

Markets struggle to stabilise

Markets struggled for another week as fears of a global growth slowdown continued to dominate the sentiment. Positive developments on the US-China trade front failed to boost risk appetite as these were overshadowed by disappointing data coming out of China. US equities ended lower last week, moving more into the negative territory on a year-to-date basis. However, Japanese stocks underperformed the most as GDP data showed that the economy shrank by more than expected in July-September quarter. On the other hand, UK equities rose last week, outperforming other markets as Prime Minister May survived the leadership challenge by winning the vote of no confidence. European equities also ended positive for the week, mainly on dovish interpretation of the final ECB meeting of the year, even though the central bank ended its monthly asset purchases programme. The euro also weakened versus the dollar in reaction to the dovish ECB statement. Separately, emerging market equities declined further as the US dollar strengthened against the major currencies on upbeat US retail sales and industrial production data. Safe-haven assets also remain mixed in spite of the overall risk-off sentiment in the market. Gold and the yen ended flat for the week while the 10-year US treasury yields inched slightly higher. Industrial metals suffered more declines as disappointing China data weighed on the sentiment.

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Fed meeting to set the tone for 2019

Last week, we saw signs of more progress being made in US-China trade negotiations with reports of China boosting their purchases of US soybeans, which they had cut-off earlier. In spite of these positive developments, sentiment remained subdued as concerns over global growth continued to weigh, especially after reports of China exports and industrial production coming out softer than expected. While there has been increasing evidence of growth slowing down in major economies, it appears that growth in US has only moderated and rather, may have entered a soft patch. We believe that the US is still expected to grow close to 3% on the back of strong wage growth, lower oil prices and less household savings. In fact, US retail sales and industrial production, both released last week, held up well in November. In the upcoming week, all eyes will be on the final FOMC meeting for the year- which is expected to set the tone for 2019. A 25bp rate hike has been almost fully priced in and expected by the market. However, markets will be closely watching out for any dovish tilt in the Fed's forward guidance. Market expectation of 2019 rate hikes have been quite volatile in past two months and markets are now pricing in only one rate hike of 25bp in 2019. On the other hand, Bloomberg consensus indicates that only two rate hikes are likely in 2019. Elsewhere, the Bank of Japan is also scheduled to meet for the last time this year while in Europe, the focus will be on the German IFO survey.

Past week global markets' performance

Index Snapshot (World Indices)

Index	Latest	Weekly Chg %	YTD %
S&P 500	2,600.0	-1.3	-2.8
Dow Jones	24,100.5	-1.2	-2.5
Nasdaq	6,910.7	-0.8	0.1
DAX	10,865.8	0.7	-15.9
Nikkei 225	21,374.8	-1.4	-6.1
FTSE 100	6,845.2	1.0	-11.0
Sensex	35,962.9	0.8	5.6
Hang Seng	26094.8	0.1	-12.8
Regional Markets (Sunday to Thursday)			
ADX	4861.5	0.5	10.5
DFM	2599.1	1.9	-22.9
Tadaw ul	7914.3	1.0	9.5
DSM	10456.1	-1.4	22.7
MSM30	4448.11	-2.2	-12.8
BHSE	1319.3	0.1	-0.9
KWSE	5149.7	-0.7	-
MSCI			
MSCI World	1,942.5	-1.2	-7.6
MSCI EM	971.9	-1.0	-16.1

Global Commodities, Currencies and Rates

Commodity	Latest	Weekly Chg %	YTD %
ICE Brent USD/bbl	60.3	-2.3	-9.9
Nymex WTI USD/bbl	51.2	-2.7	-15.3
Gold USD/t oz	1239.0	-0.8	-4.9
Silver USD/t oz	14.6	-0.3	-13.9
Platinum USD/t oz	787.0	-0.8	-15.2
Copper USD/MT	6104.0	-1.1	-14.7
Alluminium	1908.75	-2.4	-15.5
Currencies			
EUR USD	1.1306	-0.6	-5.8
GBP USD	1.2583	-1.1	-6.9
USD JPY	113.39	0.6	0.6
CHF USD	0.9980	0.6	-2.4
Rates			
USD Libor 3m	2.8007	1.1	65.3
USD Libor 12m	3.0977	-0.1	47.0
UAE Eibor 3m	2.8425	0.1	58.4
UAE Eibor 12m	3.5242	-0.2	36.7
US 3m Bills	2.4091	1.0	75.1
US 10yr Treasury	2.8895	1.6	20.1

Summary market outlook

Global Yields

The 10-year US Treasuries yields edged slight higher on upbeat US economic data. We expect the 10-year yield will remain range bound between 3% and 3.5% as a further uptick in yields will only trigger a buying opportunity for long-duration fixed income investors.

Stress and Risk Indicators

VIX Index moved higher in line with the sell-off in equity markets. We believe that volatility is likely to remain high given the backdrop of markets' fear of central bank policy normalization and trade tensions.

Equity Markets

Local Equity Markets

GCC equity markets lacked direction as oil prices remained volatile in spite of the OPEC cuts. 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 equity markets recorded another week of heavy selling as fears of global growth slowdown offset the progress being made in US-China trade negotiations. Overall, we believe that with any upward adjustment in interest rates, we could witness more equity market corrections in the short-term. We remain neutral on global stocks and underweight on emerging stocks as the global risk reward trade-off continues to deteriorate with cooling global growth, higher US rates and a stronger US dollar.

Commodities

Precious Metals

Gold prices ended flat with the dollar gaining traction. We remain overweight on gold as a risk hedge against ongoing political and (potential) inflationary risks.

Energy

Oil prices were volatile last week, ending lower as strong dollar and weak global growth concerns weighed on the sentiment. Overall the oil price is likely to remain sustained as the market is roughly balanced, supported by OPEC 2.0. discipline and Iran related geopolitical tensions might even trigger temporary spikes.

Industrial Metals

Industrial metals came under pressure, dragged lower by disappointing China economic data. We do not recommend industrial metals exposure as China reigns in demand.

Currencies

EURUSD

The euro depreciated versus the dollar, in reaction to the dovish ECB statement. We expect the euro to remain under pressure due to the diverging monetary policies between the Fed and the ECB.

Critical levels



GBPUSD

The pound weakened with markets pricing in the possibility of a no-deal Brexit. 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



USDJPY

The yen ended flat versus the dollar. We believe there will remain a bias for yen strength as emerging markets concerns will not abate soon.

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
12/17/2018	NAHB Housing Market Index	Dec	61	60	
12/18/2018	Housing Starts	Nov	1230K	1228K	
12/18/2018	Housing Starts MoM	Nov	0.20%	1.50%	
12/19/2018	MBA Mortgage Applications	14-Dec	--	1.60%	
12/19/2018	FOMC Rate Decision	19-Dec	2.50%	2.25%	All eyes will be on the FOMC meeting this week. Focus will also be on the housing data, PMI releases and the 3Q GDP print.
12/20/2018	Initial Jobless Claims	15-Dec	219K	206K	
12/21/2018	GDP Annualized QoQ	3Q T	3.50%	3.50%	
12/21/2018	Durable Goods Orders	Nov P	1.70%	-4.30%	
12/21/2018	U. of Mich. Sentiment	Dec F	97.5	97.5	

Japan

	Indicator	Period	Expected	Prior	Comments
12/19/2018	Trade Balance	Nov	-¥630.0b	-¥449.3b	
12/20/2018	All Industry Activity Index MoM	Oct	2.00%	-0.90%	
12/20/2018	Machine Tool Orders YoY	Nov F	--	-16.80%	All eyes will be on BOJ meeting.
12/20/2018	BOJ MPC meeting	20- Dec	No change		
12/21/2018	Natl CPI YoY	Nov	0.80%	1.40%	
12/21/2018	Natl CPI Ex Fresh Food YoY	Nov	1.00%	1.00%	

Eurozone

	Indicator	Period	Expected	Prior	Comments
12/18/2018	IFO Business Climate (GE)	Dec	101.7	102	
12/18/2018	IFO Expectations (GE)	Dec	98.3	98.7	
12/18/2018	IFO Current Assessment (GE)	Dec	104.9	105.4	CPI and IFO survey will be important.
12/19/2018	CPI YoY	Nov	1.80%	2.40%	
12/20/2018	ECB Current Account SA	Oct	--	16.9b	
12/20/2018	Consumer Confidence	Dec A	-4.3	-3.9	

United Kingdom

	Indicator	Period	Expected	Prior	Comments
12/19/2018	CPI YoY	Nov	2.30%	2.40%	
12/19/2018	CPI Core YoY	Nov	1.80%	1.90%	
12/20/2018	BOE Asset Purchase Target	Dec	435b	435b	All attention will be BOE meeting.
12/21/2018	GDP QoQ	3Q F	0.60%	0.60%	
12/21/2018	GDP YoY	3Q F	1.50%	1.50%	

China and India 

Indicator	Period	Expected	Prior	Comments
				No important data releases scheduled for the week.

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
- 7.

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