The Weekly Market View

March 05 2018

Trump overshadows Powell and creates some volatility

The equity market sell-off aggravated across the globe, arguably not that much because of Mr. Powell's upbeat remarks about the economy, but more as Mr. Trump decided to impose tariffs on steel and aluminium. With last week's sell-off, US markets ended February with the first monthly loss recorded since October 2016. The first trigger for the markets was Fed chair Powell's debut speech where he sounded quite optimistic on the growth outlook, fueling speculation that the Fed may hike rates more than three times this year. Adding to the market frenzy, the Trump administration towards end of last week, announced new import tariffs of 25% on steel imports and 10% of on aluminium imports. While US equities slightly recovered on Friday, markets across the globe, particularly European and Japanese markets, were the worst impacted as imposition of tariffs raised the risks of an impending global trade war. The dollar ended the week flat, reversing its early last week gains in anticipation of retaliation risks from US trade partners. Safe-haven assets including gold and US treasuries, rallied on Friday, but were mostly unchanged on a weekly basis. The yen strengthened with the BoJ Governor Kuroda pointing to the possibility of scaling back the monetary stimulus in 2019. Oil prices also declined during the week, weighed down by the pick-up in US inventories and the fear of a trade war.

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Trade war fears, US labour data, ECB/BoJ to keep markets occupied

All eyes will be on the non-farm payrolls and particularly the average wage earnings- the last print had spurred volatility in the global markets. However, in a week that typically focuses only on US labour market releases, market participants will be more occupied with possible retaliation by the US trade partners in response to the recent import tariffs. We believe that the likelihood of a full-blown trade war is unlikely as the US is still in a position to bilaterally "extort" trade concessions or at worst, its trading partners may limit their retaliations. It is also important to note that in spite of these tariffs, US still largely remains one the least protectionist countries in the world. At the same time, given the rise of populism in other parts of the world, the risk of trade war has increased. If a significant trade war would materialize, global growth would suffer and inflation in the US could pick up. Having said so, the muted movement in 10-year US treasury yields on Friday indicates that the markets are more concerned about the danger of a trade war impacting growth rather than the impact on inflation. Elsewhere, markets will be closely tracking the ECB and the BoJ meeting. With inflation surprising on the downside in Europe, the ECB may strike a less hawkish tone at the meeting. On the other hand, markets are pricing in a more hawkish BoJ bias especially after the comments from the BoJ Governor Kuroda last week.

Past week global markets' performance

Index Snapshot (World Indices)

Index	Latest	Weekly Chg %	YTD %
S&P 500	2,691.3	-2.0	0.7
Dow Jones	24,538.1	-3.0	-0.7
Nasdaq	7,257.9	-1.1	5.1
DAX	11,913.7	-4.6	-7.8
Nikkei 225	21,181.6	-3.2	-7.0
FTSE 100	7,069.9	-2.4	-8.0
Sensex	34,046.9	-0.3	-0.0
Hang Seng	30583.5	-2.2	2.2
Regional Markets (Sunday to Thursday)			
ADX	4595.0	0.3	4.5
DFM	3209.0	-3.0	-4.8
Tadawul	7411.2	-1.1	2.6
DSM	8730.1	-3.9	2.4
MSM30	5011.79	1.1	-1.7
BHSE	1373.5	0.9	3.1
KWSE	6807.9	0.8	6.2
MSCI			
MSCI World	2,089.8	-2.4	-0.6
MSCI EM	1,182.1	-2.8	2.0

Global Commodities, Currencies and Rates

Commodity	Latest	weekly Chg %	YTD %
ICE Brent USD/bbl	64.4	-4.4	-3.7
Nymex WTI USD/bbl	61.3	-3.6	1.4
Gold USD/t oz	1322.8	-0.4	1.5
Silver USD/t oz	16.5	-0.1	-2.4
Platinum USD/t oz	966.2	-3.1	4.1
Copper USD/MT	6883.0	-2.7	-3.8
Alluminium	2144.25	0.5	-5.0
Currencies			
EUR USD	1.2317	0.2	2.6
GBP USD	1.3802	-1.2	2.1
USD JPY	105.75	-1.1	-6.6
CHF USD	0.9374	0.1	3.9
Rates			
USD Libor 3m	2.0252	3.5	19.5
USD Libor 12m	2.4967	1.5	18.5
UAE Eibor 3m	2.0108	2.9	12.0
UAE Eibor 12m	2.6667	1.5	3.5
US 3m Bills	1.6387	0.0	19.1
US 10yr Treasury	2.8643	-0.1	19.1

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Summary market outlook

Bonds	
Global Yields	US treasuries were largely unchanged, in spite of more upbeat Powell testimony. 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 as markets digested the implications of new US trade tariffs.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 performed mixed during the week, yet were mostly insulated to the global market sell-off. 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 came under pressure as Powell's upbeat testimony followed with the Trump administration imposing new tariffs added to the volatility. European stocks underperformed the most with renewed trade war concerns coming in the forefront. Japanese markets were also one of the worst performers as the yen appreciated after the BoJ Governor Kuroda signalled at a possible stimulus exit in 2019. While risks of trade war may have increased, we believe that a full-blown trade war is still unlikely. In spite of the recent equity market volatility, we continue to believe that strong economic fundamentals along with robust corporate earnings growth will support global equities.
Commodities	
Precious Metals	Gold prices were mostly flat during the week. We remain overweight on gold as a risk hedge against ongoing political and (potential) inflationary risks.
Energy	Oil prices fell lower on reports of pick-up in US crude inventories. Rising concerns on possible trade war has dampened the sentiment. 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, though alluminium prices rose over the week. Longer-term we do not recommend industrial metals exposure due to concerns around Chinese growth prospects post the Party Congress.
Currencies	
EURUSD	The euro was mostly flat versus the dollar with the dollar paring its early week gains. We expect the euro to remain range bound with a minor upward bias.
Critical levels	R2 1.2429 R1 1.2373 S1 1.2224 S2 1.2131
GBPUSD	The pound fell versus the dollar. We expect sterling to remain under pressure due to political uncertainty, economic weakness and Brexit negotiations.
Critical levels	R2 1.3879 R1 1.3841 S1 1.3739 S2 1.3676
USDJPY	The yen appreciated versus the dollar on BoJ Governor's remarks on possible 2019 exit strategy. We believe there will remain a bias for yen weakness given divergent monetary policies between Japan and the US.
Critical levels	R2 107.50 R1 106.63 S1 105.07 S2 104.38

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
03/06/2018	Factory Orders	Jan	-1.30%	1.70%	Market attention will be on labour market payroll data, also PMI and goods order will be important this week
03/06/2018	Durable Goods Orders	Jan F	-3.50%	-3.70%	
03/07/2018	MBA Mortgage Applications	2-Mar	--	2.70%	
03/07/2018	Trade Balance	Jan	-$55.0b	-$53.1b	
03/08/2018	Initial Jobless Claims	3-Mar	220K	210K	
03/08/2018	Change in Nonfarm Payrolls	Feb	205K	200K	
03/09/2018	Unemployment Rate	Feb	4.00%	4.10%	
03/09/2018	Average Hourly Earnings YoY	Feb	2.80%	2.90%	
03/09/2018	Labor Force Participation Rate	Feb	62.70%	62.70%	
03/09/2018	Wholesale Inventories MoM	Jan F	0.70%	0.70%	

Japan

	Indicator	Period	Expected	Prior	Comments
03/08/2018	BoP Current Account Balance	Jan	¥368.5b	¥797.2b	All eyes will be on the BoJ MPC meeting and final 4Q GDP print.
03/08/2018	GDP SA QoQ	4Q F	0.20%	9.10%	
03/09/2018	BoJ MPC Meeting	9-Mar	No change		

Eurozone

	Indicator	Period	Expected	Prior	Comments
03/05/2018	Retail Sales YoY	Jan	2.00%	1.90%	The main focus will be on ECB MPC meeting and Eurozone CPI.
03/06/2018	CPI YoY	Feb	2.20%	2.20%	
03/06/2018	CPI Core YoY	Feb	2.00%	1.90%	
03/07/2018	GDP SA QoQ	4Q F	0.60%	0.60%	
03/08/2018	ECB MPC meeting	8-Mar	0.00%	0.00%	
03/09/2018	Trade Balance (GE)	Jan	18.1b	18.2b	
03/09/2018	PPI YoY	Jan	--	2.20%	

United Kingdom

	Indicator	Period	Expected	Prior	Comments
03/07/2018	Halifax House Prices MoM	Feb	0.40%	-0.60%	Trade balance and industrial production will be important.
03/09/2018	Trade Balance	Jan	-£3150	-£4896	
03/09/2018	Industrial Production YoY	Jan	1.80%	0.00%	

China and India

	Indicator	Period	Expected	Prior	Comments
03/07/2018	Foreign Reserves (CH)	Feb	--	--	All eyes will be in China February releases for foreign reserves, exports and CPI. In India, PMI will be important
03/08/2018	Exports YoY (CH)	Feb	10.00%	11.10%	
03/09/2018	CPI YoY (CH)	Feb	2.40%	1.50%	
03/10/2018	Aggregate Financing CNY (CH)	Feb	1000.0b	3060.0b	
03/10/2018	New Yuan Loans CNY (CH)	Feb	900.0b	2900.0b	

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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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