The Weekly Market View

April 1 2019

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Bonds and Equities give different signals

Markets abandoned growth concerns as equities posted healthy gains, together with commodities, such as industrial metals and oil. Global bond yields, however, remained under pressure, although US Treasury yields recovered a bit towards the end of the week. The appreciation of the US dollar against the euro is also an indication that on the global growth front the "all clear" signal has not yet been given. The never-ending Brexit saga was also not helpful, with the House of Commons rejecting both the alternatives for Mrs. May's withdrawal agreement and, for the third time, the withdrawal agreement itself. As for the other major political risk, trade talks between China and the US resumed, apparently with the sticking point being the same again, i.e. the possibility for the US to enforce China's respect of US intellectual property. On a positive note, there are increasing signs that growth in China is bottoming out, even if those signs appear not yet enough to convince investors of a global growth pick-up in the second half of this year. A lot of investors' concerns have to do with persistent weakness in Europe, even if China concerns are more important, in that China is more likely to have a significant impact on global growth than Europe.

Global growth concerns: we are not yet out of the woods

Towards the end of this week US labor market data will be very important to determine the outlook for markets. After last month's soft numbers, it is very reasonable to expect some improvement. This then carries the implication that if US labor data continue to be weakish risk assets might once more correct, and yields might continue their downward slide. In the earlier part of the week, markets are likely to focus on the developments in the UK House of Commons. Here we would say that the lack of uncertainty is for sure to continue. Critically markets are not pricing in that the UK might leave the EU without a deal on April 12. Whilst, a soft Brexit remains, in fact, the most realistic scenario, it is not a given one and it means that the downside for risk assets – and in particular the pound sterling – is bigger than the upside. However, whilst the risk of a hard Brexit is probably understated, it is also true that a hard Brexit is likely to have only a transitory impact on global markets. This is simply so because the contribution of Europe to global growth, not to mention the contribution of the UK, is relatively small. This is why markets will be more interested in the US-China trade talks. We reiterate our stance that short-term growth uncertainty, and thus volatility, is likely to persist for some weeks and some months. At the same time, we expect growth to pick-up as the summer advances and this will put both the Brexit issue and the China-US trade talks in perspective. At the end of the day, China stimulus and an accommodating Fed policy are more important than Brexit and trade tariffs, and markets are poised to become more constructive, and less volatile, in the latter part of the year.

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Past week global markets' performance

Index Snapshot (World Indices)

Index	Latest	Weekly Chg %	YTD %
S&P 500	2,834.4	1.2	13.1
Dow Jones	25,928.7	1.7	11.2
Nasdaq	7,729.3	1.1	16.5
DAX	11,526.0	1.4	9.2
Nikkei 225	21,205.8	-1.9	6.0
FTSE 100	7,279.2	1.0	8.2
Sensex	38,672.9	1.3	7.2
Hang Seng	29051.4	-0.2	12.4
Regional Markets (Sunday to Thursday)			
ADX	5101.0	0.1	3.8
DFM	2631.3	0.5	4.0
Tadawul	8788.8	1.6	12.3
DSM	10145.7	2.6	-1.5
MSM30	4005.56	-2.9	-7.4
BHSE	1413.6	-0.6	5.7
KWSE	5583.8	0.7	9.9
MSCI			
MSCI World	2,107.7	0.6	11.9
MSCI EM	1,058.1	-0.1	9.6

Global Commodities, Currencies and Rates

Commodity	Latest	Weekly Chg %	YTD %
ICE Brent USD/bbl	67.6	2.0	25.6
Nymex WTI USD/bbl	60.1	1.9	32.4
Gold USD/t oz	1292.4	-1.6	0.8
Silver USD/t oz	15.1	-2.0	-2.4
Platinum USD/t oz	849.5	0.3	6.8
Copper USD/MT	6485.0	1.7	8.7
Alluminium	1900.25	0.6	4.3
Currencies			
EUR USD	1.1218	-0.7	-2.0
GBP USD	1.3035	-1.3	2.3
USD JPY	110.86	0.9	1.1
CHF USD	0.9952	0.2	-1.2
Rates			
USD Libor 3m	2.5998	-0.4	-7.4
USD Libor 12m	2.7106	-2.7	-9.8
UAE Eibor 3m	2.8479	3.9	0.4
UAE Eibor 12m	3.2063	0.2	-10.3
US 3m Bills	2.3809	-2.5	1.1
US 10yr Treasury	2.4050	-1.4	-10.4

Summary market outlook

Global Yields	The US treasury yields fell indicating further risk sentiment weakness. However, we expect the 10Y US Treasury yield to remain range bound between 2.7% and 3.0%, in line with the Fed's indicated long-term neutral rate.
Stress and Risk Indicators	The VIX index remained low in absence of any economic data surprises. We believe that volatility is likely to stay elevated due to the fear of global growth slowdown and concerns around trade.
Equity Markets	
Local Equity Markets	GCC equity market performed well, tracking the rise 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 overweight call on Saudi equities. We also prefer banks in the regional context.
Global Equity Markets	Global equities ended the week in the positive territory with Japan equities underperforming. Overall, we remain neutral on equities with an overweight on US and underweight EU and EM (but with selective exposure to India, Brazil and South Africa).
Commodities	
Precious Metals	Gold prices remain under pressure. We remain overweight on gold as a risk hedge against ongoing political and (potential) inflationary risks.
Energy	Oil prices ended the week mildly up – stuck between supply positives and demand negatives. We think the oil price is likely to remain sustained as the market is roughly balanced and growth concerns appear now to be discounted.
Industrial Metals	Industrial metals performed well, with copper leading the rally. We do not recommend industrial metals exposure as China reigns in demand.
Currencies	
EURUSD	The euro continued to weaken versus the greenback. We expect the euro to remain stable with USD to lose some strength in 2019.
Critical levels	R2 1.1374 · R1 1.1296 · S1 1.1175 · S2 1.1132
GBPUSD	The pound was also under pressure as the Brexit uncertainty weighed. We expect the cable to be stable with Pound sterling likely to follow the euro rather than USD.
Critical levels	R2 1.3385 · R1 1.3210 · S1 1.2919 · S2 1.2803
USDJPY	The yen weakened against the dollar. BoJ yield curve targeting should put continuing downward pressure on the yen.
Critical levels	R2 111.75 · R1 111.30 · S1 110.06 · S2 109.27

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
04/01/2019	Retail Sales Advance MoM	Feb	0.30%	0.20%	Market attention will be on the labour market payroll data.
04/01/2019	Markit Manufacturing PMI	Mar F	52.5	52.5	
04/02/2019	Durable Goods Orders	Feb P	-1.80%	0.30%	
04/03/2019	MBA Mortgage Applications	29-Mar	--	8.90%	
04/04/2019	Initial Jobless Claims	30-Mar	216K	211K	
04/05/2019	Change in Nonfarm Payrolls	Mar	175K	20K	
04/05/2019	Unemployment Rate	Mar	3.80%	3.80%	
0405/2019	Average Hourly Earnings MoM	Mar	0.30%	0.40%	
0405/2019	Labor Force Participation Rate	Mar	--	63.20%	

Japan

	Indicator	Period	Expected	Prior	Comments
04/01/2019	Nikkei PMI Mfg	Mar F	--	48.9	Japan PMI Manufacturing will be important.

Eurozone

	Indicator	Period	Expected	Prior	Comments
04/01/2019	Markit Manufacturing PMI	Mar F	47.6	47.6	All focus will be on Eurozone PMI, PPI, and retail sales.
04/02/2019	PPI YoY	Feb	3.10%	3.00%	
04/03/2019	Retail Sales YoY	Feb	2.20%	2.20%	

United Kingdom

	Indicator	Period	Expected	Prior	Comments
04/01/2019	Markit PMI Manufacturing SA	Mar	51.2	52	House prices will be the main release.
04/05/2019	Halifax House Prices MoM	Mar	-2.80%	5.90%	

China and India

	Indicator	Period	Expected	Prior	Comments
03/31/2019	Manufacturing PMI (CH)	Mar	49.6	49.2	All eyes will be on China March releases for foreign reserves. In India, focus will be on the RBI meeting.
04/02/2019	Nikkei PMI Mfg (IN)	Mar	--	54.3	
04/04/2019	RBI MPC Meeting (IN)	4-Apr	No Change		
04/07/2019	Foreign Reserves (CH)	Mar	--	$3090.18b	

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Sources

All information in this report has been obtained from the following sources except where indicated otherwise:

1. Bloomberg
2. Wall Street Journal
3. RTT News
4. Reuters
5. Gulfbase
6. Zawya

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