and range-bound oil prices. We maintain our tactical call on Saudi equities on the back of their inclusion onto the MSCI watch list for potential promotion into the MSCI Emerging Markets index.
Global Equity Markets	Global equities ended the week lower with increase in political uncertainty and trade war concerns dampening the upbeat sentiment. US stocks suffered the most as investors assessed the impact of the escalation of the trade war. Technology stocks posted large declines, led by trade uncertainty and Facebook scandal woes. In spite of the recent surge in volatility, we believe that strong economic fundamentals along with robust corporate earnings growth support the case for our overweight stance on equities.
Commodities	
Precious Metals	Gold prices rose as investors flocked to safe-haven assets. We remain overweight on gold as a risk hedge against ongoing political and (potential) inflationary risks.
Energy	Oil prices jumped higher, boosted by the weakness in dollar and EIA reports of lower than expected US crude inventories. Oil prices also reacted positively to the news of appointment of Mr John Bolton as the national security advisor (viewed as a hawk on foreign policy). We expect oil to continue trading in the broad range seen over the past 12 months. A break out at the upper end will be challenging given US production will likely act as a ceiling on oil prices.
Industrial Metals	Industrial metals remained under pressure with trade-war tensions adding concerns on global growth. Longer-term we do not recommend industrial metals exposure due to concerns around Chinese growth prospects post the Party Congress.
Currencies	
EURUSD	The euro strengthened against the dollar as the dollar weakened on trade war concerns. We expect the euro to remain range bound with a minor upward bias.
Critical levels	R2 1.2416 · R1 1.2385 · S1 1.2311 · S2 1.2269
GBPUSD	The pound appreciated versus the dollar in reaction to Brexit transition deal agreement and BoE's hawkish bias. We expect sterling to remain under pressure due to political uncertainty, economic weakness and Brexit negotiations.
Critical levels	R2 1.4216 · R1 1.4174 · S1 1.4087 · S2 1.4043
USDJPY	The yen gained versus the dollar, benefitting from the risk-off sentiment. We believe there will remain a bias for yen weakness given divergent monetary policies between Japan and the US.
Critical levels	R2 106.24 · R1 105.49 · S1 104.32 · S2 103.89

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
03/26/2018	Chicago Fed Nat Activity Index	Feb	0.15	0.12	Focus will be on GDP Annualized and Core PCE.
03/28/2018	MBA Mortgage Applications	23-Mar	--	-1.10%	
03/28/2018	Wholesale Inventories MoM	Feb P	0.50%	0.80%	
03/28/2018	GDP Annualized QoQ	4QT	2.70%	2.50%	
03/29/2018	Personal Income	Feb	0.40%	0.40%	
03/29/2018	Personal Spending	Feb	0.20%	0.20%	
03/29/2018	Core PCE YoY	Feb	1.60%	1.50%	
03/29/2018	Core PCE MoM	Feb	0.20%	0.30%	
03/29/2018	Chicago PMI	Mar	62.0	61.9	
03/29/2018	Univ. of Mich. Sentiment	Mar F	102	102	

Japan

Date	Indicator	Period	Expected	Prior	Comments
03/30/2018	Jobless Rate	Feb	2.60%	2.40%	All attention will be on Industrial production, also Housing starts will be important.
03/30/2018	Industrial Production YoY	Feb P	2.30%	2.50%	
03/30/2018	Housing Starts YoY	Feb	-4.20%	-13.20%	

Eurozone

Date	Indicator	Period	Expected	Prior	Comments
03/28/2018	Consumer Confidence	Mar F	0.1	0.1	Eurozone consumer confidence will be important.
03/29/2018	CPI YoY (GE)	Mar P	1.70%	1.40%	

United Kingdom

Date	Indicator	Period	Expected	Prior	Comments
03/28/2018	Nationwide House Px NSA YoY	Mar	2.60%	2.20%	Attention will be on UK GDP.
03/29/2018	GDP QoQ	4Q F	0.40%	0.40%	
03/29/2018	GDP YoY	4Q F	1.40%	1.40%	

China and India

Date	Indicator	Period	Expected	Prior	Comments
03/31/2018	Manufacturing PMI (CH)	Mar	-	50.3	All eyes will be on China Manufacturing PMI

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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