The Weekly Market View

September 17 2018

ADCB بنك أبوظبي التجاري

Another relief rally, yet risks remain

Global equity markets posted a relief rally as trade tensions eased slightly on reports of the US administration approaching China to discuss trade policy. As a result, risk appetite improved while demand for safe-haven assets waned. Trade-talks sensitive European equities posted a positive weekly return. Japanese equities outperformed the most due to yen weakness as safe-haven appetite waned. At the same time, dollar depreciated versus other currencies due to the ease in trade tensions and disappointing US inflation release. The dollar weakness along with EM central banks undertaking measures (Turkey and Russia raising policy rates), led to an improvement in appetite for emerging market assets. Emerging market equities slightly recovered, ending the week in the positive territory. Elsewhere, the 10-year US treasury yields jumped close to 3% level, in spite of weaker than expected inflation release, as appetite for safe-haven assets reduced. Similarly, the 10-year German bunds and the UK gilts counterpart also tracked the rise in the 10-year US yields. Oil prices rose higher with Brent Crude almost touching USD80/bbl level mainly on supply-related concerns ahead of the potential Iran sanctions. Concerns about the possible impact of Hurricane Florence also pushed the USD crude benchmark higher.

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

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

Light week ahead but focus on trade policy

The coming week will be light in terms of economic data releases, such that market attention will mainly be on trade and tariff developments. The BoJ is scheduled to meet this week with no policy change expected but the central bank is likely to assess the impact of recent widening of the trading range of its yield curve control policy. In Europe, markets will be closely tracking the inflation numbers while in the US, housing market data will be important. However, global markets attention will be mainly centered on the development in US-China trade policy. In spite of last week's report of US administration plans of reaching out to China, recent developments indicate that President Trump is slated to move ahead with tariffs on USD200bn of Chinese imports, although at a lower rate of 10% from previously indicated 25%. As such, we believe that trade tensions are likely to persist and dollar strength with remain buoyed with the escalation of these tensions, putting pressure on emerging market assets. In addition, August investment activity data for China released last week continued to show signs of further growth slowdown in China. As such, in spite of the recent relief rally in EM assets, the long-term pain in terms of dollar strength, tightening US financial conditions and China slowdown is unlikely to fade away, explaining our underweight stance on emerging market assets.

Past week global markets' performance

Index Snapshot (World Indices)

Index	Latest	Weekly Chg %	YTD %
S&P 500	2,905.0	1.2	8.7
Dow Jones	26,154.7	0.9	5.8
Nasdaq	8,010.0	1.4	16.0
DAX	12,124.3	1.4	-6.1
Nikkei 225	23,094.7	3.5	1.4
FTSE 100	7,304.0	0.4	-5.0
Sensex	38,090.6	-0.8	11.8
Hang Seng	27286.4	1.2	-8.8
Regional Markets (Sunday to Thursday)			
ADX	4934.4	0.3	12.2
DFM	2809.9	-1.2	-16.6
Tadawul	7590.7	-1.8	5.0
DSM	10022.0	2.6	17.6
MSM30	4558.51	2.4	-10.6
BHSE	1345.0	0.1	1.0
KWSE	5139.6	0.0	-
MSCI			
MSCI World	2,166.6	1.4	3.0
MSCI EM	1,028.5	0.5	-11.2

Global Commodities, Currencies and Rates

Commodity	Latest	Weekly Chg %	YTD %
ICE Brent USD/bbl	78.1	1.6	16.8
Nymex WTI USD/bbl	69.0	1.8	14.2
Gold USD/t oz	1194.9	-0.2	-8.3
Silver USD/t oz	14.1	-0.8	-17.0
Platinum USD/t oz	795.9	1.7	-14.3
Copper USD/MT	5946.5	1.1	-16.9
Alluminium	2007	-1.4	-11.1
Currencies			
EUR USD	1.1625	0.6	-3.2
GBP USD	1.3068	1.1	-3.3
USD JPY	112.06	1.0	-0.6
CHF USD	0.9684	-0.1	0.6
Rates			
USD Libor 3m	2.3371	0.3	37.9
USD Libor 12m	2.8802	1.2	36.7
UAE Eibor 3m	2.6145	5.9	45.7
UAE Eibor 12m	3.1990	0.7	24.1
US 3m Bills	2.1426	0.6	55.7
US 10yr Treasury	2.9959	1.9	24.5

Summary market outlook

Bonds	
Global Yields	The US Treasuries yields jumped near 3% level on ease in trade tensions, even though inflation data was weaker than expected. Overall, 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 declined in line with ease in trade tensions and stock market rally. 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 were mostly mixed in spite of the rise in lower oil prices while further Saudi profit taking not helping the sentiment. 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 rallied on reports of possible trade discussions between the US and China. Japanese equities were the best performer as yen weakened with risk-on sentiment gathering steam. On the other hand, trade-talks sensitive European equities moved in the positive territory while emerging market equities also performed well on account of dollar weakness. Overall, 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 were mostly unchanged in spite of weak dollar demand. We remain overweight on gold as a risk hedge against ongoing political and (potential) inflationary risks.
Energy	Oil prices jumped higher on supply-led concerns ahead of potential 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 were mixed even though dollar depreciated last week. We do not recommend industrial metals exposure as China reigns in demand.
Currencies	
EURUSD	The euro appreciated versus the dollar. We expect the euro to remain under pressure due to the diverging monetary policies between the Fed and the ECB.
GBPUSD	The pound strengthened against the US dollar. 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.
USDJPY	The yen depreciated versus the dollar as safe-haven appetite waned. We believe there will remain a bias for yen strength as emerging markets concerns will not abate soon.

Critical levels	R2	R1	S1	S2
EURUSD	1.1757	1.1691	1.1590	1.1555
GBPUSD	1.3176	1.3122	1.3035	1.3003
USDJPY	112.41	112.23	111.82	111.58

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
09/18/2018	NAHB Housing Market Index	Sep	66	67	Focus will be on the housing data.
09/19/2018	MBA Mortgage Applications	14-Sep	--	-1.80%	
09/19/2018	Housing Starts	Aug	1235K	1168K	
09/19/2018	Housing Starts MoM	Aug	5.70%	0.90%	
09/20/2018	Initial Jobless Claims	15-Sep	--	--	
09/20/2018	Existing Home Sales MoM	Aug	0.80%	-0.70%	

Japan

	Indicator	Period	Expected	Prior	Comments
09/19/2018	Trade Balance	Aug	3.10%	3.10%	All eyes will be on the BoJ MPC meeting.
09/19/2018	BoJ MPC Meeting	19-Sep	No change		
09/21/2018	Nikkei PMI Mfg	Sep P	--	52.5	
09/21/2018	Natl CPI YoY	Aug	1.10%	0.90%	

Eurozone

	Indicator	Period	Expected	Prior	Comments
09/17/2018	CPI Core YoY	Aug F	1.00%	1.00%	Focus will be on the inflation data.
09/17/2018	CPI YoY	Aug F	2.00%	2.10%	
09/19/2018	ECB Current Account SA	Jul	--	23.5b	
09/21/2018	Markit Eurozone Manufacturing PMI	Sep P	54.5	54.6	

United Kingdom

	Indicator	Period	Expected	Prior	Comments
09/17/2018	Rightmove House Prices MoM	Sep	--	-2.30%	Attention will be on CPI and retail sales.
09/19/2018	CPI YoY	Aug	2.40%	2.50%	
09/19/2018	CPI Core YoY	Aug	1.80%	1.90%	
09/19/2018	RPI YoY	Aug	3.20%	3.20%	
09/20/2018	Retail Sales Ex Auto Fuel YoY	Aug	2.30%	3.70%	
09/20/2018	Retail Sales Inc Auto Fuel MoM	Aug	-0.20%	0.70%	

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

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.