The Weekly Market View

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ADCB بنك أبوظبي التجاري

Stronger dollar and higher US yields impact risk markets

Global equity markets were mostly mixed last week, in spite of strong US economic data, as markets digested the jump in 10-year US treasury yields, the rise in oil prices and the dollar strength gaining momentum. Equity market performance was mainly driven by dollar appreciation. Emerging market equities were the worst hit with last week's losses pushing the year-to-date return into the negative territory. On the other hand, Japanese equities performed the best, helped by the yen depreciation. In fact, Nikkei has now reversed most of its losses and the year-to-date return has turned positive. European equities also ended the week in the positive territory, driven by euro weakness against the dollar. The FTSE also performed well, perhaps boosted by speculation about the UK government's intention to stay in EU customs union (the mere hypothesis of such a development though seems to us cause of domestic political upheaval, and thus potentially continuing uncertainty). A stronger dollar negatively impacted most of the commodities except for oil. Brent crude prices rose past the USD80/bbl for the first time in four years, mainly on concerns of reduced Iran supply after US sanctions. Higher oil prices and strong economic data drove the 10-year US Treasury yields to its highest level since 2011. However, 10-year US treasury yields ended the week lower, with late-week concerns on trade war resurfacing.

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Focus will be on FOMC minutes and europe economic surveys

After the positive retail sales report last week, the market's attention will be mainly on the FOMC minutes and the speech from Fed Chair Jay Powell. Markets will be particularly interested to see if there is any change in language, or indication of more than two rate hikes this year. We expect that the message from the Fed will be relatively dovish, reiterating its "gradual" rate hike stance. The central bank will also express its comfort in a small overshoot of inflation stressing the "symmetric" target on inflation. We believe that there could be some unwinding of the recent rate hike expectations (markets are pricing between two and three rate hikes for the remaining year). More importantly, the focus will be on the first preliminary readings of manufacturing PMIs coming out of Eurozone this week. This data will be particularly important for the euro-dollar relationship. A weaker than expected PMI release will only increase expectations of the ECB staying accommodative for longer, widening the divergence between the ECB and Fed's monetary policies, and thus leading to more dollar strength. Further upward dollar bias coupled with higher oil prices could prove more detrimental for emerging market assets, particularly fixed income. Separately, while trade war concerns may ease after Treasury Secretary Steven Mnuchin commented that the US was "putting the trade war on hold", geopolitics will still be in focus with South Korea President visiting Washington this week to discuss North Korea.

Past week global markets' performance

Index Snapshot (World Indices)

Index	Latest	Weekly Chg %	YTD %
S&P 500	2,713.0	-0.5	1.5
Dow Jones	24,715.1	-0.5	-0.0
Nasdaq	7,354.3	-0.7	6.5
DAX	13,077.7	0.6	1.2
Nikkei 225	22,930.4	0.8	0.7
FTSE 100	7,778.8	0.7	1.2
Sensex	34,848.3	-1.9	2.3
Hang Seng	31047.9	-0.2	3.8
Regional Markets (Sunday to Thursday)			
ADX	4431.7	0.2	0.8
DFM	2912.6	0.7	-13.6
Tadawul	8016.9	-0.1	10.9
DSM	8891.2	0.8	4.3
MSM30	4617.71	-1.5	-9.4
BHSE	1272.8	0.1	-4.4
KWSE	-	-	-
MSCI			
MSCI World	2,120.8	-0.5	0.8
MSCI EM	1,137.7	-2.3	-1.8

Global Commodities, Currencies and Rates

Commodity	Latest	Weekly Chg %	YTD %
ICE Brent USD/bbl	78.5	1.8	17.4
Nymex WTI USD/bbl	71.3	0.8	18.0
Gold USD/t oz	1293.0	-2.0	-0.7
Silver USD/t oz	16.4	-1.3	-2.9
Platinum USD/t oz	887.3	-3.9	-4.4
Copper USD/MT	6783.5	-1.2	-5.2
Alluminium	2280.25	0.1	1.0
Currencies			
EUR USD	1.1772	-1.4	-1.9
GBP USD	1.3469	-0.5	-0.3
USD JPY	110.78	1.3	-1.7
CHF USD	0.9980	-0.2	-2.4
Rates			
USD Libor 3m	2.3294	-0.6	37.5
USD Libor 12m	2.7648	-0.0	31.2
UAE Eibor 3m	2.5013	3.1	39.3
UAE Eibor 12m	3.1575	3.0	22.5
US 3m Bills	1.8816	-0.9	36.8
US 10yr Treasury	3.0559	2.9	27.0

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Summary market outlook

Bonds	
Global Yields	The 10-year US Treasury yields jumped to their highest level since 2011 on the back of rising oil prices and strong economic data. However, yields ended the week at 3.06%. 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 ended the week slightly higher, tracking the mixed 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 remain mixed as geopolitical risks and stronger dollar concerns outweighed the rally in oil prices. 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 a mixed week amidst higher US yields, stronger dollar and jump in oil prices. Emerging market equities underperformed the most on account of dollar strength. On the other hand, Japanese equities performed the best, driven by sizeable yen depreciation. European equities ended the week higher on euro weakness against the dollar. Overall, still strong economic fundamentals along with robust corporate earnings growth support our overweight stance on equities.
Commodities	
Precious Metals	Gold prices posted huge declines on broad dollar strength. We remain overweight on gold as a risk hedge against ongoing political and (potential) inflationary risks.
Energy	Brent crude prices traded above the USD80/bbl mark for the first time in four years, on concerns of reduced supply from Iran after US imposed sanctions. 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 and stronger dollar to act as a ceiling on oil prices.
Industrial Metals	Industrial metals underperformed, weighed by the dollar rebound. We do not recommend industrial metals exposure due to concerns around Chinese growth prospects following the Party Congress.
Currencies	
EURUSD	The euro depreciated significantly versus the dollar, partially driven by dollar strength and political uncertainty in Italy. We expect the euro to remain under pressure.
Critical levels	R2 1.1854 · R1 1.1813 · S1 1.1740 · S2 1.1709
GBPUSD	The pound ended flat versus the dollar as UK government expressed intention of staying in the EU customs union. 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 1.3557 · R1 1.3513 · S1 1.3440 · S2 1.3411
USDJPY	The yen weakened versus the dollar on account of broad dollar strength. We believe there will remain a bias for yen weakness given divergent monetary policies between Japan and the US, but see increased upside risk with the emerging markets turmoil.
Critical levels	R2 111.29 · R1 111.04 · S1 110.57 · S2 110.35

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
05/21/2018	Chicago Fed Nat Activity Index	Apr	0.48	0.1	
05/23/2018	MBA Mortgage Applications	18-May	--	-2.70%	
05/23/2018	New Home Sales	Apr	679K	694K	
05/23/2018	New Home Sales MoM	Apr	-2.20%	4.00%	
05/23/2018	FOMC Meeting Minutes	2-May	--	--	FOMC minutes will be the main focus this week
05/24/2018	Initial Jobless Claims	19-May	220K	222K	
05/24/2018	Existing Home Sales	Apr	5.55m	5.60m	
05/24/2018	Existing Home Sales MoM	Apr	-0.90%	1.10%	
05/25/2018	Durable Goods Orders	Apr P	-1.40%	2.60%	
05/25/2018	U. of Mich. Sentiment	May F	98.8	98.8	

Japan

	Indicator	Period	Expected	Prior	Comments
05/21/2018	Trade Balance	Apr	¥440.0b	¥797.3b	
05/21/2018	Exports YoY	Apr	8.70%	2.10%	
05/21/2018	Imports YoY	Apr	9.80%	-0.60%	Japan trade balance will be important.
05/23/2018	All Industry Activity Index MoM	Mar	0.10%	0.40%	
05/23/2018	Machine Tool Orders YoY	Apr F	--	22.00%	

Eurozone

	Indicator	Period	Expected	Prior	Comments
05/23/2018	Markit Manufacturing PMI	May P	56	56.2	
05/23/2018	Consumer Confidence	May A	0.5	0.4	PMI and IFO survey will be important.
05/25/2018	IFO Expectations (GE)	May	98.5	98.7	
05/27/2018	Retail Sales YoY (GE)	Apr	-	1.30%	

United Kingdom

	Indicator	Period	Expected	Prior	Comments
05/21/2018	Rightmove House Prices MoM	May	--	0.40%	
05/23/2018	CPI YoY	Apr	2.50%	2.50%	
05/23/2018	CPI Core YoY	Apr	2.20%	2.30%	All attention will be on GDP and inflation releases.
05/23/2018	RPI YoY	Apr	3.40%	3.30%	
05/24/2018	Retail Sales Ex Auto Fuel YoY	Apr	0.40%	1.10%	
05/25/2018	GDP QoQ	1Q P	0.10%	0.10%	

China and India

Indicator	Period	Expected	Prior	Comments
				No important data releases scheduled for the week.

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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