The Weekly Market View

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Markets shrugged off trade tariff escalations

Global equity markets gained over the week, shrugging off last week's escalation of import tariffs by US and China. US administration pushed ahead with 10% tariff on USD250bn worth of Chinese imports which was then followed with China retaliating by imposing tariffs on USD60bn worth of US imports. However, market reaction to these escalations were muted, may be the reduction of tariff rate from 25% to 10% being interpreted as a sign for possible negotiations between the two countries. US equity markets jumped to new record highs, but industrial stocks led by DowJones (sensitive to US-China trade tensions) outperformed the most with trade tensions being sidelined. Overall, Japanese stocks were the best performers, driven by yen weakness as demand for safe-haven assets declined further. Similarly, European equities and emerging market equities, both vulnerable to escalation of trade tensions, also rallied. The dollar depreciated versus the euro, recording losses for the second week in a row, as trade tensions took a backseat. Dollar weakness eased pressure off the global commodities, particularly industrial metals. Oil prices jumped for the third consecutive week, driven by reports of further decline in US crude inventories and as markets prepared themselves ahead of the new sanctions in Iran due in six weeks. Finally, US treasury bonds were sold-off for another week and the 10-year yield remained above 3% as safe-haven appetite waned.

All eyes on the Fed meeting

Last week's muted market reaction to escalation of trade tariffs is unlikely to sustain as the new tariffs formally kick-in this week. Hopes of further negotiations between both the countries have again diminished after China, over the weekend, cancelled its plans of visiting Washington for trade discussions. President Trump has indicated that the current 10% levy on USD200bn could be raised to 25% by end of this year and further could be extended to cover all imports from China (in case of further retaliation by China). As such, the latest round of tariffs has raised the risk of escalation even beyond the mid-term election. Another market driving event this week will be the Fed meeting where the Fed is expected to raise rates by 25bp, marking the eighth hike in the current cycle. With another 25bp hike in December already being priced in, markets will be focusing more on any changes in dot plot projections for 2019. We believe that given the backdrop of strong employment numbers and upbeat wage gains recently, the Fed will be more skewed towards a hawkish tilt. This should rekindle the dollar surge and any upward revisions in rate hike projections for next year will only firm up the dollar strength further and also leading to a flatter treasury yield curve.

Past week global markets' performance

Index Snapshot (World Indices)

Index	Latest	Weekly Chg %	YTD %
S&P 500	2,929.7	0.8	9.6
Dow Jones	26,743.5	2.3	8.2
Nasdaq	7,987.0	-0.3	15.7
DAX	12,430.9	2.5	-3.8
Nikkei 225	23,869.9	3.4	4.9
FTSE 100	7,490.2	2.5	-2.6
Sensex	36,841.6	-3.3	8.2
Hang Seng	27953.6	2.4	-6.6
Regional Markets (Sunday to Thursday)			
ADX	4883.4	-1.7	11.0
DFM	2764.4	-0.4	-18.0
Tadaw ul	7768.3	4.0	7.5
DSM	9766.3	-1.8	14.6
MSM30	4495.31	-1.5	-11.8
BHSE	1340.1	-0.1	0.6
KWSE	5147.7	0.2	-
MSCI			
MSCI World	2,200.0	1.5	4.6
MSCI EM	1,051.4	2.2	-9.2

Global Commodities, Currencies and Rates

Commodity	Latest	Weekly Chg %	YTD %
ICE Brent USD/bbl	78.8	0.9	17.8
Nymex WTI USD/bbl	70.8	2.6	17.1
Gold USD/t oz	1200.0	0.4	-7.9
Silver USD/t oz	14.3	1.7	-15.6
Platinum USD/t oz	828.0	4.0	-10.8
Copper USD/MT	6203.0	4.3	-13.3
Alluminium	2074.5	3.4	-8.1
Currencies			
EUR USD	1.1749	1.1	-2.1
GBP USD	1.3072	0.0	-3.3
USD JPY	112.59	0.5	-0.1
CHF USD	0.9587	-1.0	1.6
Rates			
USD Libor 3m	2.3726	1.5	40.0
USD Libor 12m	2.9083	1.0	38.0
UAE Eibor 3m	2.5735	1.0	43.4
UAE Eibor 12m	3.3095	2.3	28.4
US 3m Bills	2.1631	1.0	57.2
US 10yr Treasury	3.0628	2.2	27.3

Summary market outlook

Bonds	
Global Yields	The US Treasuries yields remained above the 3% level as markets ignored the recent US-China trade escalation. 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 the 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 but Saudi markets stabilized with higher oil prices while Kuwait gained ahead of the FTSE inclusion. 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 rose, shrugging off the escalation of US-China trade tariffs. Within US, industrial stocks led by Dow Jones performed the best. Overall, Japanese equities outperformed, mainly on account of yen weakness. European equities and emerging market stocks also performed well with trade tensions being side-lined. 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 rose for the third consecutive week, helped by reports of decline in crude inventories and as market prepared themselves ahead of the Iran sanctions due in six weeks. 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 rose with the decline in dollar appetite. We do not recommend industrial metals exposure as China reigns in demand.
Currencies	
EURUSD	The euro weakened 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 1.1831 · R1 1.1790 · S1 1.1720 · S2 1.1692
GBPUSD	The pound was volatile during the week as the possibility of "no deal" rose after the "Salzburg" 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 1.3358 · R1 1.3215 · S1 1.2992 · S2 1.2912
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 113.10 · R1 112.84 · S1 112.36 · S2 112.14

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
09/24/2018	Chicago Fed Nat Activity Index	Aug	0.2	0.13	All eyes will be on FOMC meeting. Core PCE is also important.
09/26/2018	MBA Mortgage Applications	21-Sep	--	1.60%	
09/26/2018	New Home Sales	Aug	630K	627K	
09/26/2018	New Home Sales MoM	Aug	0.50%	-1.70%	
09/26/2018	FOMC Rate Decision	26-Sep	25bp hike		
09/27/2018	Wholesale Inventories MoM	Aug P	0.30%	0.60%	
09/27/2018	GDP Annualized QoQ	2Q T	4.20%	4.20%	
09/27/2018	Durable Goods Orders	Aug P	1.90%	-1.70%	
09/27/2018	Initial Jobless Claims	22-Sep	210K	201K	
09/28/2018	PCE Core YoY	Aug	2.00%	2.00%	
09/28/2018	U. of Mich. Sentiment	Sep F	100.5	100.8	

Japan

	Indicator	Period	Expected	Prior	Comments
09/26/2018	Machine Tool Orders YoY	Aug F	--	5.30%	Jobless rate will be important.
09/28/2018	Jobless Rate	Aug	2.50%	2.50%	
09/28/2018	Industrial Production MoM	Aug P	1.50%	-0.10%	

Eurozone

	Indicator	Period	Expected	Prior	Comments
09/24/2018	IFO Business Climate (GE)	Sep	103.2	103.8	IFO survey and inflation releases are the highlights in Europe.
09/17/2018	ECB Publishes Economic Bulletin				
09/19/2018	CPI YoY	Sep P	2.30%	2.30%	
09/21/2018	CPI Core YoY	Sep A	1.10%	1.00%	

United Kingdom

	Indicator	Period	Expected	Prior	Comments
09/28/2018	GDP QoQ	2Q F	0.40%	0.40%	All attention will be on GDP data.
09/28/2018	GDP YoY	2Q F	1.30%	1.30%	
09/28/2018	Nationwide House PX MoM	Sep	0.20%	-0.50%	

China and India

	Indicator	Period	Expected	Prior	Comments
09/28/2018	BoP Current Account Balance (CH)	2Q F	--	$5.8b	In China, BoP Current Account Balance will be important.

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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