

Markets remain “fed”-up amidst trade uncertainty

The initial euphoria in reaction to the G20 meeting was short-lived as markets remained unclear about the US-China trade truce. Hopes were dashed with lack of clarity on the 90-day hold period (agreement post the G20 meeting) on imposition of trade tariffs and conflicting statements from both the sides post the G20 meeting. Markets also turned more anxious about the ongoing cooling of global growth and the inversion of the 5-2yr part of the yield curve aggravated concerns on the longevity of the current economic cycle. Equity markets across the globe were heavily sold with US tech stocks underperforming the most and also marked the worst week for US equities since March 2018. Increasing trade uncertainty along with the political upheaval in France weighed on the European stocks as well. UK equities continued to remain under pressure with the upcoming parliamentary vote on Mrs. May’s Brexit deal adding to the uncertainty. Risk-off sentiment continued to benefit safe-haven assets with gold prices rising by 2.4% over the week. Long-end US treasury yields also dropped lower to 2.84% while the 5-2yr part of the curve inverted for the first time in the current economic cycle. The greenback weakened against other major currencies with the markets paring their 2019 Fed hike expectations. Elsewhere, oil prices edged higher in reaction to the OPEC meeting where OPEC members and its allies agreed to reduce production by 1.2mln barrels per day. Regional markets held up well amidst the global market volatility with the DFM being the only underperformer in GCC.

UK Parliamentary vote, ECB Meeting and US CPI release in focus this week

Global trade uncertainty is likely to remain in investors’ mind and markets will be looking for any signs or details of trade truce between US-China. However, last week’s arrest of the chief executive of top China tech giant only warrant that the ongoing tensions between the two countries go well beyond trade. As such, the possibility of the US and China agreeing to a trade deal appears challenging amidst the flaring tensions between the two countries. Other than trade, the most important event this week will be the UK parliamentary vote on Prime Minister Theresa May’s Brexit deal. There are increasing chances of Mrs May losing the upcoming parliamentary vote and there are multiple possibilities with different complications which could then follow. However, if Mrs May’s Brexit deal gets defeated with a large majority, then it could have consequences on her leadership role as the Prime Minister too. In such an event, the extension of Article 50 or a second referendum or even a general election are all likely possibilities. As such, pound sterling and UK equities will remain under pressure in the coming weeks. Sticking to Europe, the final ECB MPC meeting of the year is scheduled on 13th December, which could also mark the end of ECB’s asset purchase programme. But the focus will be on the ECB’s forward guidance amidst the weakening economy, increased global trade tensions and Brexit risks.

Past week global markets’ performance

Index Snapshot (World Indices)

| Index | Latest | Weekly Chg % | YTD % |
|---------------------------------------|----------|--------------|-------|
| S&P 500 | 2,633.1 | -4.6 | -1.5 |
| Dow Jones | 24,389.0 | -4.5 | -1.3 |
| Nasdaq | 6,969.3 | -4.9 | 1.0 |
| DAX | 10,788.1 | -4.2 | -16.5 |
| Nikkei 225 | 21,678.7 | -3.0 | -4.8 |
| FTSE 100 | 6,778.1 | -2.9 | -11.8 |
| Sensex | 35,673.3 | -1.4 | 4.7 |
| Hang Seng | 26063.8 | -1.7 | -12.9 |
| Regional Markets (Sunday to Thursday) | | | |
| ADX | 4862.2 | 2.2 | 10.5 |
| DFM | 2592.2 | -3.3 | -23.1 |
| Tadawul | 7843.0 | 0.1 | 8.5 |
| DSM | 10620.9 | 2.7 | 24.6 |
| MSM30 | 4554.69 | 3.0 | -10.7 |
| BHSE | 1318.8 | -0.9 | -1.0 |
| KWSE | 5193.7 | 1.5 | - |
| MSCI | | | |
| MSCI World | 1,965.2 | -3.7 | -6.6 |
| MSCI EM | 981.4 | -1.3 | -15.3 |

Global Commodities, Currencies and Rates

| Commodity | Latest | Weekly Chg % | YTD % |
|-------------------|--------|--------------|-------|
| ICE Brent USD/bbl | 61.7 | 5.0 | -7.8 |
| Nymex WTI USD/bbl | 52.6 | 3.3 | -12.9 |
| Gold USD/t oz | 1249.3 | 2.4 | -4.1 |
| Silver USD/t oz | 14.6 | 3.0 | -13.7 |
| Platinum USD/t oz | 793.3 | -0.6 | -14.5 |
| Copper USD/MT | 6173.0 | -1.0 | -13.7 |
| Alluminium | 1956.5 | -0.5 | -13.4 |
| Currencies | | | |
| EUR USD | 1.1379 | 0.5 | -5.2 |
| GBP USD | 1.2726 | -0.2 | -5.8 |
| USD JPY | 112.69 | -0.8 | 0.0 |
| CHF USD | 0.9920 | -0.6 | -1.8 |
| Rates | | | |
| USD Libor 3m | 2.7711 | 1.3 | 63.6 |
| USD Libor 12m | 3.1006 | -0.6 | 47.2 |
| UAE Eibor 3m | 2.7900 | 4.6 | 55.4 |
| UAE Eibor 12m | 3.5305 | 0.8 | 37.0 |
| US 3m Bills | 2.3860 | 1.9 | 73.4 |
| US 10yr Treasury | 2.8450 | -4.8 | 18.3 |

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Summary market outlook

Global Yields The 10-year US Treasuries yields dropped lower, benefiting from safe-haven appetite and mixed jobs report. 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 moved higher in line with the sell-off in equity markets. We believe that volatility is likely to remain high given the backdrop of markets' fear of central bank policy normalization and trade tensions.

Equity Markets

Local Equity Markets GCC equity markets help up well amidst the increased global volatility as oil prices rebounded post the OPEC meeting. 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 recorded another week of heavy selling as investor's awaited clarity on US-china trade deal and remained anxious about the global growth slowdown. 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 rallied with increased safe-haven appetite and weak dollar demand. We remain overweight on gold as a risk hedge against ongoing political and (potential) inflationary risks.

Energy Oil prices rebounded in reaction to OPEC's decision to cut production further. 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 with China growth concerns weighing on the sentiment. We do not recommend industrial metals exposure as China reigns in demand.

Currencies

EURUSD The euro strengthened slightly 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 → | 1.1451 | R1 → | 1.1415 | S1 → | 1.1352 | S2 → | 1.1325 |
|-------------|--------|-------------|--------|-------------|--------|-------------|--------|

GBPUSD The pound was volatile ahead of the UK parliamentary vote on Brexit deal. 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 → | 1.2831 | R1 → | 1.2779 | S1 → | 1.2693 | S2 → | 1.2659 |
|-------------|--------|-------------|--------|-------------|--------|-------------|--------|

USDJPY The yen strengthened against the dollar due to increased safe-haven appetite. We believe there will remain a bias for yen strength as emerging markets concerns will not abate soon.

Critical levels

| | | | | | | | |
|-------------|--------|-------------|--------|-------------|--------|-------------|--------|
| R2 → | 113.10 | R1 → | 112.89 | S1 → | 112.52 | S2 → | 112.35 |
|-------------|--------|-------------|--------|-------------|--------|-------------|--------|

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 |
|------------|-----------------------------|--------|----------|-------|---|
| 12/12/2018 | CPI YoY | Nov | 2.20% | 2.50% | Focus will be CPI release and retail sales print. |
| 12/12/2018 | CPI Ex Food and Energy YoY | Nov | 2.20% | 2.10% | |
| 12/14/2018 | Retail Sales Advance MoM | Nov | 0.10% | 0.80% | |
| 12/14/2018 | Industrial Production MoM | Nov | 0.30% | 0.10% | |
| 12/14/2018 | Markit US Manufacturing PMI | Dec P | 55.1 | 55.3 | |

Japan

| | Indicator | Period | Expected | Prior | Comments |
|------------|-----------------------------|--------|----------|--------|--|
| 12/10/2018 | GDP SA QoQ | 3Q F | -0.50% | -0.30% | Final print of 3Q GDP will be closely tracked by the market. |
| 12/11/2018 | Machine Tool Orders YoY | Nov P | - | -0.70% | |
| 12/12/2018 | PPI YoY | Nov | 2.40% | 2.90% | |
| 12/12/2018 | Tertiary Industry Index MoM | Oct | 0.90% | -1.10% | |
| 12/14/2018 | Industrial Production YoY | Oct F | - | 4.20% | |

Eurozone

| | Indicator | Period | Expected | Prior | Comments |
|------------|-----------------------------------|--------|-----------|-------|---|
| 12/12/2018 | Industrial Production WDA YoY | Oct | 0.80% | 0.90% | All eyes will be on the last ECB MPC meeting of the year. |
| 12/13/2018 | ECB MPC meeting | 13-Dec | No change | | |
| 12/14/2018 | Markit Eurozone Manufacturing PMI | Dec P | 51.8 | 51.8 | |

United Kingdom

| | Indicator | Period | Expected | Prior | Comments |
|------------|---------------------------|--------|----------|-------|--|
| 12/11/2018 | Brexit Parliamentary Vote | | | | Attention will be on the Parliamentary vote of Mrs. May's Brexit bill. |
| 12/10/2018 | Trade balance | Oct | -£1267m | -£27m | |
| 12/10/2018 | Industrial Production YoY | Oct | -0.10% | 0.00% | |

China and India

| | Indicator | Period | Expected | Prior | Comments |
|------------|------------------------------------|--------|----------|--------|--|
| 12/10/2018 | Aggregate Financing CNY (CH) | Nov | 1350b | 729b | All eyes will be on China's November releases of retail sales, industrial production. In India, CPI and WPI will be important. |
| 12/10/2018 | New Yuan Loans CNY (CH) | Nov | 1200b | 697b | |
| 12/12/2018 | CPI YoY (IN) | Nov | - | 3.31% | |
| 12/12/2018 | Exports YoY (IN) | Nov | - | 17.90% | |
| 12/12/2018 | Industrial Production YoY (IN) | Oct | - | 4.50% | |
| 12/14/2018 | Retail Sales YoY (CH) | Nov | 8.80% | 8.60% | |
| 12/14/2018 | Industrial Production YoY (CH) | Nov | 5.90% | 5.90% | |
| 12/14/2018 | Fixed Assets Ex Rural YTD YoY (CH) | Nov | 5.90% | 5.70% | |
| 12/14/2018 | Wholesale Prices YoY (IN) | Nov | - | 5.28% | |

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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