# The Weekly Market Note

November 05 2018

## Global equity markets rebound, but US yields edge higher again

Global equity markets experienced a recovery, leaving all major indices nonetheless with significant losses for the month of October. To a large extent the rebound is a normal reaction given the significant volatility. It was certainly supported by the continuing good earnings reported by global companies, and in particular US companies. President's Trump tweet that he is sighting a trade deal with China might have helped too. It is important, however, to stress that the US economy keeps on steaming ahead, whilst China continues to aim at deleveraging, as was clear from the two countries' latest PMI indicators. On Friday we saw very strong labor market data for the month of October, pushing yearly wage growth to 3.1%, a first since the 2008 Global Financial Crisis. We believe that these developments imply that the Federal Reserve will not back off from its announced interest rate hiking intentions. As such, we would argue that the markets are still very likely to be surprised. And the surprise is going to be ever so hard because China will not play ball as it did in earlier cycles. In other words, China's continuing deleveraging implies lower imports from emerging markets, and a renminbi that will remain under pressure against the US dollar. The renminbi will remain under pressure because the euro and Japanese yen will remain weak too. The oil price further corrected significantly. Over the next year we see the oil price supply driven. This means that, even if the absence of lower growth, the oil price could further go up simply because of reduced supply. The recent softening of the oil price was probably also the result of the temporary exemptions from Iran sanctions that will be granted to eight important oil importers. It is important, however, to stress that these exemptions are temporary. Since they will be lifted sometime soon, and given the current levels of reduced capacity, the risk is that oil price might shoot up again.


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## US elections and China data to be most watched

This week will be relatively data poor. On Thursday the Fed will announce its rate decision, but its intention to wait until December for the next hike has been well telegraphed, and the November decision will be accompanied with a shorter statement, without new economic projections, and no press conference. Tomorrow's midterm elections are in our opinion less likely to impact the markets, in spite of the significant attention the press is dedicating to the event. The most important data will come out of China with the foreign reserve data released on Wednesday, and the trade data released on Thursday. However, whilst those data are important, we do not see significant surprises that could shock the markets. As such we would expect markets to remain volatile.

## Past week global markets' performance

Index Snapshot (World Indices)

| Index | Latest | Weekly Chg % | YTD % |
|---|---|---|---|
| S&P 500 | 2,723.1 | 2.4 | 1.8 |
| Dow Jones | 25,270.8 | 2.4 | 2.2 |
| Nasdaq | 7,357.0 | 2.6 | 6.6 |
| DAX | 11,519.0 | 2.8 | -10.8 |
| Nikkei 225 | 22,243.7 | 5.0 | -2.3 |
| FTSE 100 | 7,094.1 | 2.2 | -7.7 |
| Sensex | 35,011.7 | 5.0 | 2.8 |
| Hang Seng | 26486.4 | 7.2 | -11.5 |
| Regional Markets (Sunday to Thursday) | | | |
| ADX | 4920.7 | 0.5 | 11.9 |
| DFM | 2805.2 | 3.0 | -16.8 |
| Tadawul | 7879.4 | 1.0 | 9.0 |
| DSM | 10281.0 | 1.3 | 20.6 |
| MSM30 | 4422.17 | -0.7 | -13.3 |
| BHSE | 1313.2 | -0.4 | -1.4 |
| KWSE | 5069.4 | 0.7 | - |
| MSCI | | | |
| MSCI World | 2,036.7 | 2.8 | -3.2 |
| MSCI EM | 996.7 | 6.1 | -14.0 |

Global Commodities, Currencies and Rates

| Commodity | Latest | Weekly Chg % | YTD % |
|---|---|---|---|
| ICE Brent USD/bbl | 72.8 | -6.2 | 8.9 |
| Nymex WTI USD/bbl | 63.1 | -6.6 | 4.5 |
| Gold USD/t oz | 1232.9 | -0.1 | -5.4 |
| Silver USD/t oz | 14.7 | 0.1 | -13.1 |
| Platinum USD/t oz | 868.2 | 4.3 | -6.5 |
| Copper USD/MT | 6255.0 | 1.6 | -12.6 |
| Alluminium | 1968.5 | -1.3 | -12.8 |
| Currencies | | | |
| EUR USD | 1.1388 | -0.1 | -5.1 |
| GBP USD | 1.2970 | 1.1 | -4.0 |
| USD JPY | 113.20 | 1.2 | 0.5 |
| CHF USD | 1.0035 | 0.7 | -2.9 |
| Rates | | | |
| USD Libor 3m | 2.5924 | 2.9 | 53.0 |
| USD Libor 12m | 3.1049 | 1.6 | 47.4 |
| UAE Eibor 3m | 2.7163 | 1.8 | 51.3 |
| UAE Eibor 12m | 3.4990 | 1.7 | 35.8 |
| US 3m Bills | 2.3142 | -0.2 | 68.2 |
| US 10yr Treasury | 3.2121 | 4.4 | 33.5 |

## Summary market outlook

| | |
|---|---|
| Global Yields | The 10-year US Treasuries yields jumped after strong job market data, especially the wage growth number. We expect the 10-year yield will remain range bound between 3% and 3.5% as a further uptick in yields will only trigger a buying opportunity for long-duration fixed income investors. |
| Stress and Risk Indicators | The VIX moved lower than last week as risk-off sentiment subsided. We believe that volatility is unlikely to remain low given the backdrop of markets' fear of central bank policy normalization and trade tensions. |
| **Equity Markets** | |
| Local Equity Markets | GCC equity markets performed well this week, shrugging off the decline in oil prices. 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. |
| Global Equity Markets | Global equities rebounded. Some rebound was in the cards. The hope of getting some kind of trade deal between the US and china, as tweeted by the US president, was helpful too. Overall, we believe that with any upward adjustment in interest rates, we could witness more equity market corrections in the short-term. We remain neutral on global stocks and underweight on emerging stocks as the global risk reward trade-off continues to deteriorate with cooling global growth, higher US rates and a stronger US dollar. |
| **Commodities** | |
| Precious Metals | Gold prices ended the week with a modest loss as risk-off sentiment subsided. We remain overweight on gold as a risk hedge against ongoing political and (potential) inflationary risks. |
| Energy | Oil prices declined sharply with no strong fundamental reason, except – perhaps – the announcement that eight major oil importers would be temporarily exempted from Iran sanctions. Overall the oil price is likely to remain sustained as the market is roughly balanced, supported by OPEC 2.0. discipline and Iran related geopolitical tensions might even trigger temporary spikes. |
| Industrial Metals | Industrial metals remained under pressure with China growth concerns weighing on the sentiment. We do not recommend industrial metals exposure as China reigns in demand. |
| **Currencies** | |
| EURUSD | The euro remained largely flattish 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 1.1536 · R1 1.1462 · S1 1.1308 · S2 1.1228 |
| GBPUSD | The pound strengthened versus the greenback. The British pound receives support as markets eye Brexit deal. 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 1.3247 · R1 1.3109 · S1 1.2764 · S2 1.2557 |
| USDJPY | The yen weakened versus the dollar. We believe there will remain a bias for yen strength as emerging markets concerns will not abate soon. |
| Critical levels | R2 114.40 · R1 113.80 · S1 112.19 · S2 111.18 |

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 |
|---|---|---|---|---|---|
| 11/07/2018 | MBA Mortgage Applications | 2-Nov | -- | -2.50% | Eyes will be on FOMC meeting this week. Also, MBA and initial jobless claims will be important. |
| 11/08/2018 | Initial Jobless Claims | 3-Nov | 214K | 214K | |
| 11/08/2018 | FOMC meeting | 8-Nov | No Change | | |
| 11/09/2018 | U. of Mich. Sentiment | Nov P | 97.9 | 98.6 | |

### Japan

| | Indicator | Period | Expected | Prior | Comments |
|---|---|---|---|---|---|
| 11/08/2018 | BoP Current Account Balance | Sep | ¥1786.5b | ¥18384.b | Current account balance data will be important. |

### Eurozone

| | Indicator | Period | Expected | Prior | Comments |
|---|---|---|---|---|---|
| 11/06/2018 | PPI YoY | Sep | 4.30% | 4.20% | Focus will be on ECB Economic Bulletin. |
| 11/07/2018 | Retail Sales YoY | Sep | 0.80% | 1.80% | |
| 11/08/2018 | Trade Balance (GE) | Sep | 20.0b | 17.2b | |
| 11/08/2018 | ECB Publishes Economic Bulletin | | | | |

### United Kingdom

| | Indicator | Period | Expected | Prior | Comments |
|---|---|---|---|---|---|
| 11/07/2018 | Halifax House Prices MoM | Oct | 0.80% | -1.40% | GDP data will be closely scrutinized in the UK. |
| 11/09/2018 | Trade Balance | Sep | -£1500 | -£1274 | |
| 11/09/2018 | Industrial Production YoY | Sep | 0.40% | 1.30% | |
| 11/09/2018 | GDP QoQ | 3Q P | 0.60% | 0.40% | |
| 11/09/2018 | GDP YoY | 3Q P | 1.50% | 1.20% | |

### China and India

| | Indicator | Period | Expected | Prior | Comments |
|---|---|---|---|---|---|
| 11/05/2018 | BoP Current Account Balance (CH) | 3Q P | -- | $5.3b | All eyes will be on China November releases for foreign reserves, exports, CPI, and BoP current account balance. |
| 11/07/2018 | Foreign Reserves (CH) | Oct | -- | $3087.03b | |
| 11/08/2018 | Trade Balance (CH) | Oct | -- | $31.69b | |
| 11/08/2018 | Exports YoY (CH) | Oct | -- | 14.50% | |
| 11/09/2018 | CPI YoY (CH) | Oct | -- | 2.50% | |

## 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
7.

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