

Mixed appetite in spite of earnings optimism

Global equity markets lacked appetite as the earnings season optimism was offset by the continued global growth concerns, “hawkish” Fed minutes pushing US rates higher and geopolitical worries weighing on the sentiment. In the US, the S&P 500 ended flat in spite of upbeat earning results coming from financials while the technology sector continued to remain under pressure. In terms of overall equity market performance, emerging market stocks underperformed the most, mainly on account of dollar strength gaining momentum. The dollar index rose versus the other currencies as the Fed meeting minutes reinforced the “hawkish” bias of the central bank. Market concerns about the Fed possibly moving to a “restrictive” policy stance pushed the 10-year yields higher, close to the 3.20% level. Risk-off sentiment still prevailed as markets grappled with the rising uncertainty on Italy’s fiscal policy while no decisive outcome from the Brussels summit raised the possibility of a “no-deal” Brexit. Gold turned out to be the markets’ safe-haven asset of choice in spite of the backdrop of stronger dollar bias. Oil prices remained under pressure and moved lower again last week on concerns of rising US stockpiles and slowing global growth. Industrial metals also fell with stronger dollar and disappointing China GDP release weighing on the appetite.

US 3Q GDP and ECB meeting in focus

The release of the minutes of the last-September FOMC meeting revealed Fed’s confidence in raising policy rates. More importantly, markets became apprehensive about the possibility of a “restrictive Fed” policy going into 2019 i.e. the fed raising beyond the neutral rate. Based on the September meeting dot plot projections, the possibility of the Fed moving above its long-term indicated neutral rate (median at 3%) will only happen by end of next year. The minutes also highlighted the likelihood of the Fed only considering the incoming economic data as a baseline for future policy moves. This means that the indicated long-term neutral policy rate is unlikely to be revised upwards. Long-term US rates are trading at levels way above the indicated long-term targeted neutral rate and are pricing in that the possibility that the Fed could hike more than its rate hike projections (unlikely to happen). As such, we believe that the 10-year US treasury yields should stabilise over time.

In the upcoming week, market attention will be on the advance estimate of US 3Q GDP. Markets are expecting some deceleration in growth, but overall the GDP print should point to robust economic activity. At the same time, an upbeat number will again push markets expectations of future Fed rate hikes, particularly for the December meeting and also next year. In Europe, the focus will be on the ECB meeting. Investors will be more interested in looking for the timing for the first rate rise if hinted by the central bank. Markets have pushed back the possibility of first rate hike after taking into account the uncertainty emerging from Italy.

Past week global markets’ performance

Index Snapshot (World Indices)

Index	Latest	Weekly Chg %	YTD %
S&P 500	2,767.8	0.0	3.5
Dow Jones	25,444.3	0.4	2.9
Nasdaq	7,449.0	-0.6	7.9
DAX	11,553.8	0.3	-10.6
Nikkei 225	22,532.1	-0.7	-1.0
FTSE 100	7,049.8	0.8	-8.3
Sensex	34,315.6	-1.2	0.8
Hang Seng	25561.4	-0.9	-14.6
Regional Markets (Sunday to Thursday)			
ADX	4988.7	1.2	13.4
DFM	2757.7	1.6	-18.2
Tadaw ul	7648.2	5.3	5.8
DSM	10193.0	3.8	19.6
MSM30	4444.34	-1.2	-12.8
BHSE	1323.5	0.6	-0.6
KWSE	5004.0	0.2	-
MSCI			
MSCI World	2,062.3	-0.1	-2.0
MSCI EM	971.5	-0.9	-16.1

Global Commodities, Currencies and Rates

Commodity	Latest	Weekly Chg %	YTD %
ICE Brent USD/bbl	79.8	-0.8	19.3
Nymex WTI USD/bbl	69.1	-3.1	14.4
Gold USD/t oz	1226.5	0.8	-5.9
Silver USD/t oz	14.6	0.3	-13.7
Platinum USD/t oz	830.9	-0.9	-10.5
Copper USD/MT	6191.5	-2.1	-13.5
Alluminium	2010.5	-1.2	-11.0
Currencies			
EUR USD	1.1514	-0.4	-4.1
GBP USD	1.3076	-0.6	-3.2
USD JPY	112.55	0.3	-0.1
CHF USD	0.9960	0.3	-2.2
Rates			
USD Libor 3m	2.4772	1.7	46.2
USD Libor 12m	3.0204	1.9	43.4
UAE Eibor 3m	2.6525	-1.0	47.8
UAE Eibor 12m	3.4628	0.2	34.4
US 3m Bills	2.3040	1.8	67.5
US 10yr Treasury	3.1921	1.0	32.7

Luciano Jannelli, Ph.D., CFA

Head Investment Strategy

Tel: +971 (0)2 696 2340

luciano.jannelli@adcb.com

Prerana Seth

Fixed Income Strategist

Tel: +971 (0)2 696 2878

prerana.seth@adcb.com

Mohammed Al Hemeiri

Analyst

Tel: +971 (0)2 696 2236

mohammed.alhemeiri@adcb.com

Visit [Investment Strategy Webpage](#)

to read our other reports

Summary market outlook

Bonds

Global Yields The 10-year US Treasuries yields jumped higher on “hawkish” Fed minutes. We expect the 10-year yield to remain consolidated below 3% as further uptick in yields will only trigger a buying opportunity for long-duration fixed income investors.

Stress and Risk Indicators The VIX levels jumped in line with the sell-off in the equity market. However, 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 markets stabilized a bit while geopolitical tensions remained. 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 had a mixed week as markets were unmoved by the earnings optimism with global growth concerns, rising US rates and geopolitical tensions still overpowering the sentiment. US equities ended flat with the technology sector suffering the most. Emerging market equities underperformed the most as the dollar strengthened on hawkish Fed minutes. 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 moved higher in spite of stronger dollar bias. We remain overweight on gold as a risk hedge against ongoing political and (potential) inflationary risks.

Energy Oil prices declined sharply on the back of concerns on global growth slowdown. 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 fell with disappointing China GDP release weighing on the sentiment. We do not recommend industrial metals exposure as China reigns in demand.

Currencies

EURUSD The euro depreciated versus 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 →	1.1595	R1 →	1.1555	S1 →	1.1453	S2 →	1.1392
-------------	--------	-------------	--------	-------------	--------	-------------	--------

GBPUSD The pound weakened versus the greenback as the possibility of “no-deal” Brexit rose after the unsuccessful Brussel summit. 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 →	1.3157	R1 →	1.3116	S1 →	1.3023	S2 →	1.2971
-------------	--------	-------------	--------	-------------	--------	-------------	--------

USDJPY The yen depreciated versus the dollar, tracking the rise in 10-year US treasury yields. We believe there will remain a bias for yen strength as emerging markets concerns will not abate soon.

Critical levels

R2 →	113.08	R1 →	112.81	S1 →	112.12	S2 →	111.69
-------------	--------	-------------	--------	-------------	--------	-------------	--------

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
10/22/2018	Chicago Fed Nat Activity Index	Sep	0.22	0.18	
10/24/2018	MBA Mortgage Applications	19-Oct	--	-7.10%	
10/24/2018	New Home Sales MoM	Sep	-0.60%	3.50%	
10/25/2018	Wholesale Inventories MoM	Sep P	0.50%	1.00%	Focus will be on the US GDP 3Q data.
10/25/2018	Durable Goods Orders	Sep P	-1.50%	4.40%	
10/25/2018	Initial Jobless Claims	20-Oct	213K	210K	
10/26/2018	GDP Annualized QoQ	3Q A	3.40%	4.20%	
10/26/2018	Univ. of Mich. Sentiment	Oct F	99	99	

Japan

	Indicator	Period	Expected	Prior	Comments
10/22/2018	All Industry Activity Index MoM	Aug	0.40%	0.00%	
10/23/2018	Machine Tool Orders YoY	Sep F	--	2.80%	CPI will be important.
10/24/2018	Japan PMI Mfg	Oct P	--	52.5	
10/26/2018	CPI YoY	Oct	1.50%	1.30%	
10/26/2018	CPI Ex-Fresh Food YoY	Oct	1.00%	1.00%	

Eurozone

	Indicator	Period	Expected	Prior	Comments
10/23/2018	PPI YoY (GE)	Sep	3.00%	3.10%	
10/24/2018	Markit Manufacturing PMI	Oct P	53	53.2	ECB meeting and IFO survey are the highlights in Europe.
10/25/2018	IFO Business Climate (GE)	Oct	103.1	103.7	
10/25/2018	IFO Expectations (GE)	Oct	100.4	101	
10/25/2018	ECB meeting	25-Oct	No change		
10/27/2018	Retail Sales YoY (GE)	Sep	1.20%	1.60%	

United Kingdom

	Indicator	Period	Expected	Prior	Comments
10/28/2018	Nationwide House PX MoM	Oct	--	0.30%	Attention will be on Nationwide House PX MoM.

China and India

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

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.

Disclaimer

ADCB Asset Management Limited (“AAML”), is a member of ADCB Group, licensed by Financial Services Regulatory Authority in Abu Dhabi Global Markets under financial services permission number 170036.

This publication is intended for general information purposes only. It should not be construed as an offer, recommendation or solicitation to purchase or dispose of any securities or to enter in any transaction or adopt any hedging, trading or investment strategy. Neither this publication nor anything contained herein shall form the basis of any contract or commitment whatsoever. Distribution of this publication does not oblige ADCB Group to enter into any transaction.

The content of this publication should not be considered as legal, regulatory, credit, tax or accounting advice. Anyone proposing to rely on or use the information contained in the publication should independently verify and check the accuracy, completeness, reliability and suitability of the information and should obtain independent and specific advice from appropriate professionals or experts regarding information contained in this publication. Investment products are not available to US persons.

Information and opinions contained herein is are based on various sources, including but not limited to public information, annual reports and statistical data that AAML considers accurate and reliable. However, AAML makes no representation or warranty as to the accuracy or completeness of any statement made in or in connection with this publication and accepts no responsibility whatsoever for any loss or damage caused by any act or omission taken as a result of the information contained in this publication. This publication is intended for customers who are either retail or professional investors.

Charts, graphs and related data or information provided in this publication are intended to serve for illustrative purposes only. The information contained in this publication is prepared as of a particular date and time and will not reflect subsequent changes in the market or changes in any other factors relevant to their determination. All statements as to future matters are not guaranteed to be accurate. AAML expressly disclaims any obligation to update or revise any forward looking statement to reflect new information, events or circumstances after the date of this publication or to reflect the occurrence of unanticipated events.

ADCB Group does and may at any time solicit or provide commercial banking, investment banking, credit, advisory or other services to the companies covered in its publications. As a result, recipients of this publication should be aware that any or all of foregoing services may at time give rise to a conflict of interest that could affect the objectivity of this publication. Opinions expressed herein may differ from opinions expressed by other businesses or affiliates of ADCB Group.

Past performance does not guarantee future results. Investment products are not bank deposits and are not guaranteed by ADCB Group. They are subject to investment risk, including possible of loss of principal amount invested. This publication may not be reproduced or circulated without ADCB Group written authority. The manner of circulation and distribution may be restricted by law or regulation in certain jurisdictions. Persons who come into possession of this document are required to inform themselves of, and to observe such restrictions. Any unauthorized use, duplication, or disclosure of this document is prohibited by law and may result in prosecution.