The Weekly Market View

February 25 2019

Fed and China boost risk appetite

Risk sentiment was boosted by the dovish Fed minutes, improved hopes of US-China trade talk progress and an unexpected increase in China credit impulse. The US-China trade setting showed signs of progress with President Trump pointing to his willingness in extending the March 1 deadline for negotiations. Trade optimism was reflected across all risk assets across the globe. China trade centric markets- Emerging equities, European stocks and the US Dow Jones index positively reacted to the positive hopes of trade talks. In fact, Dow Jones posted its best weekly gain in almost 25 years. Reports of increase in China credit growth in January was also an added boost for the European and emerging market stocks. Finally, the Fed minutes of the January FOMC meeting clarified the central bank's intention of a patient approach in raising rates, but more importantly further raised the possibility of an early end of the balance sheet reduction, thus supporting the overall risk sentiment. US treasury yields moved lower across the curve in reaction to the minutes while other safe-havens including gold and yen were mostly unchanged. In terms of currencies, the major move was seen in the pound sterling which surged higher on speculations that the UK parliament will pre-empt a "no deal" scenario. The dollar was mostly flat versus other currencies. Elsewhere, industrial metals gained on trade optimism while oil prices also edged higher last week.

Economic activity to take centre stage

The de-escalation of trade tensions after the US government signalled the extension of the March 1 deadline for imposition of tariffs should provide an impetus to further support the rally in global equities. However, we believe that more than the trade story, the larger boost for risk assets came from reports of a surprise jump in China credit growth for the month of January. While the China credit boost should prove favourable for the global markets in general, it is important to wait and watch whether the pick-up in credit growth is further confirmed by future data points. As such, any expansion in China stimulus typically will take at least six to nine months to feed into the domestic economic activity. While we could witness short-term rallies in Chinese equities and hence emerging market stocks, we still expect that the US equities will continue to outperform as US corporate earnings are likely to disappoint less while the backdrop of strong US growth remains on account of continuous increase in labour market earnings.

In the upcoming week, markets will be looking out further details on the possibility of a trade deal between US and China. Towards the latter half of the week, the focus will shift towards the economic releases in US and China. Market attention will be on the advance estimate of 4Q18 US GDP release which is expected to show that the economy may be grew at a slower pace compared to the third quarter of 2018. Core CPI, the Fed's key gauge of price pressures in the economy, will also be closely watched by the market. Focus will also be on the Fed as Chairman Jerome Powell will present his view on economic outlook when he testifies in the House of Representatives and the Senate this week. In China, Caixin PMI Manufacturing is expected to come below 50- pointing to a possible contraction in January.

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Past week global markets' performance

Index Snapshot (World Indices)

Index	Latest	Weekly Chg %	YTD %
S&P 500	2,792.7	0.6	11.4
Dow Jones	26,031.8	0.6	11.6
Nasdaq	7,527.5	0.7	13.4
DAX	11,457.7	1.4	8.5
Nikkei 225	21,425.5	2.5	7.0
FTSE 100	7,178.6	-0.8	6.7
Sensex	35,871.5	0.2	-0.5
Hang Seng	28816.3	3.3	11.5
Regional Markets (Sunday to Thursday)			
ADX	5098.1	0.6	3.7
DFM	2633.7	3.3	4.1
Tadawul	8547.5	-0.5	9.2
DSM	10191.5	1.8	-1.0
MSM30	4055.57	-0.5	-6.2
BHSE	1404.8	1.7	5.1
KWSE	5251.1	1.2	3.4
MSCI			
MSCI World	2,087.0	1.0	10.8
MSCI EM	1,058.7	2.7	9.6

Global Commodities, Currencies and Rates

Commodity	Latest	Weekly Chg %	YTD %
ICE Brent USD/bbl	67.1	1.3	24.8
Nymex WTI USD/bbl	57.3	3.0	26.1
Gold USD/t oz	1329.4	0.5	3.7
Silver USD/t oz	15.9	0.9	2.8
Platinum USD/t oz	842.9	4.3	6.0
Copper USD/MT	6489.0	4.8	8.8
Alluminium	1897.5	3.9	4.1
Currencies			
EUR USD	1.1335	0.3	-1.0
GBP USD	1.3053	1.3	2.4
USD JPY	110.69	0.2	0.9
CHF USD	1.0004	-0.5	-1.8
Rates			
USD Libor 3m	2.6463	-1.4	-5.7
USD Libor 12m	2.8916	-0.5	-3.8
UAE Eibor 3m	2.8678	-1.1	1.1
UAE Eibor 12m	3.3274	-2.9	-6.9
US 3m Bills	2.4424	1.0	3.7
US 10yr Treasury	2.6518	-0.4	-1.2

Summary market outlook

Global Yields	US treasury yields declined across the curve in reaction to dovish Fed minutes. 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 in absence of any surprises, and positive move in the equity market. However, we believe that volatility is likely to surge given the backdrop of markets' fear of global growth slowdown and trade tensions.
Equity Markets	
Local Equity Markets	GCC equity markets performed well last week. DFM stocks were the best performers last week, while Saudi stocks are outperforming on year- to- date basis. 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 with the exception of UK equities- the only underperformers 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 continued its upward trend, boosted by US-China trade optimism. 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 gained significantly on US-China trade truce. We do not recommend industrial metals exposure as China reigns in demand.
Currencies	
EURUSD	The euro ended mostly flat versus the dollar. We expect the euro to remain under pressure due to the diverging monetary policies between the Fed and the ECB.
Critical levels	R2 1.1422 · R1 1.1379 · S1 1.1284 · S2 1.1232
GBPUSD	The pound sterling gained as risk of a "no-deal" Brexit faded. 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 1.3235 · R1 1.3144 · S1 1.2927 · S2 1.2801
USDJPY	The yen was mostly unchanged versus the greenback. We believe there will remain a bias for yen strength as emerging markets concerns will not abate soon.
Critical levels	R2 111.24 · R1 110.96 · S1 110.40 · S2 110.12

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
02/25/2019	Chicago Fed Nat Activity Index	Jan	0.15	0.27	GDP and Core PCE will be closely watched.
02/25/2019	Wholesale Inventories MoM	Dec P	0.30%	0.30%	
02/26/2019	Housing Starts	Dec	1253K	1256K	
02/27/2019	MBA Mortgage Applications	22-Feb	--	3.60%	
02/27/2019	Factory Orders	Dec	0.60%	-0.60%	
02/27/2019	Durable Goods Orders	Dec F	--	1.20%	
02/28/2019	Initial Jobless Claims	23-Feb	222K	216K	
02/28/2019	GDP Annualized QoQ	4Q A	2.40%	3.40%	
03/01/2019	PCE Core YoY	Dec	1.90%	1.90%	
03/01/2019	Markit Manufacturing PMI	Feb F	53.7	53.7	

Japan

	Indicator	Period	Expected	Prior	Comments
02/28/2019	Industrial Production MoM	Jan P	-2.50%	-0.10%	Industrial production and PMI will be the main releases this week.
03/01/2019	Jobless Rate	Jan	2.40%	2.40%	
03/01/2019	Tokyo CPI Ex-Fresh Food YoY	Feb	1.00%	1.10%	
03/01/2019	Nikkei PMI Mfg	Feb F	--	48.5	

Eurozone

	Indicator	Period	Expected	Prior	Comments
02/27/2019	Consumer Confidence	Feb F	-7.4	-7.4	All attention will be on Eurozone PMI, and CPI will be important.
02/28/2019	CPI YoY (GE)	Feb P	1.50%	1.40%	
03/01/2019	Markit Manufacturing PMI	Feb F	49.2	49.2	

United Kingdom

	Indicator	Period	Expected	Prior	Comments
02/28/2019	Nationwide House PX MoM	Feb	-0.10%	0.30%	UK markit PMI Mfg will be important.
03/01/2019	Markit PMI Manufacturing SA	Feb	52	52.8	

China and India

	Indicator	Period	Expected	Prior	Comments
02/28/2019	Non-manufacturing PMI (CH)	Feb	54.5	54.7	Focus will be on China and India PMI Mfg.
02/28/2019	Manufacturing PMI (CH)	Feb	49.5	49.5	
03/01/2019	Caixin PMI Mfg (CH)	Feb	48.7	48.3	
03/01/2019	Nikkei PMI Mfg (IN)	Feb	--	53.9	

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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