The Weekly Market View

February 05 2019

Markets on a January high

Global equity markets ended the first month of 2019 on a positive note with US equities recording the highest monthly return since 2015 and the best January in almost 30 years. The tech stocks, captured by NASDAQ, have been the best performers so far this year. Last week, the main driver for the positive sentiment across all asset classes was the dovish signal by the Fed at its MPC meeting. The Fed continued to advocate its "patient" approach in raising rates with the Fed Chair Jay Powell indicating that the case for raising rates has weakened. The policymakers dropped the reference to gradual rate increases and also surprised the markets by signalling that the balance sheet reduction may no longer be on an "autopilot" mode. The latter may have boosted the sentiment given that shrinkage of Fed balance sheet has been responsible in draining out liquidity from the system. US equities were also lifted by the better-than-expected corporate earnings and strong jobs number (in spite of the partial government shutdown). But, overall, UK stocks outperformed the most last week, as the pound sterling weakened due to looming Brexit concerns. On the other hand, European equities underperformed with the DAX reporting losses, mainly driven by the underwhelming GDP numbers coming out of the Euro area- particularly Italy which recorded negative growth in 4Q18, pushing the economy into a technical recession. Gold and US treasuries also benefitted from the dovish Fed message. Similarly, oil prices edged higher, receiving an added boost from reports of declining OPEC crude exports.

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Fed listens to the market

As mentioned, one of the main catalysts for the positive sentiment has been the rising likelihood of a Fed pause post the FOMC meeting last week. While the "patient" approach in raising rates was anticipated, what surprised the markets was the central bank's intention of removing the balance sheet reduction from the "autopilot" mode. Policymakers indicated that adjustments will be made to normalise the balance sheet on the basis of the incoming macro data and changes in financial conditions. The Fed's balance sheet runoff has been mainly responsible for draining liquidity out of the system. The fact that the central bank is considering to make adjustments in running off its balance sheet has increased the likelihood that the Fed could announce an end to its quantitative tightening earlier than expected by the markets. This will have positive implications for risk assets as it will help ease the liquidity conditions. Separately, the possibility of the Fed freezing the policy for now has increased, at least in the near term and we do not expect any change in language when the Fed members including the Fed Chair Jay Powell speak this week. We believe that the case of raising rates still remains and could build possibly in the latter half of the year. Other than the Fed speeches, markets will be paying close attention on President Trump's state of the union address today, February 5th, looking out for any indications of the possibility of another government shutdown. In emerging markets, focus will be on the RBI meeting in India where the central bank is expected to keep rates unchanged but may strike a dovish tone at the meeting.

Past week global markets' performance

Index Snapshot (World Indices)

Index	Latest	Weekly Chg %	YTD %
S&P 500	2,706.5	1.6	8.0
Dow Jones	25,063.9	1.3	7.4
Nasdaq	7,263.9	1.4	9.5
DAX	11,180.7	-0.9	5.9
Nikkei 225	20,788.4	0.1	3.9
FTSE 100	7,020.2	3.1	4.3
Sensex	36,469.4	1.2	1.1
Hang Seng	27930.7	1.3	8.1
Regional Markets (Sunday to Thursday)			
ADX	5118.4	0.5	4.1
DFM	2546.0	1.1	0.6
Tadawul	8551.4	0.6	9.3
DSM	10671.0	0.5	3.6
MSM30	4147.2	0.0	-4.1
BHSE	1396.9	0.0	4.5
KWSE	5185.8	0.2	2.1
MSCI			
MSCI World	2,029.5	1.4	7.7
MSCI EM	1,050.2	1.7	8.7

Global Commodities, Currencies and Rates

Commodity	Latest	Weekly Chg %	YTD %
ICE Brent USD/bbl	62.8	1.8	16.6
Nymex WTI USD/bbl	55.3	2.9	21.7
Gold USD/t oz	1318.0	1.0	2.8
Silver USD/t oz	15.9	0.9	2.7
Platinum USD/t oz	824.2	0.7	3.6
Copper USD/MT	6097.5	3.3	2.2
Alluminium	1867.25	-2.4	2.4
Currencies			
EUR USD	1.1456	0.4	0.0
GBP USD	1.3079	-0.9	2.6
USD JPY	109.50	-0.0	-0.1
CHF USD	0.9956	0.2	-1.3
Rates			
USD Libor 3m	2.7326	-0.7	-2.7
USD Libor 12m	2.9616	-2.3	-1.5
UAE Eibor 3m	2.8963	-1.2	2.1
UAE Eibor 12m	3.3782	-2.2	-5.5
US 3m Bills	2.3860	0.5	1.3
US 10yr Treasury	2.6842	-2.7	0.0

Summary market outlook

Global Yields	The long-term US treasury yields fell as a result of dovish Fed comments. We expect the 10-year yield to remain range bound between 2.7% and 3%, in line with the Fed's indicated long-term neutral rate.
Stress and Risk Indicators	Strong economic data and risk-on sentiment saw the VIX drop during the week. However, we believe that volatility is likely to remain high given the backdrop of markets' fear of global growth slowdown and trade tensions.
Equity Markets	
Local Equity Markets	GCC equity market performed well, tracking the rise in oil prices and due to broader risk-on 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. We also prefer banks in the regional context.
Global Equity Markets	Global equities posted positive returns. Emerging market equities outperformed, albeit only marginally. Overall, we remain neutral 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 price sustained despite the risk-on sentiments. We remain overweight on gold as a risk hedge against ongoing political and (potential) inflationary risks.
Energy	Oil price gained last week on the back of OPEC+ production cuts and sanction against Venezuela. Overall 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 registered mixed performance – aluminium prices fell and copper prices rose. We do not recommend industrial metals exposure as China reigns in demand.
Currencies	
EURUSD	Euro gained slightly as dovish Fed resulted into broader dollar weakness. We expect the euro to remain under pressure due to the diverging monetary policies between the Fed and the ECB.
Critical levels	R2 1.1577 · R1 1.1517 · S1 1.1393 · S2 1.1329
GBPUSD	The British pound corrected a bit last week, after a strong rally in the previous week. 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 1.3280 · R1 1.3179 · S1 1.3011 · S2 1.2944
USDJPY	Yen was largely flat last week despite dovish Fed. We believe there will remain a bias for yen strength as emerging markets concerns will not abate soon.
Critical levels	R2 110.49 · R1 109.99 · S1 108.75 · S2 108.01

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
02/06/2019	MBA Mortgage Applications	1-Feb	--	-3.00%	Light week in terms of data releases.
02/06/2019	Trade Balance	Nov	-$54.0b	-$55.5b	
02/07/2019	Initial Jobless Claims	2-Feb	223K	253K	

Japan

	Indicator	Period	Expected	Prior	Comments
02/08/2019	BoP Current Account Balance	Dec P	¥458.5b	¥757.2b	BoP current account balance will be important.

Eurozone

	Indicator	Period	Expected	Prior	Comments
02/07/2019	ECB Publishes Economic Bulletin				Focus will be on the ECB's economic bulletin.
02/08/2019	Trade Balance	Dec	20.5b	20.4b	

United Kingdom

	Indicator	Period	Expected	Prior	Comments
02/07/2019	Halifax House Prices MoM	Jan	-0.70%	2.230%	All attention will be on BOE meeting.
02/07/2019	BOE Meeting	Feb	No Change	-	

China and India

	Indicator	Period	Expected	Prior	Comments
02/07/2019	RBI MPC Meeting (IN)	7-Feb	No Change		In India Focus will be on the RBI meeting.

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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