

## A risk-on week

Risk assets gained with equities posting positive returns for the third consecutive week. Risk-on sentiment prevailed on the backdrop of already bearish investor base. Progress on the US-China trade talks, fairly dovish minutes of the Fed meeting reinforced by less-hawkish comments from the Fed Chair have helped in the rally of risk assets. The partial federal government shutdown in the US - despite being the longest in the history - had a limited impact on financial markets so far. Although a range of sentiment indicators from EU disappointed, the equity markets there held up relatively well, but underperformed the rest of the world. Japanese stocks rebounded strongly with Nikkei 225 registering gains of 4.1% during the week. Indian equity performance was impeded by strengthening oil prices and also earnings disappointments from the IT sector there. Staying with India, the industrial production data there for November dropped rapidly and the manufacturing output shrunk on a sequential basis for the first time in many months. Separately, crude oil prices rebounded strongly during the week while precious metals lost some shine. The greenback weakened against major currencies on dovish Fed outlook. The 10-year US Treasury yields rose, albeit only marginally as the optimism from US-China trade talks progress was offset by the dovish Fed comments. Elsewhere, regional equity markets also performed well, boosted by the rise in crude oil prices.

## Earnings in focus

Whilst some of the US data releases might not come through due to the partial shutdown of the Federal Government there, markets will have enough of material to digest this week. In Europe, Eurozone industrial production, trade balance, UK CPI and retail sales data are worth watching. In Asia, inflation releases from India and machine tool orders from Japan are the major releases for the week. Uncertainty related to Brexit, with the parliamentary vote scheduled and the possibility of delaying Brexit being talked about, is likely to dominate the news flow. The possibility of Mrs. May's deal being rejected is very high, in our view. That should in turn lead to more volatility in the Pound Sterling.

However, markets are likely to watch the earnings season very closely - especially with major US banks reporting through the week. In the context of some major companies issuing profit warnings, market participants are likely to read financial statements to assess the impact of trade war, slowing global growth, cost cutting initiatives and US government shut down (although not major). In our view, earnings estimates for Q4 2018 are flying low (14.7% yoy) after massive cuts to estimates from analysts and lowering of guidance from corporates. Hence, we see limited downside from earnings disappointments, if any, this season. Recent correction has resulted in improved valuations.

## Past week global markets' performance

### Index Snapshot (World Indices)

Index	Latest	Weekly Chg %	YTD %
S&P 500	2,596.3	2.5	3.6
Dow Jones	23,996.0	2.4	2.9
Nasdaq	6,971.5	3.5	5.1
DAX	10,887.5	1.1	3.1
Nikkei 225	20,359.7	4.1	1.7
FTSE 100	6,918.2	1.2	2.8
Sensex	36,009.8	0.9	-0.2
Hang Seng	26667.3	4.1	3.2
Regional Markets (Sunday to Thursday)			
ADX	4962.4	1.2	1.0
DFM	2545.7	0.6	0.6
Tadaw ul	8210.2	3.5	4.9
DSM	10658.2	3.0	3.5
MSM30	4310.56	0.2	-0.3
BHSE	1341.7	0.8	0.3
KWSE	5218.7	1.2	-
MSCI			
MSCI World	1,957.2	2.8	3.9
MSCI EM	1,001.1	3.7	3.7

### Global Commodities, Currencies and Rates

Commodity	Latest	Weekly Chg %	YTD %
ICE Brent USD/bbl	60.5	6.0	12.4
Nymex WTI USD/bbl	51.6	7.6	13.6
Gold USD/t oz	1290.3	0.3	0.7
Silver USD/t oz	15.6	-0.6	0.7
Platinum USD/t oz	810.2	-1.5	1.9
Copper USD/MT	5926.5	1.5	-0.6
Alluminium	1813.5	-2.0	-0.5
Currencies			
EUR USD	1.1469	0.6	0.1
GBP USD	1.2844	1.0	0.8
USD JPY	108.48	-0.0	-1.1
CHF USD	0.9835	-0.4	-0.1
Rates			
USD Libor 3m	2.7873	-0.6	-0.7
USD Libor 12m	3.0187	1.8	0.4
UAE Eibor 3m	2.9038	2.4	2.3
UAE Eibor 12m	3.4835	1.8	-2.5
US 3m Bills	2.4142	0.3	2.5
US 10yr Treasury	2.7007	1.2	0.6

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## Summary market outlook

### Global Yields

The 10-year US Treasury yields rose slightly, mainly due to progress made on US-China trade talks. However, the upside in yields was limited with the backdrop of dovish Fed bias. 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 global growth slowdown and trade tensions.

## Equity Markets

### Local Equity Markets

GCC equity markets rallied last week, driven by the rebound in crude oil 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

Global equity markets ended the week in the positive territory, helped by the marginal progress on US-China trade talks and slightly dovish Fed outlook. Japanese equities, followed with emerging market equities outperformed the most. US equities also rallied, shrugging off the partial US government shutdown. 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 were mostly unchanged in spite of visible dollar weakness. 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

Industrial metals ended the week mixed, with aluminium underperforming the most. We do not recommend industrial metals exposure as China reigns in demand.

## Currencies

### EURUSD

The euro strengthened versus the dollar, even though the ECB minutes pointed to dim economic outlook. 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 appreciated versus the dollar on reports of upbeat GDP print. 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 was mostly 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
01/15/2019	Wholesale Inventories MoM	Nov P	0.50%	0.80%	
01/15/2019	New Home Sales	Nov	567K	544K	
01/15/2019	New Home Sales MoM	Nov	4.20%	-8.90%	
01/15/2019	Factory Orders	Nov	0.30%	-2.10%	
01/15/2019	Durable Goods Orders	Nov F	0.80%	0.80%	NAHB housing market, MBA, and capacity utilization will be the main releases.
01/16/2019	Retail Sales Advance MoM	Dec	0.10%	0.20%	
01/16/2019	NAHB Housing Market Index	Jan	56	56	
01/17/2019	Housing Starts MoM	Dec	-0.20%	3.20%	
01/18/2019	Capacity Utilization	Dec	78.50%	78.50%	
01/18/2019	U. of Mich. Sentiment	Jan P	96.8	98.3	

### Japan

	Indicator	Period	Expected	Prior	Comments
01/15/2019	Machine Tool Orders YoY	Dec P	--	-17.00%	
01/16/2019	PPI YoY	Dec	1.80%	2.30%	The focus will be on PPI and Tertiary industry index.
01/16/2019	Tertiary Industry Index MoM	Nov	-0.50%	1.90%	
01/18/2019	Industrial Production MoM	Nov F	--	-1.10%	

### Eurozone

	Indicator	Period	Expected	Prior	Comments
01/16/2019	CPI YoY (GE)	Dec F	1.70%	1.70%	All eyes will be on Eurozone CPI.
01/18/2019	ECB Current Account SA	Nov	--	23.0b	

### United Kingdom

	Indicator	Period	Expected	Prior	Comments
01/16/2019	CPI YoY	Dec	2.10%	2.30%	
01/16/2019	CPI Core YoY	Dec	1.80%	1.80%	
01/16/2019	RPI YoY	Dec	2.90%	3.20%	Attention will be on CPI and retail sales.
01/18/2019	Retail Sales Ex Auto Fuel YoY	Dec	3.80%	3.80%	
01/18/2019	Retail Sales Inc Auto Fuel MoM	Dec	-0.80%	1.40%	

### China and India

	Indicator	Period	Expected	Prior	Comments
01/14/2019	Wholesale Prices YoY (IN)	Dec	4.58%	4.64%	All eyes will be on India WPI, CPI, and exports will be important.
01/14/2019	CPI YoY (IN)	Dec	2.17%	2.33%	
01/15/2019	Exports YoY (IN)	Dec	--	0.80%	



## 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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