

## New year rally continues

Global equity markets rallied for the fourth consecutive week as risk-on sentiment gathered steam on US-China trade talk optimism. US stocks were the top performers with the Dow Jones benefitting the most from the ease in US-China trade tensions. Hopes of US-China trade deal rose with US officials indicating to roll back some of the tariffs imposed on Chinese goods while the Chinese officials were reportedly aiming to reduce their trade surplus with the US and boost their US imports. As a result, the US dollar strengthened versus other major currencies. But, in spite of the dollar strength, emerging market equities rallied and Chinese stocks rose on de-escalation of the trade tensions. European equities also performed well as the defeat of UK PM May's Brexit deal paved the way for a possible delay of Brexit. The pound strengthened in reaction to the defeat of Mrs. May's Brexit deal at the parliament, but ended the week flat versus the dollar. Elsewhere, appetite for safe-haven assets softened with the rise in risk-on sentiment. Gold prices declined while the yen depreciated versus the dollar. The 10-year US Treasury yield rose, albeit modestly with the ease in US-China trade tensions. Oil prices rose for another week with the Brent Crude ending at USD62.7/bbl level, boosted by the US-China talk optimism and OPEC's commitment to supply cuts. Industrial metals also gained, led by Aluminium.

## ECB/BoJ Meeting, Brexit "Plan B" in focus

US equities have so far shrugged off the partial government shutdown. However, signs of the possible impact on growth due to the government shutdown are becoming visible with last week's consumer confidence data. The Univ. of Michigan consumer confidence Index for January sank to the lowest level since October 2016. This indicates that the US consumers are beginning to fear the possibilities of growth slowdown due to the shutdown. The negative impact on consumer sentiment could intensify further if the situation remains unresolved. While the impact could be temporary and the effect should be reversed once the shutdown is over (typically seen in previous shutdowns). But, if extended till end of March, the shutdown could shave 1.7% off the IQ GDP growth (based on the White House estimates). This may also have implications for the Fed's rate hike decision and could result in a pause at the March meeting, particularly with the Fed already been hinting at a flexible and patient approach in tightening. Any rise in possibility of a rate hold at the March meeting should build temporary steepening pressures on the US Treasury yield curve, in our view.

In the upcoming week, the focus will be on the BoJ meeting and the ECB meeting, both are expected to keep policy unchanged. In UK, PM Theresa May is scheduled to present her "Plan B" on Brexit on 21<sup>st</sup> January, today which will be then voted on by the Parliament on 29<sup>th</sup> January.

## Past week global markets' performance

### Index Snapshot (World Indices)

Index	Latest	Weekly Chg %	YTD %
S&P 500	2,670.7	2.9	6.5
Dow Jones	24,706.4	3.0	5.9
Nasdaq	7,157.2	2.7	7.9
DAX	11,205.5	2.9	6.1
Nikkei 225	20,666.1	1.5	3.3
FTSE 100	6,968.3	0.7	3.6
Sensex	36,386.6	1.0	0.9
Hang Seng	27090.8	1.6	4.8
Regional Markets (Sunday to Thursday)			
ADX	4985.3	0.3	1.4
DFM	2516.8	-0.8	-0.5
Tadaw ul	8448.0	1.9	7.9
DSM	10787.8	1.3	4.7
MSM30	4236.75	-1.6	-2.0
BHSE	1341.2	-0.2	0.3
KWSE	5237.4	0.1	-
MSCI			
MSCI World	2,000.8	2.2	6.2
MSCI EM	1,018.0	1.7	5.4

### Global Commodities, Currencies and Rates

Commodity	Latest	Weekly Chg %	YTD %
ICE Brent USD/bbl	62.7	3.7	16.5
Nymex WTI USD/bbl	53.8	4.3	18.5
Gold USD/t oz	1282.1	-0.6	0.0
Silver USD/t oz	15.3	-1.7	-1.0
Platinum USD/t oz	797.7	-1.5	0.3
Copper USD/MT	6022.0	1.6	1.0
Aluminium	1870	3.1	2.6
Currencies			
EUR USD	1.1363	-0.9	-0.8
GBP USD	1.2872	0.2	1.0
USD JPY	109.78	1.2	0.1
CHF USD	0.9954	1.2	-1.3
Rates			
USD Libor 3m	2.7610	-0.9	-1.7
USD Libor 12m	3.0301	0.4	0.8
UAE Eibor 3m	2.8725	-0.7	1.2
UAE Eibor 12m	3.4075	0.6	-4.6
US 3m Bills	2.3935	-0.9	1.6
US 10yr Treasury	2.7842	3.1	3.7

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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. 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 remained low in absence of any surprises in the equity market. 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 were mixed in spite of the increase in oil prices. Saudi stocks were the best performers while the DFM underperformed the most. 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 rallied for the fourth consecutive week, boosted by the progress on US-China trade talks. US equities, led by Dow Jones, outperformed the most. European equities also rose on the defeat of UK PM May's Brexit plan at the parliament. Emerging market equities performed well with the de-escalation of US-China trade tensions. 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 remained under pressure, as risk-on sentiment prevailed. We remain overweight on gold as a risk hedge against ongoing political and (potential) inflationary risks.

**Energy** Oil prices were boosted by the US-China trade talk 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 performed well, with aluminium leading the rally. 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** R2 1.1657 R1 1.1563 S1 1.1382 S2 1.1295

**GBPUSD** The pound strengthened in reaction to the defeat of Mrs. May's Brexit plan but ended the week flat 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** R2 1.2969 R1 1.2906 S1 1.2741 S2 1.2639

**USDJPY** The yen weakened versus the dollar as safe-haven appetite waned. We believe there will remain a bias for yen strength as emerging markets concerns will not abate soon.

**Critical levels** R2 109.77 R1 109.12 S1 107.80 S2 107.13

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
01/22/2019	Existing Home Sales	Dec	5.24m	5.32m	
01/23/2019	MBA Mortgage Applications	18-Jan	--	13.50%	
01/23/2019	Wholesale Inventories MoM	Nov P	0.50%	0.80%	
01/23/2019	New Home Sales	Nov	567K	544K	
01/23/2019	Durable Goods Orders	Nov F	0.80%	0.80%	Focus will be on PMI data .
01/23/2019	Trade Balance	Nov	-\$54.0b	-\$55.5b	
01/23/2019	Retail Sales Advance MoM	Dec	0.10%	0.20%	
01/23/2019	Housing Starts	Dec	1253K	213K	
01/24/2019	Initial Jobless Claims	19-Jan	219K	213K	
01/24/2019	Markit Manufacturing PMI	Jan P	53.5	53.8	

### Japan

	Indicator	Period	Expected	Prior	Comments
01/23/2019	Trade Balance	Dec	-¥35.3b	-¥737.3b	
01/23/2019	All Industry Activity Index MoM	Nov	-0.40%	1.90%	
01/23/2019	Machine Tool Orders YoY	Dec F	--	-18.30%	Attention will be on BOJ MPC meeting.
01/23/2019	BOJ MPC meeting	23-Jan	No change	-	
01/24/2019	Nikkei Japan PMI Mfg	Jan P	--	52.6	
01/25/2019	Tokyo CPI Ex-Fresh Food YoY	Jan	0.90%	0.90%	

### Eurozone

	Indicator	Period	Expected	Prior	Comments
01/23/2019	Consumer Confidence	Jan A	-6.5	-6.2	
01/24/2019	Markit Manufacturing PMI	Jan P	51.3	51.4	All eyes will be on ECB meeting.
01/24/2019	ECB Meeting	24-Jan	No Change		
01/25/2019	IFO Expectations (GE)	Jan	97.1	97.3	

### United Kingdom

	Indicator	Period	Expected	Prior	Comments
01/21/2019	Rightmove House Prices MoM	Jan	--	-1.50%	Light week in terms of economic data.

### China and India

	Indicator	Period	Expected	Prior	Comments
01/21/2019	Retail Sales YoY (CH)	Dec	8.10%	8.10%	All eyes will be on China GDP, retail sales and industrial production.
01/21/2019	Industrial Production YoY (CH)	Dec	5.30%	5.40%	
01/21/2019	GDP YoY (CH)	4 Q	6.40%	6.50%	



## 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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