The Weekly Market View

May 06 2019

ADCB ASSET MANAGEMENT LIMITED

The good, the bad and the ugly

Markets over the past week have seen a bit of everything – good, bad and the ugly. Yet, financial markets showed signs of risk-on – equities ended positively, EM outperformed DM, sovereign yields rose, US dollar moderated against European currencies and precious metals lost shine. Volatility rose, albeit marginally, from a rather depressed level. Strong job market data from the US – with more than expected additions to jobs, unemployment rate at the lowest since 1969 and also continuing rise in wages, albeit tepid – was a positive. On the other side of the Atlantic, Q1 GDP growth surprised on the upside – thanks to the strength in Italy. However, what was perceived bad was a moderation in PMIs across the globe, Fed's rather more hawkish tone, weaker economic sentiment/survey indicators in Europe and further contraction in Korean trade. The ugly face of it came relatively late in the week when Mr. Trump tweeted on Sunday that tariffs of 10% on certain goods would rise to 25% on Friday, and USD325bn of untaxed goods could face 25% duties "shortly" thereafter (see *Trump escalates trade war with China with plan to raise tariffs*, The Guardian, 6 May 2019). Market's reaction to this news was rather strongly negative at the time of writing this report on Monday (this negative performance is not reflected in the numbers printed below).

Watchful waiting

Over the next week, markets are likely to keep a close watch on the US-China trade stand-off. Especially with China now considering pulling out of talks (see *Trump Issues Tariff Threat and China Considers Pulling Out of Talks*, The Wall Street Journal, 6 May 2019). Initial reaction of the markets suggest caution here. Even otherwise, we had argued in our recent report (see *The Equity Strategist: In search of an ambiguous inflection point*, 30 April 2019) that we are entering a seasonally weak period for equities and for other risk assets and that the lower levels volatility should not be taken for granted. Given the strong performance of risk assets so far this year, we would remain cautious on the near-term outlook. Also, as markets move from being liquidity-driven to fundamentally-focussed, we think selectivity becomes key for the market participants.

Next week, along with the trade war escalation, markets are also likely to pay close attention to growth data. Especially the composite PMIs from across the globe, German industrial orders, French industrial production, Chinese trade data and UK Q1 GDP are likely to be important.

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Past week global markets' performance

Index Snapshot (World Indices)

Index	Latest	Weekly Chg %	YTD %
S&P 500	2,946	0.2	17.5
Dow Jones	26,505	-0.1	13.6
Nasdaq	8,164	0.2	23.0
DAX	12,413	0.8	17.6
Nikkei 225	22,259	NA	11.2
FTSE 100	7,381	-0.6	9.7
Sensex	38,963	-0.3	8.0
Hang Seng	30,082	1.6	16.4
Regional Markets (Sunday to Thursday)			
ADX	5,243	-2.6	6.7
DFM	2,759	-0.6	9.0
Tadawul	9,337	0.8	19.3
DSM	10,481	0.7	1.8
MSM30	3,965	0.9	-8.3
BHSE	1,435	-0.4	7.3
KWSE	5,695	0.7	12.2
MSCI			
MSCI World	2,178	0.2	15.6
MSCI EM	1,083	0.4	12.1

Global Commodities, Currencies and Rates

Commodity	Latest	Weekly Chg %	YTD %
ICE Brent USD/bbl	70.9	-1.8	31.7
Nymex WTI USD/bbl	61.9	-2.1	36.4
Gold USD/t oz	1279.1	-0.5	-0.2
Silver USD/t oz	14.9	-1.0	-3.5
Platinum USD/t oz	871.9	-3.0	9.7
Copper USD/MT	6180.0	-3.3	3.6
Alluminium	1769.5	-2.7	-2.9
Currencies			
EUR USD	1.120	0.4	-2.2
GBP USD	1.317	2.0	3.4
USD JPY	111.100	-0.4	1.3
CHF USD	1.017	-0.3	-3.3
Rates			
USD Libor 3m	2.560	-0.9	-8.8
USD Libor 12m	2.746	1.0	-8.6
UAE Eibor 3m	2.880	0.9	1.5
UAE Eibor 12m	3.266	4.9	-8.6
US 3m Bills	2.417	0.3	2.6
US 10yr Treasury	2.525	1.1	-5.9

Summary market outlook

Global Yields	Yields on all major sovereign long-term bonds rose during the past week. We expect the 10-year US Treasury yield to remain range bound between 2.5% and 2.8%, in line with the Fed's indicated long-term neutral rate.
Stress and Risk Indicators	Volatility rose, albeit marginally, from a rather depressed level. 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	So far this year, GCC equity markets were helped by liquidity and oil. Last week saw Saudi Arabian and Kuwaiti equites extend their YTD gains. However, we now expect some consolidation going into the month of Ramadan. We remain neutral on GCC equities given the 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	Equities registered a small gain. EM outperformed DM. 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	Precious metals fell on risk-on sentiment. We remain overweight gold as a risk hedge against ongoing political and (potential) inflationary risks.
Energy	Oil prices gave away some gains of the past weeks on concerns of excess supply. 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 fell due to weakness in Chinese PMI. We do not recommend industrial metals exposure as China reigns in demand.
Currencies	
EURUSD	Euro gained some strength against the US dollar on the back of positive growth surprise in Europe. We expect the euro to remain stable with USD to lose some strength in 2019.
Critical levels	R2 1.1249 · R1 1.1224 · S1 1.1154 · S2 1.1110
GBPUSD	Pound sterling also gained against the USD as Bank of England lifted its economic growth forecasts for the UK. We expect the cable to be stable with Pound sterling likely to follow the euro rather than USD.
Critical levels	R2 1.3300 · R1 1.3237 · S1 1.3050 · S2 1.2926
USDJPY	Japanese yen appreciated marginally against the greenback. But we think the BoJ yield curve targeting should put continuing downward pressure on the yen.
Critical levels	R2 111.91 · R1 111.50 · S1 110.88 · S2 110.66

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

Date	Indicator	Period	Expected	Prior	Comments
05/08/2019	MBA Mortgage Applications	3-May	--	-4.30%	MBA mortgage and CPI will be the main releases. Also, initial jobless will be important.
05/09/2019	Initial Jobless Claims	4-May	220K	230K	
05/09/2019	Wholesale Inventories MoM	Mar F	--	0.00%	
05/10/2019	CPI YoY	Apr	2.10%	1.90%	
05/10/2019	Real Avg Hourly Earning YoY	Apr	--	1.30%	

Eurozone

Date	Indicator	Period	Expected	Prior	Comments
05/06/2019	Retail Sales YoY	Mar	1.80%	2.80%	Retail sales will be important.
05/10/2019	Trade Balance (GE)	Mar	20.0b	17.9b	

United Kingdom

Date	Indicator	Period	Expected	Prior	Comments
05/07/2019	Halifax House Prices MoM	Apr	0.10%	-1.60%	GDP data will be closely scrutinized in the UK.
05/10/2019	GDP QoQ	1Q P	0.50%	0.20%	
05/10/2019	GDP YoY	1Q P	1.80%	1.40%	
05/10/2019	Exports QoQ	1Q P	1.70%	1.60%	
05/10/2019	Imports QoQ	1Q P	4.50%	2.10%	

China and India

Date	Indicator	Period	Expected	Prior	Comments
05/07/2019	Foreign Reserves (CH)	Apr	$3101.50b	$3098.76b	All eyes will be in China April releases for foreign reserves, exports, and CPI. In India, Industrial production will be important.
05/08/2019	Exports YoY (CH)	Apr	3.00%	14.20%	
05/09/2019	CPI YoY (IN)	Apr	2.50%	2.30%	
05/10/2019	Industrial Production YoY (IN)	Mar	--	0.10%	

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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