The Weekly Market View

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ADCB بنك أبوظبي التجاري

Global markets resilient, yet risks remain

Global equity markets posted gains, proving resilient in spite of the lurking trade uncertainty and geopolitical risks. US equities outperformed, mainly led by the tech sector as US 2Q GDP was revised higher while the US and Mexico made positive progress in NAFTA talks. UK equities underperformed the most as the pound strengthened on possibility of a potential soft Brexit. European equities were mostly unchanged in spite of positive Brexit comments as Italy fiscal concerns persisted. On the other hand, emerging market equities ended in the positive territory as the dollar halted its rally with some improvement in risk sentiment. However, there was no respite for the emerging market currencies which remained under pressure with renewed risks emerging from Argentina. The pause in dollar rally boosted the sentiment in the oil market and industrial metals also partially reversed their losses. US crude supply reported declines for the second consecutive week which may also have been a driver in pushing oil prices higher. Dollar weakness failed to spur a rally in gold- which ended the week almost flat. The 10-year US treasury yields rose slightly on strong economic growth and inflation readings. Nevertheless, the rise in yields were contained with the Trump administration hinting at imposing further tariffs on Chinese imports.

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Trade talks, US payroll and Global PMIs in focus

In spite of the heavy economic calendar this week, market attention will be mainly on the trade- tariff development this week. Based on media reports, US President Donald Trump is likely to formally announce his intention of imposing another round of tariffs on additional USD200bn worth of Chinese imports. With the tariffs targeted on USD50bn worth of Chinese imports already, the new round of tariffs will take the total to USD250bn, covering 50% of the total Chinese imports. Separately, US also has threatened to proceed with a bilateral agreement with Mexico, leaving out Canada. As such, further escalation of these trade tensions will only boost the greenback, implying downward pressure on the emerging market currencies. In terms of economic releases, eyes will be mainly on the US jobs employment report which could signal if the rising trade tensions have had any impact on the hiring yet. Robust payroll data- signalling a solid US economy- could drive market expectations of future Fed rate hikes, leading to stronger dollar prospects. Elsewhere, focus will also be on the PMI releases across the globe which could also reflect the impact of recent trade tensions.

Past week global markets' performance

Index Snapshot (World Indices)

Index	Latest	Weekly Chg %	YTD %
S&P 500	2,901.5	0.9	8.5
Dow Jones	25,964.8	0.7	5.0
Nasdaq	8,109.5	2.1	17.5
DAX	12,364.1	-0.2	-4.3
Nikkei 225	22,865.2	1.2	0.4
FTSE 100	7,432.4	-1.9	-3.3
Sensex	38,645.1	1.0	13.5
Hang Seng	27888.6	0.8	-6.8
Regional Markets (Sunday to Thursday)			
ADX	4986.9	1.6	13.4
DFM	2840.2	0.5	-15.7
Tadawul	7948.3	-0.4	10.0
DSM	9886.5	4.7	16.0
MSM30	4419.27	1.2	-13.3
BHSE	1338.1	-1.0	0.5
KWSE	5132.3	-1.0	-
MSCI			
MSCI World	2,175.5	0.6	3.4
MSCI EM	1,056.0	0.5	-8.8

Global Commodities, Currencies and Rates

Commodity	Latest	Weekly Chg %	YTD %
ICE Brent USD/bbl	77.6	2.1	16.1
Nymex WTI USD/bbl	69.8	1.6	15.5
Gold USD/t oz	1203.6	-0.1	-7.6
Silver USD/t oz	14.5	-1.9	-14.2
Platinum USD/t oz	787.8	-0.4	-15.1
Copper USD/MT	6019.0	0.3	-15.9
Alluminium	2109.5	1.3	-6.6
Currencies			
EUR USD	1.1602	-0.2	-3.4
GBP USD	1.2960	0.9	-4.1
USD JPY	111.03	-0.2	-1.5
CHF USD	0.9689	-1.5	0.6
Rates			
USD Libor 3m	2.3213	0.2	37.0
USD Libor 12m	2.8424	0.8	34.9
UAE Eibor 3m	2.5341	0.5	41.2
UAE Eibor 12m	3.2077	0.4	24.5
US 3m Bills	2.0938	0.4	52.2
US 10yr Treasury	2.8604	1.8	18.9

Summary market outlook

Bonds	
Global Yields	The US Treasuries rose on upward revisions to GDP release and strong inflation report. However, the rise in yield was contained on account of lurking trade tensions. Overall, we expect the 10-year yield to remain consolidated 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 rose slightly as geopolitical risks and trade concerns persisted. We believe that volatility is unlikely to remain low given the backdrop of markets' fear of central bank policy normalization and trade tensions.
Equity Markets	
Local Equity Markets	GCC markets were mostly stable with higher oil prices and pause in dollar rally helping the sentiment. We remain neutral on GCC equities given the potential for further dollar strength and range-bound oil prices, but we maintain our overweight call on Saudi equities.
Global Equity Markets	Global equities were mostly resilient in spite of the looming trade worries and geopolitical risks. US equities outperformed, led by the tech sector on positive NAFTA talks between the US and Mexico and upward revisions to US GDP print. On the other, UK equities underperformed the most due to pound strength. Emerging market equities were stable with the halt in dollar rally. Overall, we believe that the global risk reward trade-off has deteriorated with cooling growth, higher US rates and a stronger US dollar, such that we remain neutral on global equities.
Commodities	
Precious Metals	Gold prices were mostly unchanged in spite of weak dollar demand. We remain overweight on gold as a risk hedge against ongoing political and (potential) inflationary risks.
Energy	Oil prices rose higher, helped by the dollar weakness and reports of declines in US crude supply. We expect oil to continue trading in the broad range seen over the past 12 months. An enduring break-out at the upper end will be challenging given US production and stronger dollar to act as a ceiling on oil prices, but temporary break-out could occur if Iran related geopolitical tensions flare.
Industrial Metals	Industrial metals moved higher with the pause in dollar rally. We do not recommend industrial metals exposure as China reigns in demand.
Currencies	
EURUSD	The euro was mainly flat versus the dollar. We expect the euro to remain under pressure due to the diverging monetary policies between the Fed and the ECB.
Critical levels	R2 1.1731 · R1 1.1666 · S1 1.1561 · S2 1.1520
GBPUSD	The pound appreciated versus the dollar on positive comments from EU chief Brexit negotiator. 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 1.3061 · R1 1.3011 · S1 1.2928 · S2 1.2895
USDJPY	The yen was flat versus the dollar. We believe there will remain a bias for yen strength as emerging markets concerns will not abate soon.
Critical levels	R2 111.58 · R1 111.30 · S1 110.72 · S2 109.83

Note: R2, R1, S2 and S1 refer to Bloomberg calculated weekly technical resistance and support levels

Forthcoming important economic data

United States

Date	Indicator	Period	Expected	Prior	Comments
09/05/2018	MBA Mortgage Applications	31-Aug	--	-1.70%	Market attention will be on labour market payroll data.
09/05/2018	Trade Balance	Jul	-$50.0b	-$46.3b	
09/06/2018	Initial Jobless Claims	1-Sep	213K	213K	
09/06/2018	Factory Orders	Jul	-0.60%	0.70%	
09/06/2018	Durable Goods Orders	Jul F	--	-1.70%	
09/07/2018	Change in Nonfarm Payrolls	Aug	193K	157K	
09/07/2018	Unemployment Rate	Aug	3.80%	3.90%	
09/07/2018	Average Hourly Earnings YoY	Aug	2.70%	2.70%	
09/07/2018	Labor Force Participation Rate	Aug	--	62.90%	

Japan

Date	Indicator	Period	Expected	Prior	Comments
09/03/2018	Nikkei PMI Mfg	Aug F	-	52.5	PMI will be closely tracked by the market.

Eurozone

Date	Indicator	Period	Expected	Prior	Comments
09/03/2018	Markit Manufacturing PMI	Aug F	54.6	54.6	PPI, retail sales, and trade balance will be important.
09/04/018	PPI YoY	Jul	3.90%	3.60%	
09/05/2018	Retail Sales YoY	Jul	1.30%	1.20%	
09/07/2018	Trade Balance (GE)	Jul	19.5b	21.8b	

United Kingdom

Date	Indicator	Period	Expected	Prior	Comments
09/07/2018	Halifax House Prices MoM	Aug	--	1.40%	No important data releases scheduled for the week

China and India

Date	Indicator	Period	Expected	Prior	Comments
09/05/2018	BoP Current Account Balance (IN)	2Q	$17.00b	-$13.00b	All eyes will be in China August releases for foreign reserves and exports. In India, BoP Current Account Balance will be important.
09/07/2018	Foreign Reserves (CH)	Aug	$3115.00b	$3117.95b	
09/08/2018	Exports YoY (CH)	Aug	9.30%	12.20%	

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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