بنك أبوظبي التجاري ADCB

Mixed sentiment prevails amidst geopolitical tensions

Global equity markets were mixed for another week as markets assessed various geopolitical developments including US-China war tensions and the US-North Korea summit. The week started with the most of the US-China war tensions receding after China announced a reduction in auto imports tariffs. But risk sentiment turned negative on reports that the US was assessing the possibility of introducing auto imports. President Trump's announcement to cancel the North Korea summit also weighed on risk assets. US stocks still manage to post positive gains and as a result were the top performers last week. On the other hand, Japanese equities underperformed the most, on news of possible US auto import tariffs. In Europe, disappointing economic data along with growing political uncertainty in Italy, weighed on equity markets. The uncertainty emanating out of Italy pushed the dollar higher versus the euro and other currencies. Dovish Fed minutes and increased geopolitical tensions, on the other hand, boosted demand for safe-haven assets including gold, yen and US treasuries. The 10-year US treasury yield settled below 3%. Oil prices recorded huge declines on reports that the OPEC was considering to increase production as early as June. As a result, Brent crude and WTI crude settled the week below USD80/bbl and USD70/bbl respectively.

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

Visit Investment Strategy Webpage to read our other reports

Focus on US jobs report, Core PCE and China PMI

Even with the short-trading week ahead, the week looks jam-packed with key economic releases across the world. In the US, markets will remain focused on the US employment report for May which is likely to show an increase of 190,000 in non-farm payrolls and an increase of 2.60% yoy in average hourly earnings, in line with the previous month. More importantly, investors will be watching for the latest reading on Core PCE, the central bank's preferred measure of inflation. Markets are expecting the core PCE to have receded in May, after surging to the highs of 1.9% yoy in April. Overall, we expect the economic data coming out of US to remain strong, boosting further the dollar rally. Trade tensions will also remain in investors' mind and markets will be closely looking at any further developments between US and China. Whilst we believe that the trade related risks will not go away, they are likely to have temporarily eased as the US administrations seems to have temporarily moved from a geopolitical attitude towards China to a transactional attitude, putting aside long term concerns about China opening up to the IT and Finance sectors, and pushing rather for China's openness towards oil, agricultural and cars. Such transactional attitude might prevail until after the US-North Korea summit, or until after the Midterm elections, but the US long-term accepting concessions only in low value-added sectors is unlikely. Overall, we expect the risk appetite to recover from last week with hopes of the US-North Korea summit gaining momentum and the political situation stabilizing in Italy.

Past week global markets' performance

Index Snapshot (World Indices)

Index	Latest	Monthly Chg %	YTD %
S&P 500	2,721.3	0.3	1.8
Dow Jones	24,753.1	0.2	0.1
Nasdaq	7,433.9	1.1	7.7
DAX	12,938.0	-1.1	0.2
Nikkei 225	22,450.8	-2.1	-1.4
FTSE 100	7,730.3	-0.6	0.6
Sensex	34,924.9	0.2	2.5
Hang Seng	30588.0	-1.5	2.2
Regional Markets (Sunday to Thursday)			
ADX	4601.1	4.0	4.6
DFM	2954.5	1.2	-12.3
Tadawul	8037.8	0.2	11.2
DSM	9049.2	2.2	6.2
MSM30	4564.45	-0.6	-10.5
BHSE	1263.1	-0.3	-5.1
KWSE	4731.4	-1.4	-
MSCI			
MSCI World	2,110.8	-0.5	0.3
MSCI EM	1,136.6	-0.1	-1.9

Global Commodities, Currencies and Rates

Commodity	Latest	Monthly Chg %	YTD %
ICE Brent USD/bbl	76.4	-2.6	14.3
Nymex WTI USD/bbl	67.9	-4.8	12.3
Gold USD/t oz	1302.3	0.7	-0.0
Silver USD/t oz	16.5	0.4	-2.5
Platinum USD/t oz	901.1	1.6	-2.9
Copper USD/MT	6886.0	1.5	-3.8
Alluminium	2267.5	-0.6	0.4
Currencies			
EUR USD	1.1651	-1.0	-2.9
GBP USD	1.3309	-1.2	-1.5
USD JPY	109.41	-1.2	-3.0
CHF USD	0.9910	-0.7	-1.7
Rates			
USD Libor 3m	2.3181	-0.5	36.8
USD Libor 12m	2.7314	-1.2	29.6
UAE Eibor 3m	2.4713	-1.1	37.7
UAE Eibor 12m	3.0784	-1.7	19.4
US 3m Bills	1.8891	0.4	37.3
US 10yr Treasury	2.9313	-4.1	21.9

Please refer to the disclaimer at the end of this publication

Summary market outlook

Bonds	
Global Yields	The 10-year US Treasury bonds rallied last week and bond yields fell below 3% on dovish tone from the Fed minutes. 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. Geopolitical uncertainty in Italy pushed Italian bond spreads versus the German bunds to the widest level in almost a year. While risks may ease a bit this week, we still expect the Italian bond spreads to remain at wide levels.
Stress and Risk Indicators	The VIX index was mostly unchanged, 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 stronger dollar and slump in oil prices weighed on the markets. 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, Japanese equities underperformed the most, as reports of possible US auto tariffs and yen strength weighed on the sentiment. European equities were also lower, driven by the disappointing economic data and increased political uncertainty in Italy. Overall, we believe that strong economic fundamentals along with robust corporate earnings growth support our overweight stance on equities.
Commodities	
Precious Metals	Gold prices rallied on the back of dovish Fed minutes and increased safe-have appetite. We remain overweight on gold as a risk hedge against ongoing political and (potential) inflationary risks.
Energy	Oil prices slumped with Brent Crude and WTI crude settling below USD80/bbl and USD70/bbl mark respectively as the OPEC indicated that they may consider productions cuts in the latter half of the year. 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 were mostly mixed, weighed by the dollar strength. 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 1.1711 · R1 1.1699 · S1 1.1665 · S2 1.1642
GBPUSD	The pound sterling weakened 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 1.3346 · R1 1.3331 · S1 1.3299 · S2 1.3284
USDJPY	The yen strengthened versus the dollar driven by safe-have appetite. 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 110.05 · R1 109.91 · S1 109.55 · S2 109.32

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
05/30/2018	Wholesale Inventories MoM	Apr P	0.50%	0.30%	All eyes will be on Core PCE, ISM Manufacturing and labour market data.
05/30/2018	GDP Annualized QoQ	1Q S	2.30%	2.30%	
05/30/2018	Core PCE QoQ	1Q S	2.50%	2.50%	
05/31/2018	PCE Core YoY	Apr	1.80%	1.90%	
05/31/2018	Personal Spending	Apr	0.40%	0.40%	
05/31/2018	PCE Core MoM	Apr	0.10%	0.20%	
06/01/2018	Change in Nonfarm Payrolls	May	190k	164k	
06/01/2018	Unemployment Rate	May	3.90%	3.90%	
06/01/2018	Average Hourly Earnings YoY	May	2.60%	2.60%	
06/01/2018	Markit US Manufacturing PMI	May F	56.7	56.6	
06/01/2018	ISM Manufacturing	May	58.1	57.3	

Japan

	Indicator	Period	Expected	Prior	Comments
05/29/2018	Jobless Rate	Apr	2.50%	2.50%	PMI and Industrial production will be important.
05/30/2018	Retail Sales MoM	Apr P	0.70%	-0.60%	
05/30/2018	Consumer Confidence Index	May	43.9	43.6	
05/31/2018	Industrial Production YoY	Apr P	3.60%	2.40%	
06/01/2018	Nikkei Japan PMI Mfg	May F	-	52.5	

Eurozone

	Indicator	Period	Expected	Prior	Comments
05/30/2018	Consumer Confidence	May F	0.2	0.2	Focus will be consumer confidence and PMI.
05/31/2018	Unemployment Rate	Apr	8.4%	8.5%	
05/31/2018	CPI Core YoY	May A	1.0%	0.7%	
06/01/2018	Markit Eurozone Manufacturing PMI	May F	55.5	55.5	

United Kingdom

	Indicator	Period	Expected	Prior	Comments
05/28/2018	Nationwide House Px NSA YoY	May	3.00%	2.60%	PMI will be important.
06/01/2018	Markit UK PMI Manufacturing SA	May	53.5	53.9	

China and India

	Indicator	Period	Expected	Prior	Comments
05/31/2018	Manufacturing PMI (CH)	May	51.4	51.4	Attention will be on China PMI and India GDP.
05/31/2018	Fiscal Deficit INR Crore (IN)	Mar	-	39140	
05/31/2018	GDP Annual Estimate YoY (IN)	2018	6.70%	6.60%	
05/31/2018	GDP YoY	1Q	7.30%	7.20%	
06/01/2018	Caixin China PMI Mfg (CH)	May	51.2	51.1	
06/01/2018	Nikkei India PMI Mfg (IN)	May	-	51.6	

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

Disclaimer