بنك أبوظبي التجاري ADCB

Global equities rally, ignore geopolitical noise

Developed market equities rallied last week in spite of the noise from geopolitical tensions, with most markets moving back into the positive zone on a year-to-date basis. US equities were the best performers with the tech sector led by NASDAQ. Financial stocks rallied because of the rise in long-term US yields. The main highlight was the jump in oil prices, triggered by President Trump's announcement of the withdrawal from the Iranian nuclear deal. WTI crude rose above the USD70/bbl mark for the first time since 2014. Energy sector shares recorded gains amidst the boost in oil prices. Emerging market equities tracked the rise in global market indices and last week's flattish dollar also helped the sentiment. However, the rally in oil prices along with the recent revival in dollar did not bode well for the emerging market bonds. With strong dollar momentum putting pressure on emerging market currencies, emerging local currency bonds underperformed more than the emerging hard currency bonds. Elsewhere, safe-haven assets including gold and yen were mostly unchanged. The 10-year US treasury yields jumped past the 3% barrier on the Iran deal announcement and supply concessions ahead of new 10-year auction, but yields consolidated below 3% (at 2.97%) for the week.

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Brace for stronger dollar momentum

The week ahead is relatively light in terms of economic data releases coming out of the US. However, retail sales advance estimate and housing data will be watched closely by the markets, to check whether the upturn in the business cycle is persisting and feeding into higher consumer spending. More importantly, the focus will be on the upcoming Eurozone CPI and core CPI releases. While inflation in the US is rising steadily, continuous weakness in the Eurozone inflation is becoming a dilemma for the ECB, pushing back the possibility of ECB rate hikes. The growing divergence in recent inflation trend signals that we may continue to see differential monetary policy paths between US and Eurozone. In the currency market, the divergence in monetary policies is likely to be reflected in a stronger dollar. A stronger dollar momentum should prove unfavorable for emerging market assets, particularly emerging local currency bonds which have performed well mainly on emerging market currency strength. Separately, oil prices which tend to have a negative relationship with the dollar, are also likely to consolidate. Recently, with the Iran deal in addition to the OPEC production cuts threatening the supply outlook, the correlation between the US dollar and oil is moving towards the positive territory. However, we believe that the oil prices are now close to their maximum level and further upward momentum will be capped as dollar strength is likely to dampen demand in the commodities market. While we could see a short-term spike in oil prices to USD80/bbl, we don't see any further strength beyond this level.

Past week global markets' performance

Index Snapshot (World Indices)

Index	Latest	Weekly Chg %	YTD %
S&P 500	2,727.7	2.4	2.0
Dow Jones	24,831.2	2.3	0.5
Nasdaq	7,402.9	2.7	7.2
DAX	13,001.2	1.4	0.6
Nikkei 225	22,855.9	1.3	0.4
FTSE 100	7,724.6	2.1	0.5
Sensex	35,626.7	1.8	4.6
Hang Seng	31505.0	4.0	5.3
Regional Markets (Sunday to Thursday)			
ADX	4425.0	-2.7	0.6
DFM	2892.1	-3.0	-14.2
Tadawul	8023.0	-2.5	11.0
DSM	8816.8	-1.8	3.4
MSM30	4686.56	-0.8	-8.1
BHSE	1271.1	-0.4	-4.6
KWSE	-	-	-
MSCI			
MSCI World	2,132.0	2.0	1.4
MSCI EM	1,164.5	2.5	0.5

Global Commodities, Currencies and Rates

Commodity	Latest	Weekly Chg %	YTD %
ICE Brent USD/bbl	77.1	3.0	15.3
Nymex WTI USD/bbl	70.7	1.4	17.0
Gold USD/t oz	1319.3	0.4	1.3
Silver USD/t oz	16.7	0.8	-1.6
Platinum USD/t oz	922.9	1.2	-0.6
Copper USD/MT	6869.0	1.3	-4.0
Alluminium	2278.75	-4.0	0.9
Currencies			
EUR USD	1.1943	-0.1	-0.5
GBP USD	1.3542	0.1	0.2
USD JPY	109.39	0.2	-3.0
CHF USD	0.9998	-0.0	-2.6
Rates			
USD Libor 3m	2.3425	-1.1	38.3
USD Libor 12m	2.7658	-0.4	31.3
UAE Eibor 3m	2.4625	-1.6	37.2
UAE Eibor 12m	3.0650	-1.2	18.9
US 3m Bills	1.8995	4.1	38.1
US 10yr Treasury	2.9695	0.7	23.5

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Summary market outlook

Bonds	
Global Yields	The 10-year US Treasury yields jumped above the 3% on the back of rising oil prices and supply concessions. However, yields ended the week lower at 2.97%. 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 moved lower, tracking the rally 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 ended the week lower 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 rallied last week, ignoring the geopolitical noise. With last week's rally, global market equities moved to the positive territory on a year-to-date basis. US equities performed the best, led by technology stocks. Overall, still strong economic fundamentals along with robust corporate earnings growth support our overweight stance on equities.
Commodities	
Precious Metals	Gold prices were mostly unchanged as the dollar remained mostly flat. We remain overweight on gold as a risk hedge against ongoing political and (potential) inflationary risks.
Energy	Oil prices ended the week higher with the price of WTI crude moving above the USD70/bbl mark for the first time since 2010, on the back of US withdrawal from Iran nuclear deal. 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 remain mixed even though dollar was mostly flat. We do not recommend industrial metals exposure due to concerns around Chinese growth prospects following the Party Congress.
Currencies	
EURUSD	The euro was mostly unchanged versus the dollar. We expect the euro to remain under pressure.
Critical levels	R2 1.2011 · R1 1.1977 · S1 1.1900 · S2 1.1858
GBPUSD	The pound was flat versus the dollar in spite of the dovish BoE bias as the central bank left the rates unchanged. 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 1.3650 · R1 1.3596 · S1 1.3488 · S2 1.3433
USDJPY	The yen also remained flat versus the dollar, in line with other safe-haven assets. 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 109.79 · R1 109.59 · S1 109.17 · S2 108.96

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
05/15/2018	Retail Sales Advance MoM	Apr	0.30%	0.60%	All attention will be on US Housing Market Index, retail sales, Capacity Utilization, and MBA.
05/15/2018	NAHB Housing Market Index	May	70	69	
05/16/2018	MBA Mortgage Applications	11-May	--	-0.40%	
05/16/2018	Housing Starts	Apr	1310K	1319K	
05/16/2018	Capacity Utilization	Apr	-0.40%	1.90%	
05/16/2018	U. of Mich. Sentiment	Apr	78.40%	78.00%	
05/07/2018	Initial Jobless Claims	12-May	215K	211K	

Japan

	Indicator	Period	Expected	Prior	Comments
05/14/2018	PPI YoY	Apr	2.00%	2.10%	All eyes will be on Japan GDP and PPI.
05/14/2018	Machine Tool Orders YoY	Apr P	--	28.10%	
05/15/2018	Tertiary Industry Index MoM	Mar	-0.20%	0.00%	
05/16/2018	GDP SA QoQ	1QP	0.00%	0.40%	
05/16/2018	GDP Annualized SA QoQ	1QP	-0.10%	1.60%	
05/16/2018	Industrial Production MoM	Mar F	--	1.20%	
05/18/2018	Natl CPI YoY	Apr	0.70%	1.10%	
05/18/2018	Natl CPI Ex Fresh Food, Energy YoY	Apr	0.40%	0.50%	

Eurozone

	Indicator	Period	Expected	Prior	Comments
05/15/2018	GDP SA QoQ	1QP	0.40%	0.40%	Focus will be on ECB Current Account SA. Also, GDP and CPI will be important.
05/16/2018	CPI Core YoY	Apr F	0.70%	0.70%	
05/16/2018	CPI YoY	Apr F	1.20%	1.30%	
05/17/2018	GDP YoY	1Q A	1.50%	0.90%	
05/18/2018	PPI YoY (GE)	Apr	1.80%	1.90%	
05/18/2018	ECB Current Account SA	Mar	--	35.1b	
05/18/2018	Current Account Balance	Mar	--	839m	
05/18/2018	Industrial Production YoY	Apr	1.20%	1.00%	

United Kingdom

	Indicator	Period	Expected	Prior	Comments
05/15/2018	Claimant Count Rate	Apr	--	2.40%	All focus will be on Claimant Count Rate and Jobless Claims Change.
05/15/2018	Jobless Claims Change	Apr	--	11.6K	
05/15/2018	ILO Unemployment Rate 3Mths	Mar	4.20%	4.20%	

China and India

	Indicator	Period	Expected	Prior	Comments
05/14/2018	WPI YoY (IN)	Apr	2.90%	2.47%	All eyes will be in China retail sales and industrial production. In India WPI and CPI will be important.
05/14/2018	CPI YoY (IN)	Apr	2.42%	4.28%	
05/15/2018	Retail Sales YoY (CH)	Apr	10.00%	10.10%	
05/15/2018	Industrial Production YoY (CH)	Apr	6.40%	6.00%	
05/15/2018	Trade Balance (IN)	Apr	-$14825.0m	-$13691.8m	
05/15/2018	Exports YoY (IN)	Apr	--	-0.70%	

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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