

The Weekly Market View

April 8 2019

Risk-on sentiment picks-up

Growth concerns receded further this week with upbeat economic data coming out of US and even China and optimism on a possible US-China trade deal boosted the risk-on sentiment. The week started with positive China manufacturing numbers spurring a rally in the risk assets. This was further supported by the strong print of US manufacturing and services PMI. The final leg was in the form of the much-awaited US jobs reading which only reaffirmed the strength of the US economy. US employers added 196,000 jobs in March, beating market expectation and also higher than the disappointing February numbers. Average hourly earnings, an indicator of wage gains in US, rose at slower pace by 3.2%, but remained near the post-crisis highs. With the markets receiving confirmation on the health of the economy, stock markets added gains while the safe-haven assets including the yen and the US treasuries underperformed. The biggest relief was in the form of the US long-term bond yields adjusting higher and hence reversing the "inversion" of the 10yr-3month bond spread which had sparked recession worries in the last week of March. Across the Atlantic, Brexit concerns also eased with a no-deal Brexit looking less likely and markets pricing in the possibility of a soft-Brexit. In terms of currencies, the dollar remain largely unchanged versus the euro and pound sterling, but appreciated versus the yen. Separately, improvement in global growth outlook also boosted oil prices.

Watch out for further assessment of global growth outlook

While US payrolls may have passed the test on the US economy check, market attention will now move towards the inflation releases, the Fed minutes and the consumer sentiment report. Following the jobs report, markets will be looking out for signs of strong wage gains finally having any pass through into the overall price pressures of the economy. This will be important, particularly for the bond market and will further have implications on the pricing of future rate movements by the Fed. We do not expect any major surprises in the Fed minutes, other than the central bank providing more details on their economic assessment. Sticking to US, the International Monetary fund and the World Bank are scheduled to hold the spring meetings in Washington, and will be closely watched as they provide their insights on the health of the global economy. In Europe, all eyes will be on the Brexit developments. With less than 5 days to go until the UK is due to leave the EU, lack of clarity continues to linger. UK PM May is scheduled to meet the EU leaders on Wednesday, 10th April, to request for a further extension and reveal her new Brexit plans. Of course, the extension will be dependent on the kind of offer the UK puts forward and whether the UK is successful on agreeing on "new" plans remains uncertain with the deadlock at the UK House of Parliament. A soft Brexit continues to be priced in as the most realistic scenario, yet 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. Other than Brexit, the ECB is scheduled to meet this week and will most likely provide more details on the TLTRO programme. Moving to emerging markets, China will release March reports of exports, CPI and foreign reserves. In India, the first phase of the 17th Lok Sabha elections is set to begin this week.

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Past week global markets' performance

Index Snapshot (World Indices)

Index	Latest	Weekly Chg %	YTD %
S&P 500	2,892.7	2.1	15.4
Dow Jones	26,425.0	1.9	13.3
Nasdaq	7,938.7	2.7	19.6
DAX	12,009.8	4.2	13.7
Nikkei 225	21,807.5	2.8	9.0
FTSE 100	7,446.9	2.3	10.7
Sensex	38,862.2	0.5	7.7
Hang Seng	29936.3	3.0	15.8
Regional Markets (Sunday to Thursday)			
ADX	5032.2	-0.8	2.4
DFM	2776.3	5.4	9.7
Tadaw ul	9063.9	2.8	15.8
DSM	10189.6	0.8	-1.1
MSM30	3939.54	-1.1	-8.9
BHSE	1419.3	0.4	6.1
KWSE	5731.9	2.0	12.8
MSCI			
MSCI World	2,149.8	2.0	14.1
MSCI EM	1,085.1	2.6	12.4

Global Commodities, Currencies and Rates

Commodity	Latest	Weekly Chg %	YTD %
ICE Brent USD/bbl	70.3	2.9	30.7
Nymex WTI USD/bbl	63.1	4.9	38.9
Gold USD/t oz	1291.8	-0.0	0.8
Silver USD/t oz	15.1	-0.1	-2.4
Platinum USD/t oz	901.2	6.1	13.3
Copper USD/MT	6419.0	-1.0	7.6
Alluminium	1869.25	-1.6	2.6
Currencies			
EUR USD	1.1216	-0.0	-2.1
GBP USD	1.3038	0.0	2.3
USD JPY	111.73	0.8	1.9
CHF USD	1.0003	0.5	-1.7
Rates			
USD Libor 3m	2.5921	-0.3	-7.7
USD Libor 12m	2.7511	1.5	-8.5
UAE Eibor 3m	2.9038	4.1	2.3
UAE Eibor 12m	3.3035	1.6	-7.6
US 3m Bills	2.4220	1.7	2.8
US 10yr Treasury	2.4954	3.8	-7.0

Summary market outlook

Global Yields

The US 10-year Treasury yields rose slightly 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 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 performed well last week, supported by improved global risk appetite and higher oil prices. DFM and Saudi stocks were the best performers. 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. European stocks outperformed the most while Indian equities- recorded the lowest return. 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 ended the week mostly unchanged. We remain overweight on gold as a risk hedge against ongoing political and (potential) inflationary risks.

Energy

Oil prices rose during the week, receiving boost from global growth outlook optimism. 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 largely down last week, despite strong economic data coming out of China. We do not recommend industrial metals exposure as China reigns in demand.

Currencies

EURUSD

The euro ended flat versus the greenback. We expect the euro to remain stable with USD to lose some strength in 2019.

Critical levels



GBPUSD

The pound was mostly unchanged versus the dollar. We expect the cable to be stable with Pound sterling likely to follow the euro rather than USD.

Critical levels



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



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
04/08/2019	Factory Orders	Feb	-0.50%	0.10
04/08/2019	Durable Goods Orders	Feb	-1.60%	-1.60%
04/10/2019	MBA Mortgage Applications	5-Apr	--	18.60%
04/10/2019	CPI YoY	Mar	1.80%	1.50%
04/10/2019	Real Avg Hourly Earning YoY	Mar	--	1.90%
04/10/2019	FOMC Meeting Minutes	20-Mar	--	--
04/12/2019	U. of Mich. Sentiment	Apr P	98.2	98.4

FOMC minutes, CPI and durable goods order will be the focus in the US this week.

Japan

Indicator	Period	Expected	Prior	Comments
04/08/2019	BoP Current Account Balance	Feb	¥2633.5b	¥600.4b
04/10/2019	PPI MoM	Mar	0.20%	0.20%
04/10/2019	Machine Tool Orders YoY	Mar P	--	-29.30%

All eyes will be on PPI and Machine tool orders.

Eurozone

Indicator	Period	Expected	Prior	Comments
04/10/2019	ECB MPC Meeting	10-Apr	No Change	
04/11/2019	CPI YoY	Mar F	1.30%	1.30%

ECB meeting will be the main focus.

United Kingdom

Indicator	Period	Expected	Prior	Comments
04/10/2019	Trade Balance	Feb	-£3789m	-£3825m
04/10/2019	Industrial Production YoY	Feb	-0.90%	-0.90%

Trade balance and industrial production will be important.

China and India

Indicator	Period	Expected	Prior	Comments
04/07/2019	Foreign Reserves (CH)	Mar	\$3090.00b	\$3090.18b
04/11/2019	CPI YoY (CH)	Mar	2.30%	1.50%
04/12/2019	Exports YoY (CH)	Mar	7.70%	-20.70%
04/12/2019	CPI YoY (IN)	Mar	--	2.57%
04/12/2019	Industrial Production YoY (IN)	Feb	--	1.70%

All eyes will be on China March releases for foreign reserves, CPI and exports. In India industrial production will be important.

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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