The Weekly Market View

May 7 2018

US tech sector rebounds, strong US dollar hits emerging markets

The US tech sector staged a rebound on Friday as concerns ebbed that the strong earnings of the first quarter were in fact reflecting a late cycle peak. US labor markets continue to point to a gradual rise in wages and potentially inflation, albeit at a pace that should not force the Federal Reserve's hand. We continue to see a Federal Reserve that sticks to its moderate hiking path and bond markets remain confident that such path will be sufficient to curb inflation. The combination of a significantly expansionary fiscal policy and tightening monetary policy is, however, now triggering a stronger US dollar. We would see the Euro-USD stabilizing around 1.15, but the USD could temporarily strengthen a bit more if the momentum gains pace. The stronger US dollar provided a boost for European equities, and concern for emerging market equities. Those concerns are being compounded by continuing China tightening. Whilst we are underweight emerging equities, it must be pointed out that not all emerging markets are equally affected. Argentina, Turkey and South Africa are troublesome calls. Indonesia and India less so. Nonetheless, it needs to be pointed out that a strengthening US dollar will negatively impact the entire category and that, with varying degrees, all emerging markets are correlated to one another. This was also obvious in our regional markets, in spite of the continuing strength in the oil price.

US CPI, China data and trade concerns to be in the forefront of the news

With the week being relatively data-light, US markets might continue to overcome their fears about corporate profitability peaking. The concerns of course might once more come from the geopolitical side as we approach May 11, when the US domestic consulting period on the proposed China tariffs expires, and May 12 when the US Administration seems inclined to re-impose sanctions on Iran. May 20 could be the day that the US imposes tariffs on China. At this stage it seems more likely that negotiations will extend beyond that data. What we are likely to see is therefore continuing uncertainty about the outcome, and thus volatility, and the possibility that markets will not find an upward trend before the end of the summer. However, whilst we believe that trade concerns combined with a strengthening US dollar will be bad for emerging markets and commodity markets (with oil perhaps a bit more resilient in the near term), upside potential for advanced markets is still intact. Signs of a further slowdown in China this week could trigger more corrections in emerging markets. A stronger than expected US inflation figure could put downward pressure on US equities, but would be US dollar bullish.

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Past week global markets' performance

Index Snapshot (World Indices)			
Index	**Latest**	**Weekly Chg %**	**YTD %**
S&P 500	2,663.4	-0.2	-0.4
Dow Jones	24,262.5	-0.2	-1.8
Nasdaq	7,209.6	1.3	4.4
DAX	12,819.6	1.9	-0.8
Nikkei 225	22,472.8	0.0	-1.3
FTSE 100	7,567.1	0.9	-1.6
Sensex	34,915.4	-0.2	2.5
Hang Seng	29926.5	-1.2	0.0
Regional Markets (Sunday to Thursday)			
ADX	4556.8	-2.7	3.6
DFM	2948.0	-3.3	-12.5
Tadawul	8107.5	-1.4	12.2
DSM	8805.8	-3.7	3.3
MSM30	4725.63	-0.2	-7.3
BHSE	1263.5	0.1	-5.1
KWSE	-	-	-
MSCI			
MSCI World	2,089.4	-0.3	-0.7
MSCI EM	1,136.2	-1.7	-1.9

Global Commodities, Currencies and Rates			
Commodity	**Latest**	**Weekly Chg %**	**YTD %**
ICE Brent USD/bbl	74.9	0.3	12.0
Nymex WTI USD/bbl	69.7	2.4	15.4
Gold USD/t oz	1314.5	-0.7	0.9
Silver USD/t oz	16.5	0.1	-2.4
Platinum USD/t oz	911.7	-0.4	-1.8
Copper USD/MT	6783.0	-0.2	-5.2
Alluminium	2374	6.6	5.1
Currencies			
EUR USD	1.1960	-1.4	-0.4
GBP USD	1.3531	-1.8	0.1
USD JPY	109.12	0.1	-3.3
CHF USD	1.0000	1.2	-2.6
Rates			
USD Libor 3m	2.3691	0.5	39.8
USD Libor 12m	2.7767	-0.1	31.8
UAE Eibor 3m	2.3500	-4.9	30.9
UAE Eibor 12m	3.1231	-1.0	21.2
US 3m Bills	1.8253	1.3	32.7
US 10yr Treasury	2.9497	-0.2	22.6

Please refer to the disclaimer at the end of this publication

Summary market outlook

Bonds	
Global Yields	Long-end US Treasury yields ended the week at 2.96%. The yield curve was relatively stable as the labor market data and Fed statement did not imply a significant policy change. 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 was mostly unchanged as investors still remained a bit cautious. Volatility is unlikely to decline significantly given the backdrop of markets' fear of central bank policy normalization and geopolitical concerns.
Equity Markets	
Local Equity Markets	GCC markets were down as they were inevitably to some extent affected by the stronger US dollar and emerging markets concerns. 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 showed resilience as the week came to an end. US equities ended the week flat after posting a remarkable come-back in the tech sector on Friday. European and UK equities benefitted from the combined benefit of a stronger US dollar and continuing central bank accommodation. Japanese stocks were relatively flat. Overall, still strong economic fundamentals along with robust corporate earnings growth support our overweight stance on equities.
Commodities	
Precious Metals	Gold prices ended the week slightly lower on fears of a Fed able to curb inflation. We remain overweight on gold as a risk hedge against ongoing political and (potential) inflationary risks.
Energy	Brent crude prices were flat in spite of the stronger US dollar and concerns of possible US sanctions on Iran impacting the supply. 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 underperformed with a stronger dollar appetite. We do not recommend industrial metals exposure due to concerns around Chinese growth prospects following the Party Congress.
Currencies	
EURUSD	The euro weakened further versus the dollar as fears about the combination of US deficit spending and monetary tightening gained momentum. We expect the euro to remain under pressure.
Critical levels	R2 1.2052 · R1 1.2006 · S1 1.1913 · S2 1.1865
GBPUSD	The pound depreciated 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 1.3634 · R1 1.3583 · S1 1.3484 · S2 1.3435
USDJPY	The yen was flat against the dollar with the BoJ maintaining its dovish stance. 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 109.64 · R1 109.38 · S1 108.76 · S2 108.39

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
05/09/2018	MBA Mortgage Applications	4-May	--	-2.50%	All attention will be on US CPI
05/10/2018	CPI YoY	Apr	2.50%	2.40%	
05/10/2018	Core CPI YoY	Apr	2.20%	2.10%	
05/10/2018	Real Avg Hourly Earning YoY	Apr	-$50.0b	-$57.6b	
05/10/2018	U. of Mich. Sentiment	May P	98.3	98.8	

Japan

	Indicator	Period	Expected	Prior	Comments
05/10/2018	BoP Current Account Balance	Mar	¥2929.3b	¥2076.0b	Current account data will be important.

Eurozone

	Indicator	Period	Expected	Prior	Comments
05/08/2018	Trade Balance (GE)	Mar	22.5b	18.4b	Light week in terms of data releases.
05/10/2018	ECB Publishes Economic Bulletin				

United Kingdom

	Indicator	Period	Expected	Prior	Comments
05/08/2018	Halifax House Prices MoM	Apr	-0.20%	1.50%	All eyes will be on BoE meeting.
05/10/2018	Trade Balance	Mar	-£2000	-£965	
05/10/2018	Industrial Production YoY	Mar	3.10%	2.20%	
05/10/2018	BOE Meeting	May	No Change		

China and India

	Indicator	Period	Expected	Prior	Comments
05/07/2018	Foreign Reserves (CH)	Apr	$3131.00b	$3142.82b	All eyes will be in China CPI and Foreign Reserves. In India Industrial Production will be important.
05/08/2018	Exports YoY (CH)	Apr	7.00%	-2.70%	
05/10/2018	CPI YoY (CH)	Apr	1.90%	2.10%	
05/10/2018	Aggregate Financing CNY (CH)	Apr	1325.0b	1330.0b	
05/10/2018	New Yuan Loans CNY (CH)	Apr	1100.0b	1120.0b	
05/10/2018	Industrial Production YoY (IN)	Mar	--	7.10%	

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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