The Weekly Market View

January 28 2019

ADCB

“Serious dangers” and “significantly higher risks”

Phrases like these have resulted in weakening of risk-on sentiment. Chinese president Xi Jinping warned his communist party leaders of the serious dangers their party faces and stressed the need to maintain political stability. Whilst this could simply be reduced to a political (or even just to the Communist party-related) concern, we think it also suggests growing concerns about the social implications of a slowing economy. Speaking at the World Economic Forum in Davos, Switzerland, IMF’s managing director Christine Lagarde warned of significantly higher risks facing the world economy. She identified China-US trade tension as a major risk to global growth. In fact, both ‘trade wars’ and ‘China slowdown’ emerged top risks in the IIF’s Asset and Investment Management Study which surveyed several money managers with total assets under management over USD7.7trn. As the focus shifted back to risks around growth, risk assets fared less well. Equities managed only marginal gains. Oil prices fell while the precious metals rose. Long term treasury yields fell, the US dollar lost some ground against the other major currencies and thus emerging market equities outperformed the developed market peers. Within developed world equities, US underperformed marginally last week after rising strongly in the previous four week period. Concerns around the partial US government shutdown (which lasted for 35 days) and a disappointment in the US existing home sales data resulted in weaker sentiment. Earnings releases over the past week provided some respite though – 78% of the 76 S&P 500 companies that have reported their earnings so far have surprised on the upside. On the other side of the Atlantic, UK equities were down significantly as market participants digested Brexit plan B and what it meant for the looming deadline of 29 March.

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Focus on downside risks

The week ahead is loaded with a lot of economic, political and geopolitical events/data. Given the run-up of risk assets so far this year, we think markets will focus on any potential downside risks. For instance, PMI data for all major economies will come under strict scrutiny by the market for any evidence of weakness. In the US, jobs, housing and retail sales data (some of which have been delayed due to the Government shutdown there) will be in focus. FOMC meeting is unlikely to yield any surprises (versus a market that expects no rate hikes), but the press conference by the Fed chair will be carefully watched for the “language”. China PMI data release is likely to be of importance given the weak economic momentum there (evidenced by data released last week). Of course, the other key part of the story is trade and here, the US-China take center stage. Chinese Vice Premier Liu will visit the US on 30th and 31st January for the next round of trade negotiations in Washington. This comes with the backdrop of comments from Commerce Secretary Wilbur Ross that the US is still "miles and miles" away from a trade deal with China. In UK, amendments to the Brexit deal will be debated in the parliament this week. In emerging markets, political crisis in Venezuela will be closely watched this week after last week’s escalation of tensions between the US and Venezuela. On the micro side, earnings season pick up pace in the Europe and Japan.

Past week global markets’ performance

Index Snapshot (World Indices)

Index	Latest	Weekly Chg %	YTD %
S&P 500	2,664.8	-0.2	6.3
Dow Jones	24,737.2	0.1	6.0
Nasdaq	7,164.9	0.1	8.0
DAX	11,281.8	0.7	6.8
Nikkei 225	20,773.6	0.5	3.8
FTSE 100	6,809.2	-2.3	1.2
Sensex	36,025.5	-1.0	-0.1
Hang Seng	27569.2	1.8	6.7
Regional Markets (Sunday to Thursday)			
ADX	5019.2	0.9	2.1
DFM	2514.4	0.1	-0.6
Tadawul	8434.9	0.6	7.8
DSM	10712.4	-0.4	4.0
MSM30	4180.14	-0.5	-3.3
BHSE	1374.2	2.0	2.8
KWSE	5241.5	-0.2	-
MSCI			
MSCI World	2,001.9	0.1	6.3
MSCI EM	1,032.3	1.4	6.9

Global Commodities, Currencies and Rates

Commodity	Latest	Weekly Chg %	YTD %
ICE Brent USD/bbl	61.6	-1.7	14.6
Nymex WTI USD/bbl	53.7	-0.2	18.2
Gold USD/t oz	1305.3	1.8	1.8
Silver USD/t oz	15.8	2.8	1.8
Platinum USD/t oz	818.2	2.6	2.9
Copper USD/MT	5901.0	-2.0	-1.1
Alluminium	1912.75	2.3	4.9
Currencies			
EUR USD	1.1406	0.4	-0.4
GBP USD	1.3196	2.5	3.5
USD JPY	109.55	-0.2	-0.1
CHF USD	0.9939	-0.2	-1.1
Rates			
USD Libor 3m	2.7516	-0.3	-2.0
USD Libor 12m	3.0315	0.0	0.9
UAE Eibor 3m	2.9275	-0.1	3.2
UAE Eibor 12m	3.4670	-1.1	-3.0
US 3m Bills	2.3732	-0.9	0.8
US 10yr Treasury	2.7585	-0.9	2.8

Summary market outlook

Global Yields	The long-term US treasury yields fell as the risk-sentiment weakened over the past week. 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 had a week of two halves – it rose in the first half of the week and fell subsequently. 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 market performance was mixed. Although, clues from global equity markets remained weak and oil prices did not provide any support, equities in Bahrain, UAE and Saudi registered gains. 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 registered marginal gains as the risk sentiment moderated. European and emerging market equities outperformed. US underperformed marginally last week after rising strongly in the previous four week period. 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 enjoyed the safe-haven status and outperformed during a week of weak sentiment. We remain overweight on gold as a risk hedge against ongoing political and (potential) inflationary risks.
Energy	After rising strongly since the beginning of the year, oil prices corrected last week on broader risk-off sentiment and due to concerns about demand. 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 registered mixed performance – aluminium prices rose and copper prices fell. We do not recommend industrial metals exposure as China reigns in demand.
Currencies	
EURUSD	The euro gained slightly against the US dollar during the weak as the greenback lost some ground against other major currencies. We expect the euro to remain under pressure due to the diverging monetary policies between the Fed and the ECB.
Critical levels	R2 1.1539 / R1 1.1451 / S1 1.1314 / S2 1.1265
GBPUSD	The pound registered strong gains against the USD – in part due to the weakness of the latter and largely due to the potential for a delay in Brexit. 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 1.3179 / R1 1.3025 / S1 1.2694 / S2 1.2517
USDJPY	The yen appreciated marginally against the USD on weaker risk sentiment. We believe there will remain a bias for yen strength as emerging markets concerns will not abate soon.
Critical levels	R2 111.12 / R1 110.45 / S1 108.55 / S2 107.32

Note: R2, R1, S2 and S1 refer to Bloomberg calculated weekly technical resistance and support levels

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Forthcoming important economic data

United States

	Indicator	Period	Expected	Prior	Comments
01/28/2019	Chicago Fed Nat Activity Index	Dec	--	0.22	
01/28/2019	Wholesale Inventories MoM	Nov P	0.50%	0.80%	
01/28/2019	New Home Sales	Nov	567K	544K	
01/28/2019	Factory Orders	Nov	0.30%	-2.10%	
01/28/2019	Durable Goods Orders	Nov F	0.80%	0.80%	
01/28/2019	Trade Balance	Nov	-$54.0b	-$55.5b	
01/28/2019	Retail Sales Advance MoM	Dec	0.10%	0.20%	This week market attention will be on labour market payroll data, PMI, and goods order. Also, FOMC meeting will be important.
01/30/2019	MBA Mortgage Applications	25-Jan	--	-2.70%	
01/30/2019	GDP Annualized QoQ	4Q A	2.60%	-2.70%	
01/30/2019	FOMC Rate Decision	30-Jan	No change		
02/01/2019	Change in Nonfarm Payrolls	Jan	165K	312K	
02/01/2019	Unemployment Rate	Jan	3.90%	3.90%	
02/01/2019	Average Hourly Earnings YoY	Jan	3.20%	3.20%	
02/01/2019	Labor Force Participation Rate	Jan	--	63.10%	
02/01/2019	Markit Manufacturing PMI	Jan F	54.9	54.9	
02/01/2019	U. of Mich. Sentiment	Jan F	90.79	90.7	

Japan

	Indicator	Period	Expected	Prior	Comments
01/31/2019	Industrial Production MoM	Dec P	-0.50%	-1.00%	All attention will be on Japan manufacturing PMI data.
02/01/2019	Jobless Rate	Dec	2.50%	2.50%	
02/01/2019	Nikkei PMI Mfg	Jan F	--	50	

Eurozone

	Indicator	Period	Expected	Prior	Comments
01/30/2019	CPI YoY	Jan P	1.60%	1.70%	
01/31/2019	Retail Sales YoY	Dec	1.50%	1.10%	Attention will be on the first print of 4Q 18 GDP
01/31/2019	GDP SA QoQ	4Q A	0.20%	0.20%	
02/01/2019	Markit Manufacturing PMI	Jan F	50.5	50.5	

United Kingdom

	Indicator	Period	Expected	Prior	Comments
01/31/2019	Nationwide House PX MoM	Jan	0.20	0.20	Light week ahead.

China and India

	Indicator	Period	Expected	Prior	Comments
01/31/2019	Manufacturing PMI (CH)	Jan	49.3	49.3	All eyes will be on China manufacturing PMI. In India PMI will be impotant.
02/01/2019	Nikkei PMI Mfg (IN)	Jan	--	53.2	

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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