

## All's well that ends well

We wish all our readers a very happy Gregorian new year! A new year came with new promises but some old problems persist. To this end, the markets welcomed 2019 on a rather cautious note but eventually ended the week higher as the risk appetite recovered. December manufacturing PMI data released last week painted weakening global growth and the investors saw that through additional lenses of the ongoing Government shutdown in the US, concerns of tighter monetary policies and Apple lowering its revenue forecasts. On the PMI side, most notable developments were from the US where the ISM manufacturing survey for December dropped the most since October 2008, and from China where both Caixin and official PMI measures for manufacturing registered a contraction. On back of this, risk-off sentiment prevailed till the point US non-farm payroll data surprised the markets on the upside. Jobs data for the US during December pointed not only to strong growth in payroll numbers but also an acceleration, albeit mild, in the average hourly earnings. This positive end to the week was also helped by strong services PMI in both the US and China. Also, the RRR cut from the PBoC and the indication of a 'patient and flexible' approach by Fed Chair added further to the risk-on sentiment. Although the markets did not have one direction through the week, most major equity benchmarks ended higher with the exception of Japan (because of the stronger yen) and India (because of the strong rise in crude oil). Long-term UST yields fell as the asset class benefitted from its safe haven appeal but it is worthwhile to note a strong divergence of yields between 3month segment and 10year segments.

## Keep an eye on China-US trade talks and Fed minutes

Markets are likely to scrutinise the data releases thoroughly over the next week. However, dominant news flow is likely to emerge from the potential trade talks between US and China (7-8 January). Worth noting that this is a vice-ministerial level talk and any developments from here must be treated only as a starting point for more constructive developments in the ongoing trade dispute between the US and China. The US Fed minutes release scheduled for Wednesday 9 January is also likely to influence the headline-driven sentiment. With the Brexit vote in the UK parliament nearing, the news flow there is also likely to drive sentiment. Elsewhere, inflation and industrial production data releases in major economies are also worth keeping a watch on. On the corporate side, with the earnings season to begin soon, equity investors are likely to read financial statements alongside the macro economic data releases. From an investment strategy view point, we stick with our neutral stance on equities and alternatives and our underweight on fixed income. Whilst in the short term, market volatility is likely to persist, we think global growth is likely to see a pick-up in the latter half of 2019 on the back of a strength in US economy (see our [Quarterly Investment View, January 2019](#)).

## Past week global markets' performance

### Index Snapshot (World Indices)

Index	Latest	Weekly Chg %	YTD %
S&P 500	2,531.9	1.9	1.0
Dow Jones	23,433.2	1.6	0.5
Nasdaq	6,738.9	2.3	1.6
DAX	10,767.7	2.0	2.0
Nikkei 225	19,562.0	-2.3	-2.3
FTSE 100	6,837.4	1.5	1.6
Sensex	35,695.1	-1.1	-1.0
Hang Seng	25626.0	0.5	-0.8
Regional Markets (Sunday to Thursday)			
ADX	4898.2	1.6	-0.3
DFM	2526.0	2.2	-0.1
Tadaw ul	7830.5	0.3	0.0
DSM	10350.4	0.6	0.5
MSM30	4275.62	-1.5	-1.1
BHSE	1325.8	-0.5	-0.9
KWSE	5138.9	1.3	-
MSCI			
MSCI World	1,904.2	1.8	1.1
MSCI EM	965.0	0.2	-0.1

### Global Commodities, Currencies and Rates

Commodity	Latest	Weekly Chg %	YTD %
ICE Brent USD/bbl	57.1	9.3	6.1
Nymex WTI USD/bbl	48.0	5.8	5.6
Gold USD/t oz	1286.1	0.6	0.3
Silver USD/t oz	15.7	2.0	1.4
Platinum USD/t oz	822.7	4.1	3.5
Copper USD/MT	5840.0	-3.0	-2.1
Alluminium	1850.25	1.6	1.5
Currencies			
EUR USD	1.1395	-0.4	-0.5
GBP USD	1.2723	0.2	-0.2
USD JPY	108.51	-1.6	-1.1
CHF USD	0.9876	0.3	-0.5
Rates			
USD Libor 3m	2.8039	0.2	-0.1
USD Libor 12m	2.9649	-1.6	-1.3
UAE Eibor 3m	2.9325	-0.0	3.3
UAE Eibor 12m	3.5234	-0.3	-1.4
US 3m Bills	2.4065	1.5	2.2
US 10yr Treasury	2.6677	-1.9	-0.6

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## Summary market outlook

### Global Yields

The 10-year US Treasuries rallied in the first week of 2019, mainly on account of increased safe-haven demand. We expect the 10-year yield will remain range bound between 2.7% and 3%, in line with the Fed's indicated long-term neutral rate.

### Stress and Risk Indicators

VIX Index came down with the soothing of equity markets. We believe that volatility is likely to remain high given the backdrop of markets' fear of a US slowdown and trade tensions.

## Equity Markets

### Local Equity Markets

GCC equity markets gained over the past week thanks to improvement in global risk sentiment and rebound in crude prices. 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

Volatility dominated the equity landscape over the course of last week as investors digested various economic data that fluctuated between negative and positive. However, most major equity markets ended the week higher as the risk-on sentiment improved towards the end of the week. We remain neutral equities with an overweight US and underweight EU and EM (but with selective exposure to India, Brazil and South Africa).

## 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 surged last week, ending higher as global growth concerns subsided somewhat. 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

The picture for industrial metals was more mixed, with copper losing terrain once more. We do not recommend industrial metals exposure as China reigns in demand.

## Currencies

### EURUSD

The euro depreciated versus the dollar, with weak manufacturing data in Europe. 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 sterling was flat. 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 strengthened 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
01/08/2019	Trade Balance	Nov	-\$54.0b	-\$55.5b	
01/08/2019	New Home Sales	Nov	568K	544K	
01/08/2019	New Home Sales MoM	Nov	4.50%	-8.90%	
01/08/2019	Factory Orders	Nov	0.30%	-2.10%	
01/08/2019	Durable Goods Orders	Nov F	--	0.80%	
01/09/2019	MBA Mortgage Applications	4- Jan	--	-8.50%	All eyes will be on the FOMC minutes this week. Focus will also be on the housing data.
01/09/2019	FOMC Meeting Minutes	19- Dec	--	--	
01/10/2019	Initial Jobless Claims	5- Jan	225K	231K	
01/10/2019	Wholesale Inventories MoM	Nov F	0.50%	--	
01/10/2019	CPI YoY	Dec	1.90%	2.20%	
01/11/2019	Real Avg Hourly Earning YoY	Dec	--	0.80%	

### Japan

	Indicator	Period	Expected	Prior	Comments
01/11/2019	BoP Current Account Balance	Nov P	-¥560.2b	-¥1309.9b	All eyes will be on BoP Current Account Balance.

### Eurozone

	Indicator	Period	Expected	Prior	Comments
01/07/2019	Retail Sales YoY	Nov	0.40%	1.70%	Retail sales and trade balance will be important.
01/08/2019	Consumer Confidence	Dec F	-6.2	-6.2	
01/09/2019	Trade Balance (GE)	Nov	18.6b	18.3b	

### United Kingdom

	Indicator	Period	Expected	Prior	Comments
01/08/2019	Halifax House Prices MoM	Dec	0.50%	-1.40%	Trade Balance and industrial production will be important.
01/11/2019	Trade Balance	Nov	-£2800m	-£3300m	
01/11/2019	Industrial Production YoY	Nov	-0.70%	-0.80%	

### China and India

	Indicator	Period	Expected	Prior	Comments
01/07/2019	Foreign Reserves (CH)	Dec	\$3071.85b	\$3061.70b	All eyes will be on China November releases for foreign reserves, PPI and CPI. In India industrial production will be important.
01/10/2019	CPI YoY (CH)	Dec	2.10%	2.20%	
01/10/2019	PPI YoY (CH)	Dec	1.60%	2.70%	
01/11/2019	Industrial Production YoY (IN)	Nov	--	8.10%	



## 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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