

# The Weekly Market View

March 18 2019

## A rising tide lifts all boats ...

A risk-on week saw all equity markets perform strongly. Despite a mixed picture of the global macro-economic conditions, optimism around trade talks between the US and China, rising expectations of the Chinese stimulus and UK parliament voting in favour of delaying Brexit have all boosted the risk-morale of the investor community. S&P 500 registered its best weekly performance since November. Within the US equity market, technology sector performed quite strongly. VIX, a measure of stress hit a five month low. Despite the acute weakness in Boeing's shares, Dow Jones industrial average performed quite strongly. Equity markets outside the US performed strongly too. Germany, Japan and UK saw their respective stock markets rise by more than 1.7%. Very broadly, equities in developed markets outperformed their counterparts in the emerging world. However, equity markets in India and Brazil recorded a market leading performance. In India, the general elections schedule was announced and the markets started to assign a higher possibility of a win for BJP-led coalition. In Brazil, markets started to appreciate the scope of pension reforms submitted by Bolsonaro administration to the congress. UST yields fell below 2.6% on lower-than-expected inflation print. Sovereign yields in Europe rose modestly. The euro and pound sterling appreciated against the USD due to positive developments regarding UK leaving the EU. Oil prices rose strongly last week taking their year-to-date gains to more than 25% on expectations of a more balanced market looking ahead. Most metals strengthened on USD weakness.

## ... but, are all boats created equal?

Risk assets, especially equities have already performed quite strongly so far this year with MSCI all country world index returning more than 10%. This strong performance comes against a backdrop of a ten year bull run in world equities led by the US. Looking ahead, in our view, it is sensible to be selective and to stick with quality given this late phase of the cycle. Also it is worth asking if it is the time to consider leadership changes in the equity market. While performance of both Chinese and European equities has been strong so far this year compared with that in the past year, we think it is still early to call for a rotation out of US into either of these markets. Especially thinking about the risk-return trade-off, we still find equities in the US more attractive compared to their counterparts in both China and Europe. However, we do believe that there will be an inflection point later this year when moving out of US equities makes sense – but it is not now, in our view. For detailed discussion on our equity strategy, see our investment strategy note [The Equity Strategist: Which market will pick up the leadership baton from the US? 13 March 2019](#).

In terms of data releases, next week is likely to be busy with the preliminary PMI readings for March from across the globe. In the US, factory orders for February, Philadelphia Fed outlook and existing homes sales during February are likely to be watched. However, the focus will be on the FOMC meeting. Markets are expecting no change in rates and any disappointment here is unlikely; but any communication regarding the timing of concluding the balance sheet reduction will be in focus. In the UK, job market data, inflation and retail sales along with the Bank of England decision will be closely watched.

## Past week global markets' performance

### Index Snapshot (World Indices)

| Index                                 | Latest   | Weekly Chg % | YTD % |
|---------------------------------------|----------|--------------|-------|
| S&P 500                               | 2,822.5  | 2.9          | 12.6  |
| Dow Jones                             | 25,848.9 | 1.6          | 10.8  |
| Nasdaq                                | 7,688.5  | 3.8          | 15.9  |
| DAX                                   | 11,685.7 | 2.0          | 10.7  |
| Nikkei 225                            | 21,450.9 | 2.0          | 7.2   |
| FTSE 100                              | 7,228.3  | 1.7          | 7.4   |
| Sensex                                | 38,024.3 | 3.7          | 5.4   |
| Hang Seng                             | 29012.3  | 2.8          | 12.3  |
| Regional Markets (Sunday to Thursday) |          |              |       |
| ADX                                   | 4997.6   | 2.6          | 1.7   |
| DFM                                   | 2574.2   | -0.2         | 1.8   |
| Tadaw ul                              | 8582.9   | 1.4          | 9.7   |
| DSM                                   | 9970.6   | 2.1          | -3.2  |
| MSM30                                 | 4074.98  | -0.4         | -5.8  |
| BHSE                                  | 1409.1   | 0.2          | 5.4   |
| KWSE                                  | 5346.8   | 1.1          | 5.3   |
| MSCI                                  |          |              |       |
| MSCI World                            | 2,108.8  | 2.8          | 11.9  |
| MSCI EM                               | 1,057.3  | 2.6          | 9.5   |

### Global Commodities, Currencies and Rates

| Commodity         | Latest | Weekly Chg % | YTD % |
|-------------------|--------|--------------|-------|
| ICE Brent USD/bbl | 67.2   | 2.2          | 24.8  |
| Nymex WTI USD/bbl | 58.5   | 4.4          | 28.9  |
| Gold USD/t oz     | 1302.4 | 0.3          | 1.6   |
| Silver USD/t oz   | 15.3   | -0.3         | -1.3  |
| Platinum USD/t oz | 831.8  | 1.7          | 4.6   |
| Copper USD/MT     | 6410.0 | 0.2          | 7.5   |
| Alluminium        | 1875   | 1.6          | 2.9   |
| Currencies        |        |              |       |
| EUR USD           | 1.1326 | 0.8          | -1.1  |
| GBP USD           | 1.3290 | 2.1          | 4.3   |
| USD JPY           | 111.48 | 0.3          | 1.6   |
| CHF USD           | 1.0021 | -0.6         | -1.9  |
| Rates             |        |              |       |
| USD Libor 3m      | 2.6253 | 1.1          | -6.5  |
| USD Libor 12m     | 2.8405 | -0.8         | -5.5  |
| UAE Eibor 3m      | 2.8125 | 6.2          | -0.9  |
| UAE Eibor 12m     | 3.2210 | -0.9         | -9.9  |
| US 3m Bills       | 2.4347 | -0.2         | 3.4   |
| US 10yr Treasury  | 2.5871 | -1.6         | -3.6  |

Kishore Muktinutalapati  
Equity Strategist  
Tel: +971 (0)2 696 2358  
[kishore.muktinutalapati@adcb.com](mailto:kishore.muktinutalapati@adcb.com)

Luciano Jannelli, Ph.D., CFA  
Head Investment Strategy  
Tel: +971 (0)2 696 2340  
[luciano.jannelli@adcb.com](mailto:luciano.jannelli@adcb.com)

Prerana Seth  
Fixed Income Strategist  
Tel: +971 (0)2 696 2878  
[prerana.seth@adcb.com](mailto:prerana.seth@adcb.com)

Mohammed Al Hemeiri  
Analyst  
Tel: +971 (0)2 696 2236  
[mohammed.alhemeiri@adcb.com](mailto:mohammed.alhemeiri@adcb.com)

Noor Alameri  
Analyst  
Tel: +971 (0)2 694 5182  
[noor.alameri@adcb.com](mailto:noor.alameri@adcb.com)

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## Summary market outlook

**Global Yields** US treasury yields fell on softer inflation data. Sovereign yields in Europe rose modestly. We expect the 10-year US Treasury yield to remain range bound between 2.7% and 3.0%, in line with the Fed's indicated long-term neutral rate.

**Stress and Risk Indicators** VIX hit a five month low. However, we believe that volatility is likely to stay elevated due to the fear of global growth slowdown and concerns around trade.

## Equity Markets

**Local Equity Markets** GCC markets were broadly higher tracking the oil prices and on broad risk-on sentiment. ADX was the best performer. 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 performed quite strongly with S&P 500 registering its best weekly performance since November. Strength in equity markets was broad based. Amongst emerging markets, India and Brazil outperformed. Overall, we remain neutral on 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 ended the week with a modest gain on weaker USD. Platinum prices rose strongly too. We remain overweight on gold as a risk hedge against ongoing political and (potential) inflationary risks.

**Energy** Oil prices rose strongly as the focus shifted to a more balance market looking ahead. Overall, we think 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 on weaker USD but also on rising prospects for a Chinese stimulus. We do not recommend industrial metals exposure as China reigns in demand.

## Currencies

**EURUSD** The euro strengthened versus the dollar, on positive developments on Brexit. Nevertheless, we expect the euro to remain under pressure due to the diverging monetary policies between the Fed and the ECB.

**Critical levels** **R2** 1.1419 **R1** 1.1373 **S1** 1.1251 **S2** 1.1175

**GBPUSD** The pound strengthened versus the greenback on positive developments on 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** 1.3639 **R1** 1.3464 **S1** 1.3032 **S2** 1.2775

**USDJPY** The yen weakened against the dollar amidst the risk-on environment. We believe there will remain a bias for yen strength as emerging markets concerns will not abate soon.

**Critical levels** **R2** 112.44 **R1** 111.96 **S1** 110.94 **S2** 110.40

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   |
|------------|---------------------------|--------|-----------|--------|--|
| 03/18/2019 | NAHB Housing Market Index | Mar    | 63        | 62     |  |
| 03/19/2019 | Factory Orders            | Jan    | 0.30%     | 0.10%  |  |
| 03/19/2019 | Durable Goods Orders      | Jan F  | 0.40%     | 0.40%  |  |
| 03/20/2019 | MBA Mortgage Applications | 15-Mar | --        | 2.30%  | All eyes will be on the FOMC meeting this week. Focus will also be on the housing data and PMI releases. |
| 03/20/2019 | FOMC Meeting              | 20-Mar | No Change | -      |  |
| 03/21/2019 | Initial Jobless Claims    | 16-Mar | 225K      | 229K   |  |
| 03/22/2019 | Markit Manufacturing PMI  | Mar P  | 53.6      | 53     |  |
| 03/22/2019 | Wholesale Inventories MoM | Jan    | 0.10%     | 1.10%  |  |
| 03/22/2019 | Existing Home Sales MoM   | Feb    | 3.20%     | -1.20% |  |

### Japan

|            | Indicator                  | Period | Expected | Prior   | Comments  |
|------------|----------------------------|--------|----------|---------|---|
| 03/20/2019 | Machine Tool Orders YoY    | Feb F  | --       | -29.30% |   |
| 03/22/2019 | Natl CPI YoY               | Feb    | 0.30%    | 0.20%   | PMI data and inflation release will be closely tracked by the market. |
| 03/22/2019 | Natl CPI Ex Fresh Food YoY | Feb    | 0.80%    | 0.80%   |   |
| 03/22/2019 | Nikkei PMI Mfg             | Mar P  | --       | 48.9    |   |

### Eurozone

|            | Indicator                       | Period | Expected | Prior | Comments                                    |
|------------|---------------------------------|--------|----------|-------|---|
| 03/20/2019 | PPI YoY (GE)                    | Feb    | 2.90%    | 2.60% |   |
| 03/21/2019 | ECB Publishes Economic Bulletin |        |          |       |   |
| 03/22/2019 | ECB Current Account SA          | Jan    | --       | 16.2b | Focus will be on the ECB economic bulletin. |
| 03/22/2019 | Markit Manufacturing PMI        | Mar P  | 49.5     | 49.3  |   |
| 03/22/2019 | CPI YoY                         | Feb    | 1.40%    | 1.40% |   |

### United Kingdom

|            | Indicator                      | Period | Expected  | Prior | Comments   |
|------------|--------------------------------|--------|-----------|-------|--|
| 03/18/2019 | Rightmove House Prices MoM     | Mar    | --        | 0.70% |  |
| 03/20/2019 | CPI YoY                        | Feb    | 1.80%     | 1.80% |  |
| 03/20/2019 | CPI Core YoY                   | Feb    | 1.90%     | 1.90% | Attention will be on the BOE MPC Meeting. Inflation and retail sales print will also be important. |
| 03/20/2019 | Retail Sales Ex Auto Fuel YoY  | Feb    | 3.50%     | 4.10% |  |
| 03/21/2019 | Retail Sales Inc Auto Fuel MoM | Feb    | -0.40%    | 1.00% |  |
| 03/21/2019 | BOE MPC Meeting                | Mar    | No Change | -     |  |

### China and India

|  | Indicator | Period | Expected | Prior | Comments   |
|--|-----------|--------|----------|-------|--|
|  |           |        |          |       | No important data releases scheduled for the week. |

## 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. RTT News
4. Reuters
5. Gulfbase
6. Zawya

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