The Weekly Market Note

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ADCB بنك أبوظبي التجاري

Global equity markets rebound aborted by tech concerns

Global equity markets experienced a recovery last week, which was however quickly aborted as concerns about demand for the Apple Iphone put downward pressure on the tech market. Whilst credit conditions in the US are likely to remain benign even in the presence of continuing rate hikes, it is the concerns about earnings that is likely to keep some downward pressure on US equity markets. Continuing spending growth in the US, boosted by higher wages, should ultimately provide support to the equity market, but the earnings concerns for the tech sector – combined with the uncertainty about the future path of monetary policy – mean that the volatility is not yet over. The unprecedented US policy mix of significant deficit spending in the context of an ever tighter labor market, i.e. in the context of an increasingly less accommodative monetary policy, will continue to exercise upward pressure on the US dollar. This, combined with China's determination to continue to deleverage its economy, means that emerging equity markets will remain under pressure for the time being. Indeed, the spread between US Treasuries and most emerging market bonds is still at a historically low level and as soon as it will widen, pressure on emerging markets should increase. The Brazilian real would be our first candidate to come under pressure, especially if the new governments decides to, at least partly, monetize its souring domestic debt. The oil price remains under pressure following President's Trump tweet attacking OPEC's intentions to cut supply. We would expect OPEC to be able to stabilize the price at current levels.

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US retail sales, China's industrial production, Brexit and Italy to be most watched

This week will be relatively data poor, but markets will pay attention to US retail sales and China's industrial production. In view of concerns about US company earnings, it will be important to have a confirmation of continuing strong retail sales in October. China industrial production, on the other hand, is expected to remain stable. We would not be surprised to see continuing reduction in industrial production as the authorities continue to curtail credit and investments. This week might finally lead to an agreement between the UK and the EU on the latter's term of departure from the supra-national organization. Such deal is unlikely to give many details on the future relationship, which will have to be negotiated during a transition period that might well last two years. Nonetheless, any deal is likely to be positive for the pound, but not necessarily for UK equities. The key risk remains the impossibility to find an agreement on how to keep the border open between Northern Ireland and the Republic of Ireland. Italy is likely to stick to its 2019 budget plans even in the face of strong opposition from the EU Commission. The Commission is now threatening to sanction the country. We would argue that it will be ultimately the bond markets, and not Commission sanctions, that will force adjustments in Italy's budget. But we are not there yet. Italian yields could still face upward pressure, yet other periphery country yields, such as Spanish and Portuguese yields, should remain resilient. The euro might face renewed downward pressure.

Past week global markets' performance

Index Snapshot (World Indices)

Index	Latest	Weekly Chg %	YTD %
S&P 500	2,781.0	2.1	4.0
Dow Jones	25,989.3	2.8	5.1
Nasdaq	7,406.9	0.7	7.3
DAX	11,529.2	0.1	-10.7
Nikkei 225	22,250.3	0.0	-2.3
FTSE 100	7,105.3	0.2	-7.6
Sensex	35,158.6	0.4	3.2
Hang Seng	25601.9	-3.3	-14.4
Regional Markets (Sunday to Thursday)			
ADX	5028.7	2.2	14.3
DFM	2825.9	1.1	-16.1
Tadawul	7743.4	-1.3	7.2
DSM	10368.2	0.4	21.6
MSM30	4491.34	1.5	-11.9
BHSE	1313.2	-0.1	-1.4
KWSE	5103.9	0.6	-
MSCI			
MSCI World	2,063.2	1.3	-1.9
MSCI EM	976.2	-2.1	-15.7

Global Commodities, Currencies and Rates

Commodity	Latest	Weekly Chg %	YTD %
ICE Brent USD/bbl	70.2	-3.6	4.9
Nymex WTI USD/bbl	60.2	-4.7	-0.4
Gold USD/t oz	1209.7	-1.9	-7.2
Silver USD/t oz	14.2	-3.8	-16.4
Platinum USD/t oz	853.1	-1.7	-8.1
Copper USD/MT	6088.0	-2.7	-14.9
Alluminium	1950.5	-0.9	-13.6
Currencies			
EUR USD	1.1336	-0.5	-5.6
GBP USD	1.2972	0.0	-4.0
USD JPY	113.83	0.6	1.0
CHF USD	1.0056	0.2	-3.1
Rates			
USD Libor 3m	2.6181	1.0	54.5
USD Libor 12m	3.1441	1.3	49.2
UAE Eibor 3m	2.7275	-1.6	51.9
UAE Eibor 12m	3.4615	-0.2	34.3
US 3m Bills	2.3448	1.3	70.4
US 10yr Treasury	3.1819	-0.9	32.3

Summary market outlook

Global Yields	The 10-year US Treasuries yields remained largely flat over the last week, despite a jump in producer's price inflation as growth concerns weighed on. 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	VIX Index continued to moderate as risk-off sentiment eased further. 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 last week in spite of 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 equity markets were divergent as developed markets again out performed emerging markets as dollar resumed its upward trend. 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	As dollar kept its up move, precious metals continued to be under pressure. We remain overweight on gold as a risk hedge against ongoing political and (potential) inflationary risks.
Energy	Oil price remained under pressure due to concerns on rising supply. 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	It was a broader dollar strength that put Euro under pressure. We expect the euro to remain under pressure due to the diverging monetary policies between the Fed and the ECB.
Critical levels	R2 1.1568 · R1 1.1452 · S1 1.1268 · S2 1.1200
GBPUSD	Pound showed some resistance against rising dollar, however, at the end, it also came under pressure. 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 1.3251 · R1 1.3112 · S1 1.2896 · S2 1.2819
USDJPY	Broader dollar strength was visible in USDJPY cross as well. We believe there will remain a bias for yen strength as emerging markets concerns will not abate soon.
Critical levels	R2 114.76 · R1 114.30 · S1 113.16 · S2 112.48

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
11/14/2018	MBA Mortgage Applications	9-Nov	--	-4.00%	MBA mortgage application, CPI, retail sales will be the focus in the US this week.
11/14/2018	CPI YoY	Oct	2.50%	2.30%	
11/14/2018	Real Avg Hourly Earning YoY	Oct	--	0.50%	
11/15/2018	Retail Sales Advance MoM	Oct	0.50%	0.10%	
11/15/2018	Initial Jobless Claims	10-Nov	214K	214K	
11/16/2018	Capacity Utilization	Oct	78.20%	78.10%	

Japan

	Indicator	Period	Expected	Prior	Comments
11/12/2018	PPI YoY	Oct	2.80%	3.00%	Focus will be on PPI and Tertiary industry index. Also, GDP releases will be important.
11/12/2018	Machine Tool Orders YoY	Oct P	--	2.90%	
11/14/2018	GDP SA QoQ	3Q P	-0.30%	0.70%	
11/14/2018	Tertiary Industry Index MoM	Sep	-0.40%	0.50%	
11/14/2018	Industrial Production MoM	Sep F	--	-1.10%	

Eurozone

	Indicator	Period	Expected	Prior	Comments
11/14/2018	GDP SA QoQ (GE)	3Q P	-0.10%	0.50%	Eurozone CPI will be closely tracked by the market.
11/16/2018	CPI Core YoY	Oct F	1.10%	1.10%	
11/16/2018	CPI YoY	Oct F	2.20%	2.10%	

United Kingdom

	Indicator	Period	Expected	Prior	Comments
11/14/2018	CPI YoY	Oct	2.50%	2.40%	Attention will be on CPI and retail sales.
11/14/2018	CPI Core YoY	Oct	1.90%	1.90%	
11/14/2018	RPI YoY	Oct	3.40%	3.30%	
11/15/2018	Retail Sales Ex Auto Fuel YoY	Oct	3.40%	3.20%	
11/15/2018	Retail Sales Inc Auto Fuel YoY	Oct	2.80%	3.00%	

China and India

	Indicator	Period	Expected	Prior	Comments
11/12/2018	CPI YoY (IN)	Oct	3.60%	3.77%	All eyes will be on China November releases for retail sales, and industrial production. In India, focus will be on CPI and WPI releases.
11/12/2018	Industrial Production YoY (IN)	Sep	4.30%	4.30%	
11/14/2018	Retail Sales YoY (CH)	Oct	9.20%	9.20%	
11/14/2018	Industrial Production YoY (CH)	Oct	5.80%	5.80%	
11/14/2018	Wholesale Prices YoY (IN)	Oct	4.93%	5.13%	
11/15/2018	Exports YoY (IN)	Oct	--	-2.20%	

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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