# The Weekly Market View

March 11 2019

## Markets get a growth reality check

Concerns of a global slowdown dominated market sentiment as risks assets across the globe got a reality check on growth. The first catalyst was from China's National Party Congress where President Xi Jinping slashed their growth target rate for 2019 from around 6.5% to a new target range of 6-6.5%. The Chinese government also announced fresh stimulus in terms of a tax reduction package (RMB2trn) and also boosted infrastructure spending (RMB2.15trn). But, market reaction to the stimulus news was mostly muted as the stimulus appeared less aggressive compared to previous instances (like in 2016). Another surprise for the markets was from the ECB which was extremely dovish, announcing an additional round of stimulus. The three main dovish changes from the ECB were – lower growth projections for 2019 from 1.7% previously to 1.1% now, policy rates to remain unchanged at least until the end of 2019 (previously summer of 2019) and introduction of a third round of TLTROs- (Targeted longer-term refinancing operations) in order to boost consumer lending. Adding to China and ECB news, the week ended with a surprising low print of the US payroll date, aggravating concerns on future growth prospects in the US. The weak payroll data was somewhat offset by the drop in unemployment rate and jump in wage inflation which rose to the highest level in ten years. Risk assets across the globe came under pressure with equity markets flashing red on most of the days last week. Japanese stocks underperformed the most versus to their peers. The greenback ended the week stronger versus other major currencies. The euro weakened on the back of the extremely dovish ECB outlook while the pound sterling plunged on increased Brexit uncertainty. Emerging market assets also suffered on China slowdown risks and broad dollar strength. On the other hand, safe-have assets including gold, yen and US treasuries rallied on slowing global economy concerns. Oil prices were volatile, yet ended the week higher notwithstanding the weak backdrop.


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## Watch out for the ides of March

Last week was challenging for risk assets as two of the world's major economies- China and Europe- slashed their respective growth forecasts for 2019. In addition to downward growth projections, both China and Europe have announced fresh stimulus to support domestic economic activity. Market participants are comparing the current scenario to the 2015-2016 period, however, we believe that both China and Europe have limited flexibility in stimulating their economies. China stimulus looks underwhelming in terms of its scale size and while it should help in boosting economic activity, it will only put a floor to the overall growth rate in China and not necessarily translate into higher global growth. On the other hand, the ECB has been prompt and ahead of the curve in introducing a fresh monetary stimulus in the form of targeted bank loans. But, it's the external risks that are impacting the activity in Eurozone and the ECB has limited policy ammunition if these external conditions continue to deteriorate. For the time being, the stimulus measures should, however, help the Eurozone staying out of a recession. On the other hand, the US continues to remain the main and only driver of growth. We believe that one should not read too much into the recent US payroll print as the overall trend still points to tightness in the labour market. Having said that, last week's volatility in the markets only further underscores our overweight stance on US assets and our underweight stance on emerging market equities and bonds. However, short-term rallies are a possibility in emerging market assets with the Fed's dovishness and hence, we recommend selective opportunities in both *emerging market equities* and *emerging market bonds*. In terms of economic releases, all eyes will be on China again as the February releases of retail sales, industrial production and fixed asset investments will be closely tracked by the market to see if there are more signs of weakness in the economy.

## Past week global markets' performance

Index Snapshot (World Indices)

| Index | Latest | Weekly Chg % | YTD % |
|---|---|---|---|
| S&P 500 | 2,743.1 | -2.2 | 9.4 |
| Dow Jones | 25,450.2 | -2.2 | 9.1 |
| Nasdaq | 7,408.1 | -2.5 | 11.6 |
| DAX | 11,457.8 | -1.2 | 8.5 |
| Nikkei 225 | 21,025.6 | -2.7 | 5.1 |
| FTSE 100 | 7,104.3 | -0.0 | 5.6 |
| Sensex | 36,671.4 | 1.7 | 1.7 |
| Hang Seng | 28228.4 | -2.0 | 9.2 |
| Regional Markets (Sunday to Thursday) | | | |
| ADX | 4914.4 | -4.0 | -0.0 |
| DFM | 2594.5 | -1.8 | 2.6 |
| Tadawul | 8479.2 | -0.6 | 8.3 |
| DSM | 9781.2 | -3.3 | -5.0 |
| MSM30 | 4112.92 | -0.6 | -4.9 |
| BHSE | 1408.9 | -0.6 | 5.4 |
| KWSE | 5309.7 | 0.9 | 4.5 |
| MSCI | | | |
| MSCI World | 2,051.1 | -2.2 | 8.9 |
| MSCI EM | 1,030.1 | -2.0 | 6.7 |

Global Commodities, Currencies and Rates

| Commodity | Latest | Weekly Chg % | YTD % |
|---|---|---|---|
| ICE Brent USD/bbl | 65.7 | 1.0 | 22.2 |
| Nymex WTI USD/bbl | 56.1 | 0.5 | 23.5 |
| Gold USD/t oz | 1298.3 | 0.4 | 1.2 |
| Silver USD/t oz | 15.3 | 0.9 | -1.0 |
| Platinum USD/t oz | 818.2 | -4.8 | 2.8 |
| Copper USD/MT | 6398.5 | -2.6 | 7.3 |
| Alluminium | 1845.25 | -2.9 | 1.2 |
| Currencies | | | |
| EUR USD | 1.1235 | -1.1 | -2.0 |
| GBP USD | 1.3015 | -1.4 | 2.0 |
| USD JPY | 111.17 | -0.6 | 1.3 |
| CHF USD | 1.0082 | 0.9 | -2.6 |
| Rates | | | |
| USD Libor 3m | 2.5966 | -0.1 | -7.5 |
| USD Libor 12m | 2.8636 | -0.5 | -4.7 |
| UAE Eibor 3m | 2.7638 | -1.2 | -2.6 |
| UAE Eibor 12m | 3.3598 | 0.4 | -6.0 |
| US 3m Bills | 2.4398 | 0.4 | 3.6 |
| US 10yr Treasury | 2.6285 | -4.5 | -2.1 |

## Summary market outlook

| | |
|---|---|
| Global Yields | UST yields moved lower as global growth slowdown fears pushed investors into safe-haven assets. German bunds rallied after the ECB surprised with a dovish outlook. We expect the 10-year US Treasury yield to remain range bound between 2.7% and 3%, in line with the Fed's indicated long-term neutral rate. |
| Stress and Risk Indicators | The VIX index jumped in reaction to the equity markets sell-off. 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 equity markets ended the week in the negative territory, led by ADX equities. 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 ended the week in red. Japan's Nikkei 225 underperformed as the yen strengthened versus the dollar. On the other hand, Indian equities were the best performers. 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 rose over the week on increased safe-haven demand. However, we remain overweight on gold as a risk hedge against ongoing political and (potential) inflationary risks. |
| Energy | Oil prices were volatile but ended higher last week despite the slowing global growth concerns. 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 suffered losses, weighed by China slowdown concerns. We do not recommend industrial metals exposure as China reigns in demand. |
| **Currencies** | |
| EURUSD | The euro weakened versus the dollar as the ECB surprised the markets with additional monetary stimulus. Nevertheless, we expect the euro to remain under pressure due to the diverging monetary policies between the Fed and the ECB. |
| Critical levels | R2 1.1487 · R1 1.1361 · S1 1.1143 · S2 1.1051 |
| GBPUSD | The pound sterling depreciated versus the dollar on looming Brexit uncertainty. 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 1.3376 · R1 1.3195 · S1 1.2912 · S2 1.2810 |
| USDJPY | The yen ended the week higher versus the dollar, benefitting from increased safe-haven appetite. We believe there will remain a bias for yen strength as emerging markets concerns will not abate soon. |
| Critical levels | R2 112.72 · R1 111.94 · S1 110.59 · S2 110.02 |

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 |
|---|---|---|---|---|---|
| 03/11/2019 | Retail Sales Advance MoM | Jan | 0.00% | -1.20% | Focus will be on Retail sales numbers, also MBA, initial jobless and industrial production will be important. |
| 03/12/2019 | CPI YoY | Feb | 1.60% | 1.60% | |
| 03/12/2019 | Real Avg Hourly Earning YoY | Feb | -- | 1.70% | |
| 03/13/2019 | MBA Mortgage Applications | 8-Mar | -- | -2.50% | |
| 03/13/2019 | Durable Goods Orders | Jan P | -0.50% | -- | |
| 03/14/2019 | Initial Jobless Claims | 9-Mar | 225K | 223K | |
| 03/14/2019 | New Home Sales MoM | Jan | 0.20% | 3.70% | |
| 03/15/2019 | Industrial Production MoM | Feb | 0.40% | -0.60% | |
| 03/15/2019 | Capacity Utilization | Feb | 78.50% | 78.20% | |
| 03/15/2019 | U. of Mich. Sentiment | Mar P | 95.5 | 93.8 | |

### Japan

| | Indicator | Period | Expected | Prior | Comments |
|---|---|---|---|---|---|
| 03/13/2019 | PPI YoY | Feb | 0.70% | 0.60% | All eyes will be on BOJ MPC meeting. |
| 03/13/2019 | Machine Orders YoY | Jan | -2.10% | 0.90% | |
| 03/13/2019 | Tertiary Industry Index MoM | Jan | -3.30% | -0.30% | |
| 03/15/2019 | BOJ MPC Meeting | 15-Mar | No Change | | |

### Eurozone

| | Indicator | Period | Expected | Prior | Comments |
|---|---|---|---|---|---|
| 03/11/2019 | Trade Balance (GE) | Jan | 15.2b | 13.9b | All eyes will be on Eurozone CPI. |
| 03/15/2019 | CPI Core YoY | Feb F | 1.00% | 1.00% | |
| 03/15/2019 | CPI YoY | Feb F | 1.50% | 1.40% | |

### United Kingdom

| | Indicator | Period | Expected | Prior | Comments |
|---|---|---|---|---|---|
| 03/12/2019 | Trade Balance | Jan | -£3500m | -£229m | Industrial production will be important. |
| 03/12/2019 | Industrial Production YoY | Jan | -1.30% | -0.90% | |

### China and India

| | Indicator | Period | Expected | Prior | Comments |
|---|---|---|---|---|---|
| 03/12/2019 | CPI YoY (IN) | Feb | 2.40% | 2.05% | All eyes will be on China February release fixed assets, industrial production, and retail sales. In India CPI and WPI will be important. |
| 03/14/2019 | Wholesale Prices YoY (IN) | Feb | 2.80% | 2.76% | |
| 03/14/2019 | Fixed Assets Ex Rural YTD YoY (CH) | Feb | 6.00% | 5.90% | |
| 03/14/2019 | Industrial Production YTD YoY (CH) | Feb | 5.50% | 6.20% | |
| 03/14/2019 | Retail Sales YTD YoY (CH) | Feb | 8.10% | 9.00% | |

## Sources

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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