

## Waiting for validation

After rising c13% year-to-date, equity market indices slowed slightly during the past week. Following a period of stellar returns that were led by perceptions about the policy-put and optimism around ongoing trade negotiations, it is perhaps reasonable to expect the markets to seek validation from the hard data. Last week however saw mixed news flow. On the negative side, IMF cut its global growth forecast for 2019 to 3.3% - the lowest since the Global financial crisis. Further, EU-US trade war escalated over disputed aviation subsidies. In China, falling imports and auto sales provided negative backdrop. However, the positive news flow was rather strong too. Brextension till October 2019 with optionality to exit earlier, provided some relief. European industrial production contracting less than expected in February came as a positive surprise. However, the biggest positive impulse came from the US where the weekly jobless claims fell to a 50-year low. Q1 2019 earnings season kicked-off on a positive note in the US – both JPMorgan Chase and Wells Fargo reported better than expected results.

Looking at the performance across assets, however, there were signs of risk-on sentiment. Equities were up along with the sovereign bond yields. The US dollar weakened against the euro and the Pound sterling but strengthened against the Japanese yen. Oil prices extended their gains further during the week – taking the year-to-date Brent crude price rise to 33%. Precious metal prices fell while the performance of the industrial metals was rather mixed.

## From 'liquidity-led' to 'fundamentals-focused'

Looking ahead, we think it is prudent to expect the markets to transition from being liquidity-led to being more fundamentals-focused. Next week, despite being short due to Easter holidays, is likely to provide the market participants with requisite information. From the US, industrial production data for March, preliminary PMI readings for April, data on housing starts, retail sales and the Philly Fed survey are likely to provide more clarity on the state of the world's largest economy. In China too, industrial production, retail sales and Q1 GDP data are likely to be closely watched. In Europe, German ZEW survey expectations release is likely to be in focus. Other than these macro data releases, the news flow is likely to be dominated by the progress on the US-China/US-Japan trade talks. Also, the possibility of escalation of the trade dispute between the EU and the US is likely to be watched closely.

From the micro-economy, Q1 2019 reporting season should provide more clarity on the picture of earnings. In the US, markets are likely to digest information regarding the fading effect of the tax cuts, impact of weaker global growth on corporate earnings and the extent of profit margin contraction (given the rising wages).

## Past week global markets' performance

### Index Snapshot (World Indices)

Index	Latest	Weekly Chg %	YTD %
S&P 500	2,907.4	0.5	16.0
Dow Jones	26,412.3	-0.0	13.2
Nasdaq	7,984.2	0.6	20.3
DAX	11,999.9	-0.1	13.6
Nikkei 225	21,870.6	0.3	9.3
FTSE 100	7,437.1	-0.1	10.5
Sensex	38,767.1	-0.2	7.5
Hang Seng	29909.8	-0.1	15.7
Regional Markets (Sunday to Thursday)			
ADX	5052.3	-0.0	2.8
DFM	2790.2	0.3	10.3
Tadaw ul	9088.0	0.9	16.1
DSM	10259.1	0.7	-0.4
MSM30	3983.79	0.3	-7.9
BHSE	1438.5	-0.1	7.6
KWSE	5742.4	-0.9	13.0
MSCI			
MSCI World	2,159.4	0.4	14.6
MSCI EM	1,089.1	0.4	12.8

### Global Commodities, Currencies and Rates

Commodity	Latest	Weekly Chg %	YTD %
ICE Brent USD/bbl	71.6	1.7	33.0
Nymex WTI USD/bbl	63.9	1.3	40.7
Gold USD/t oz	1290.4	-0.1	0.6
Silver USD/t oz	15.0	-0.9	-3.4
Platinum USD/t oz	891.3	-1.1	12.0
Copper USD/MT	6490.0	1.1	8.8
Alluminium	1844.5	-1.3	1.2
Currencies			
EUR USD	1.1299	0.7	-1.5
GBP USD	1.3074	0.3	2.5
USD JPY	112.02	0.3	2.1
CHF USD	1.0024	0.2	-2.0
Rates			
USD Libor 3m	2.6010	0.3	-7.4
USD Libor 12m	2.7484	-0.1	-8.6
UAE Eibor 3m	2.8985	1.1	2.1
UAE Eibor 12m	3.1483	-2.6	-11.9
US 3m Bills	2.4219	-0.0	2.8
US 10yr Treasury	2.5651	2.8	-4.4

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## Summary market outlook

**Global Yields** The US 10-year Treasury yields rose on improved risk-appetite. We expect the 10-year US Treasury yield to remain range bound between 2.5% and 2.8%, in line with the Fed's indicated long-term neutral rate.

**Stress and Risk Indicators** VIX declined substantially in absence of any surprises in the equity market. However, 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 markets showed mixed performance. Saudi market was the best performer, while Kuwait market underperformed the most. 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 posted marginal gains – led by the US. Chinese equities however, had their worst week for 2019. 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** Precious metal prices weakened, albeit not significantly, on the back of improved risk sentiment. We remain overweight gold as a risk hedge against ongoing political and (potential) inflationary risks.

**Energy** Oil prices rose during the week, further strengthening their year-to-date gains. 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 were mixed in spite of a weaker dollar. We do not recommend industrial metals exposure as China reigns in demand.

## Currencies

**EURUSD** The euro gained against the US dollar as risk-on sentiment prevailed. We expect the euro to remain stable with USD to lose some strength in 2019.

**Critical levels** **R2** 1.1389 **R1** 1.1344 **S1** 1.1234 **S2** 1.1169

**GBPUSD** The pound sterling appreciated against the US dollar on extension of Brexit deadline. We expect the cable to be stable with Pound sterling likely to follow the euro rather than USD.

**Critical levels** **R2** 1.3184 **R1** 1.3129 **S1** 1.3023 **S2** 1.2972

**USDJPY** The yen weakened against the dollar as demand for safe-havens declined. BoJ yield curve targeting should put continuing downward pressure on the yen.

**Critical levels** **R2** 112.90 **R1** 112.46 **S1** 111.21 **S2** 110.40

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
04/16/2019	Industrial Production MoM	Mar	0.20%	0.10%	
04/16/2019	Capacity Utilization	Mar	79.10%	78.20%	
04/16/2019	NAHB Housing Market Index	Apr	64	62	NAHB housing market, and capacity utilization will be the main releases. Also, PMI will be important.
04/17/2019	Wholesale Inventories MoM	Feb	0.30%	1.20%	
04/18/2019	Retail Sales Advance MoM	Mar	1.00%	-0.20%	
04/18/2019	Initial Jobless Claims	13-Apr	205K	196K	
04/18/2019	Markit Manufacturing PMI	Apr	52.8	52.4	
04/19/2019	Housing Starts	Mar	1230K	1162K	

### Japan

	Indicator	Period	Expected	Prior	Comments
04/16/2019	Tertiary Industry Index MoM	Feb	-0.20%	0.40%	
04/17/2019	Industrial Production MoM	Feb F	--	1.40%	Industrial production and inflation release will be closely tracked by the market.
04/19/2019	Natl CPI Ex Fresh Food YoY	Mar	0.70%	0.70%	
04/19/2019	Natl CPI Ex Fresh Food, Energy YoY	Mar	0.40%	0.40%	

### Eurozone

	Indicator	Period	Expected	Prior	Comments
04/17/2019	ECB Current Account SA	Feb	--	36.8b	
04/17/2019	CPI Core YoY	Mar F	0.80%	0.80%	
04/17/2019	CPI YoY	Mar	1.90%	1.50%	All eyes will be on Eurozone CPI.
04/18/2019	PPI YoY (GE)	Mar	2.70%	2.60%	
04/18/2019	Markit Manufacturing PMI	Apr	48.0	47.5	

### United Kingdom

	Indicator	Period	Expected	Prior	Comments
04/15/2019	Rightmove House Prices MoM	Apr	--	0.40%	
04/17/2019	CPI YoY	Mar	2.00%	1.90%	Attention will be on CPI and retail sales.
04/17/2019	CPI Core YoY	Mar	1.90%	1.80%	
04/18/2019	Retail Sales Ex Auto Fuel YoY	Mar	4.00%	3.80%	
04/18/2019	Retail Sales Inc Auto Fuel MoM	Mar	-0.30%	0.40%	

### China and India

	Indicator	Period	Expected	Prior	Comments
04/15/2019	Wholesale Prices YoY (IN)	Mar	3.23%	2.93%	All eyes will be on China March releases for industrial production, and GDP. In India WPI will be important.
04/15/2019	Exports YoY (IN)	Mar	--	2.40%	
04/17/2019	Industrial Production YoY (CH)	Mar	6.00%	--	
04/15/2019	GDP YoY (CH)	1Q	6.30%	6.40%	

## 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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