The Weekly Market View

September 10 2018

Emerging market woes hit again

Global equity markets came again under pressure as a strong US labor confirmed that the Fed will stay its course on further rate hikes, and Donald Trump indicated that he shortly intends to slap tariffs on another 200 billion of imports from China. Not surprisingly, emerging markets were hit the most, but also the export-heavy German, UK and Japan indices, as well as the tech sector, lost significantly. The technology sector came also under pressure because of concerns of renewed US regulation. US yields rose with the strong labor data, although in a moderate fashion. The fact that the US labor market added in August more than 200'000 new jobs, combined with a year-over-year increase in salaries of 2.9%, in fact, means that the Fed will not change its hawkish tone for the next coming months. We would like to put this all in perspective. For the US economy, wage growth below 3% is not particularly significant in the late phase of an economic expansion. Also, growth is likely to stabilize rather than further increase, such that a further rise in long-term yields seems unlikely. As such, even with the Fed further hiking rates through 2018, the relatively moderate yield curve change mains that growth will not go away, as confirmed by the ISM indicator shooting above the 60 level. In such scenario operating earnings of S&P 500 companies will also continue to grow in the order of 20%. We are neutral on global equities because global growth is slowing, but if any equity market will continue to do well, that is the US market.

Trade talks, and ECB and BoE meeting in focus

The coming week will be relatively data light, such that market attention will mainly be on trade and tariff developments. The ECB and BoE meetings will be important too, although we do not expect major policy changes. Both central banks will remain cautious and are unlikely to announce any change in their policies of gradual withdrawal of accommodation. More important – in Europe – are the concerns regarding Brexit and the Italian government budget deficit. On the Brexit front, we think that the talks are gradually converging to a withdrawal agreement with little clarity about the future relationship (i.e. after 2020). As far as the Italian budget is concerned, we would expect the populist government to ultimately abide to the EU budget rules. The thing to watch, thus, will be mainly the trade issue between the US and China, as well as between the US and Canada. As for the latter, we believe that ultimately the two countries will strike a deal such that a trilateral NAFTA framework (including the US, Mexico *and* Canada) will be preserved. Global markets, however, will be much more concerned with US-China trade. We think that the situation will deteriorate with the additional USD200bn worth of Chinese imports, "promised" by President Trump. This further escalation of tensions will boost the greenback, implying further downward pressure on the emerging market currencies. It's not over until it is over.

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Past week global markets' performance

Index Snapshot (World Indices)

Index	Latest	Weekly Chg %	YTD %
S&P 500	2,871.7	-1.0	7.4
Dow Jones	25,916.5	-0.2	4.8
Nasdaq	7,902.5	-2.6	14.5
DAX	11,959.6	-3.3	-7.4
Nikkei 225	22,307.1	-2.4	-2.0
FTSE 100	7,277.7	-2.1	-5.3
Sensex	38,389.8	-0.7	12.7
Hang Seng	26973.5	-3.3	-9.8
Regional Markets (Sunday to Thursday)			
ADX	4918.3	-0.4	11.8
DFM	2826.6	-0.5	-16.1
Tadawul	7687.8	-2.9	6.4
DSM	9826.8	-0.4	15.3
MSM30	4432.56	-0.1	-13.1
BHSE	1339.9	0.2	0.6
KWSE	5149.4	0.2	-
MSCI			
MSCI World	2,137.6	-1.7	1.6
MSCI EM	1,023.0	-3.1	-11.7

Global Commodities, Currencies and Rates

Commodity	Latest	Weekly Chg %	YTD %
ICE Brent USD/bbl	76.8	-0.8	14.9
Nymex WTI USD/bbl	67.8	-2.9	12.1
Gold USD/t oz	1196.9	-0.3	-8.1
Silver USD/t oz	14.2	-2.5	-16.3
Platinum USD/t oz	782.3	-0.7	-15.7
Copper USD/MT	5883.0	-2.3	-17.8
Alluminium	2036.25	-3.5	-9.8
Currencies			
EUR USD	1.1553	-0.4	-3.8
GBP USD	1.2920	-0.3	-4.4
USD JPY	110.99	-0.0	-1.5
CHF USD	0.9692	0.0	0.5
Rates			
USD Libor 3m	2.3313	0.5	37.6
USD Libor 12m	2.8455	0.2	35.1
UAE Eibor 3m	2.6250	0.3	46.2
UAE Eibor 12m	3.1073	-2.9	20.6
US 3m Bills	2.1298	1.7	54.8
US 10yr Treasury	2.9388	2.7	22.2

Summary market outlook

Bonds	
Global Yields	The US Treasuries rose on upward revisions of the ISM and a strong labor market report. However, the rise in yield was contained on account of lurking trade tensions. 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 rose slightly as emerging market risks and trade concerns persisted. 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 down with lower oil prices, and 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 corrected significantly with US labour market data setting the tone for continuing Fed hikes, as well as because of persisting trade worries. US equities outperformed because of their lower global beta, whilst the US tech sector corrected significantly on trade and regulation concerns. Japan and European stocks did particularly bad, together with Emerging equities. 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 came down on global growth concerns. 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 came down with emerging market concerns. We do not recommend industrial metals exposure as China reigns in demand.
Currencies	
EURUSD	The euro was mainly flat 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 1.1683 · R1 1.1618 · S1 1.1519 · S2 1.1486
GBPUSD	The pound was also mainly flat 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.
Critical levels	R2 1.3072 · R1 1.2996 · S1 1.2876 · S2 1.2833
USDJPY	The yen was flat versus the dollar. We believe there will remain a bias for yen strength as emerging markets concerns will not abate soon.
Critical levels	R2 111.74 · R1 111.37 · S1 110.50 · S2 110.01

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
09/11/2018	Wholesale Inventories MoM	Jul F	0.70%	0.70%	All eyes will be on wholesale Inventories, MBA mortgage, initial jobless. Also, Retail Sales will be important.
09/12/2018	MBA Mortgage Applications	7-Sep	--	-0.10%	
09/13/2018	CPI YoY	Aug	2.80%	2.90%	
09/13/2018	Real Avg Hourly Earning YoY	Aug	--	-0.20%	
09/13/2018	Initial Jobless Claims	8-Sep	210K	203K	
09/14/2018	Retail Sales Advance MoM	Aug	0.40%	0.50%	
09/14/2018	Industrial Production MoM	Aug	0.30%	0.10%	
09/14/2018	Capacity Utilization	Aug	78.30%	78.10%	
09/14/2018	U. of Mich. Sentiment	Sep P	96.8	96.2	

Japan

	Indicator	Period	Expected	Prior	Comments
09/10/2018	GDP SA QoQ	2Q F	0.70%	0.50%	Final Q2 GDP growth will be the main point out of Japan.
09/10/2018	BoP Current Account Balance	Jul	¥1900.4b	¥1175.6b	
09/11/2018	Tertiary Industry Index MoM	Jul	0.10%	-0.50%	
09/13/2018	PPI YoY	Aug	3.10%	3.10%	
09/14/2018	Industrial Production MoM	Jul F	--	-0.10%	

Eurozone

	Indicator	Period	Expected	Prior	Comments
09/12/2018	Capacity Utilization Rate	2Q	54.6	54.6	Attention will be on ECB meeting.
09/13/018	CPI YoY (GE)	Aug F	3.90%	3.60%	
09/13/2018	ECB Meeting	13-Sep	No change		

United Kingdom

	Indicator	Period	Expected	Prior	Comments
09/10/2018	Industrial Production YoY	Jul	1.10%	1.10%	All attention will be on BOE Meeting
09/13/2018	BOE Meeting	Sep	No change		

China and India

	Indicator	Period	Expected	Prior	Comments
0910/2018	CPI YoY (CH)	Aug	2.10%	2.10%	All eyes will be in China August releases for CPI. In India, exports, and WPI will be important.
09/10/2018	Aggregate Financing CNY (CH)	Aug	1298.4b	1041.5b	
09/10/2018	New Yuan Loans CNY (CH)	Aug	1370.0b	1450.0b	
09/12/2018	CPI YoY (IN)	Aug	3.79%	4.17%	
09/12/2018	Exports YoY (IN)	Aug	--	14.30%	
09/14/2018	Wholesale Prices YoY (IN)	Aug	4.62%	5.09%	

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

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