

## Fake risk-love during the Valentine's week

Risk assets have had a rather strong week despite mixed news flow. Infact, the news flow from across the world was largely negative, in our opinion, but was offset by some positive comments about the US-China trade deal. On the data front, US retail sales recorded their biggest drop in more than nine years in December; data for November was revised down too. The US also saw its President announce national emergency to fund his border wall; the Judiciary committee quickly called for hearing about the emergency. The developments in the political economy have also been rather concerning in the US. US Senator Marco Rubio proposed a legislation on "Made in China 2025" and also proposed a bill to tax buybacks – both in our view are not positive for equity markets. Moving to the second largest economy of the World, China, we did not find any reason to be optimistic there too. Chinese inflation data surprised on the downside and increased concern over deflationary pressures in the world's second largest economy. Also, after a record year of defaults in 2018, last week saw two big Chinese borrowers (Wintime Energy Co. and Beijing Orient Landscape & Environment Co.) missed interest payments. In Japan, GDP for 2018 softened to 0.7% from 1.9% in 2017 as external demand faded. In Europe, industrial production in EU fell 2.7% in December providing further evidence of growth weakness. In the UK, growth for 2018 came at a six year low and Prime Minister Theresa May lost another Brexit vote in the Parliament. Despite all these negative news, risk assets performed strongly. Equity markets gained with DM outperforming EM. European stocks outperformed the most. The US dollar exhibited broader strength and oil prices rose strongly nevertheless. US long-term Treasury bond yields rose as risk-on sentiment dominated.

## Unfounded optimism to be put to test

Strong performance from European equities last week was largely down to optimism around US-China trade talks. Being the most open region to trade, Europe benefits from positive developments on this front. However, on the trade truce between the US and China, we expect intensive last minute horse trading till March 1. Any deal, if made, is unlikely to be comprehensive. Perhaps, an extension of the trade-truce deadline is likely in the coming days. The markets will closely watch trade talks that will continue in Washington next week. European economic data continues to be negative. Markets will assess the preliminary PMI releases from the European economies this week. Germany IFO business climate survey will also be in focus - here economists already expect the index to register its seventh consecutive decline in February. In our equity strategy, we are underweight Europe ex UK. We continue to believe that it is too early (and risky) to position for a sustained bounce from European equities. Valuations are cheap and this we believe is due to the prevalence of risks (political, economic and external) and absence of catalysts. Elsewhere, the focus for next week will be on FOMC minutes (to be released on Wednesday) alongside the US-China trade talks which will continue in Washington next week. Also, the declaration of state of emergency by President Trump is likely to set in motion a series of legal battles and markets should pay attention to this.

## Past week global markets' performance

### Index Snapshot (World Indices)

Index	Latest	Weekly Chg %	YTD %
S&P 500	2,775.6	2.5	10.7
Dow Jones	25,883.3	3.1	11.0
Nasdaq	7,472.4	2.4	12.6
DAX	11,299.8	3.6	7.0
Nikkei 225	20,900.6	2.8	4.4
FTSE 100	7,236.7	2.3	7.6
Sensex	35,809.0	-2.0	-0.7
Hang Seng	27900.8	-0.2	8.0
Regional Markets (Sunday to Thursday)			
ADX	5036.4	-0.9	2.5
DFM	2533.6	0.2	0.2
Tadaw ul	8626.3	0.6	10.2
DSM	9941.5	-4.8	-3.5
MSM30	4109.34	-1.2	-5.0
BHSE	1372.0	-2.7	2.6
KWSE	5197.4	-0.1	2.3
MSCI			
MSCI World	2,066.6	2.3	9.7
MSCI EM	1,030.6	-0.5	6.7

### Global Commodities, Currencies and Rates

Commodity	Latest	Weekly Chg %	YTD %
ICE Brent USD/bbl	66.3	6.7	23.1
Nymex WTI USD/bbl	55.6	5.4	22.4
Gold USD/t oz	1322.5	0.6	3.2
Silver USD/t oz	15.8	-0.2	1.9
Platinum USD/t oz	807.8	0.9	1.6
Copper USD/MT	6190.0	-0.3	3.8
Alluminium	1825.75	-2.0	0.2
Currencies			
EUR USD	1.1296	-0.2	-1.4
GBP USD	1.2889	-0.4	1.1
USD JPY	110.47	0.7	0.7
CHF USD	1.0052	0.5	-2.2
Rates			
USD Libor 3m	2.6829	-0.6	-4.4
USD Libor 12m	2.9060	-1.0	-3.3
UAE Eibor 3m	2.8378	-0.5	0.0
UAE Eibor 12m	3.5515	-1.3	-0.6
US 3m Bills	2.4192	0.3	2.7
US 10yr Treasury	2.6626	1.1	-0.8

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## Summary market outlook

Global Yields	US 10-year Treasury yields rose slightly on improved risk-appetite. We expect the 10-year US Treasury yield to remain range bound between 2.7% and 3%, in line with the Fed's indicated long-term neutral rate.
Stress and Risk Indicators	VIX remained low on risk-on sentiment which we think was unfounded. We believe that volatility is likely to be high given the backdrop of markets' fear of global growth slowdown and trade tensions.

## Equity Markets

Local Equity Markets	GCC equity markets were mixed in spite of the increase in oil prices. Saudi stocks continued to do well while DFM showed signs of resilience. Qatari equities underperformed strongly. 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 recorded gains with developed markets outperforming the emerging world. European equities outperformed on the unfounded optimism last week. 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 prices, along with the prices of other precious metals, were largely flat last week. We remain overweight on gold as a risk hedge against ongoing political and (potential) inflationary risks.
Energy	Oil prices were strongly up last week on the hopes of US-China trade talks and production cuts. 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 were largely down last week. We do not recommend industrial metals exposure as China reigns in demand.

## Currencies

EURUSD	The euro weakened against the dollar. We expect the euro to remain under pressure due to the diverging monetary policies between the Fed and the ECB.			
Critical levels	<b>R2</b> 1.1399	<b>R1</b> 1.1347	<b>S1</b> 1.1239	<b>S2</b> 1.1183
GBPUSD	The pound fell versus the dollar. 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	<b>R2</b> 1.3058	<b>R1</b> 1.2974	<b>S1</b> 1.2789	<b>S2</b> 1.2688
USDJPY	The Japanese yen weakened against the dollar amidst the risk-on environment. We believe there will remain a bias for yen strength as emerging markets concerns will not abate soon.			
Critical levels	<b>R2</b> 111.87	<b>R1</b> 111.17	<b>S1</b> 109.73	<b>S2</b> 108.99

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
02/19/2019	NAHB Housing Market Index	Feb	59	58	
02/20/2019	MBA Mortgage Applications	15-Feb	--	-3.70%	
02/20/2019	FOMC Meeting Minutes	30-Jan	--	--	All eyes will be on the FOMC minutes this week. Focus will also be on the housing data.
02/21/2019	Initial Jobless Claims	16-Feb	230K	239K	
02/21/2019	Durable Goods Orders	Dec P	1.80%	0.70%	
02/21/2019	Existing Home Sales MoM	Jan	0.20%	-6.40%	

### Japan

	Indicator	Period	Expected	Prior	Comments
02/20/2019	Trade Balance	Jan	-¥1029.5b	-¥55.3b	
02/20/2019	Exports YoY	Jan	-5.70%	-3.80%	
02/21/2019	Nikkei Japan PMI Mfg	Feb P	--	50.3	
02/21/2019	All Industry Activity Index MoM	Dec	-0.20%	-0.30%	PMI data and inflation releases will be important.
02/21/2019	Machine Tool Orders YoY	Jan F	--	-18.80%	
02/22/2019	Natl CPI YoY	Jan	0.20%	0.30%	
02/22/2019	Natl CPI Ex Fresh Food, Energy YoY	Jan	0.40%	0.30%	

### Eurozone

	Indicator	Period	Expected	Prior	Comments
02/19/2019	ECB Current Account SA	Dec	--	20.3b	
02/21/2019	Markit Manufacturing PMI	Feb P	50.3	50.5	PMI data and German IFO survey will be important.
02/22/2019	GDP SA QoQ	4Q F	0.00%	0.00%	
02/22/2019	IFO Expectations (GE)	Feb	94.2	94.2	

### United Kingdom

	Indicator	Period	Expected	Prior	Comments
02/18/2019	Rightmove House Prices MoM	Feb	--	0.40%	Light week in terms of data releases.
02/19/2019	ILO Unemployment Rate 3Mths	Dec	4.00%	4.00%	

### China and India

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



## Sources

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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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