The Weekly Market View

February 11 2019

The dog and the pig

As we move from the Chinese lunar year of the dog to the year of the pig, we see some of the headwinds of the last year persist. Indeed, 2018 proved to be a challenging year for the Chinese economy as Beijing struggled with a slowing domestic growth and a trade dispute with the US. Especially with the trade truce timeline looming now, markets have begun to worry about the lack of the progress on reaching a trade deal. While Chinese equity markets remained closed for a good part of the last week, global equity markets continued to be concerned about the trade dispute. US administration appeared to be in doubts that China and the US will agree on trade by March 1. Also, the concerns around the European economic momentum weakening further resulted in erosion of the risk appetite. The European Commission cut its growth forecasts for all region's major economies and highlighted Brexit and China slowdown as potential risks. This cut in forecasts further spell weakness and uncertainty for the region which has struggled with political instability in Italy, violent protests in France and depressed output in Germany. As a result, MSCI World index fell during the past week. Europe, Japan and EMs underperformed (thanks to a c5% fall in both Brazil and South Africa equity markets) while UK outperformed. A risk-off week also saw an appreciation of the USD against the other majors. Increased growth concerns in Europe pushed investors towards safe-haven assets. As a result, developed market bond yields declined with the 10yr JGB yields turning negative. Commodities, precious metals and energy came under pressure on the USD strength. Concerns around weakening global growth also fed into weaker oil prices last week.

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In China, no miracles

In China, in the near term, we do not expect a quick fix to last year's problems. Whilst some stabilisation and tick-up in credit is likely as the government tries to avoid instability, we don't think a full blown reflationary policy from Beijing is likely. Any stimulus is likely to pale in size against those that the Chinese government unleashed during previous downturns. On the trade front, we expect intensive last minute horse trading till March 1. Any deal, if made, is unlikely to be comprehensive. Perhaps, an extension of the trade-truce deadline is likely in the coming days. Elsewhere, the other major near term risk is with the looming deadline for the agreement on the US budget. Here we expect no deal on funding the border wall. We think Mr. Trump is likely to take a national emergency route to obtain funds rather than going for a government shutdown once again (given that the pervious episode of the shutdown dragged down the President's approval rating quite significantly). At the same time, we do not see a financial crisis looming in the US. We still hold the view that financial conditions in the US remain relatively benign. Therefore, we remain overweight US equities. In terms of data releases, against the backdrop of Fed's data dependency, markets will particularly focus on CPI, retail sales and industrial production in the US. Across the Atlantic, the focus will be on the GDP releases – with markets focusing on downside growth surprises in the region.

Past week global markets' performance

Index Snapshot (World Indices)

Index	Latest	Weekly Chg %	YTD %
S&P 500	2,707.9	0.0	8.0
Dow Jones	25,106.3	0.2	7.6
Nasdaq	7,298.2	0.5	10.0
DAX	10,906.8	-2.4	3.3
Nikkei 225	20,333.2	-2.2	1.6
FTSE 100	7,071.2	0.7	5.1
Sensex	36,546.5	0.2	1.3
Hang Seng	27946.3	0.1	8.1
Regional Markets (Sunday to Thursday)			
ADX	5112.1	0.7	4.0
DFM	2542.7	0.1	0.5
Tadawul	8612.8	1.0	10.0
DSM	10505.2	-1.7	2.0
MSM30	4151.97	0.1	-4.0
BHSE	1418.1	1.6	6.0
KWSE	5199.6	0.3	2.4
MSCI			
MSCI World	2,020.5	-0.4	7.3
MSCI EM	1,036.0	-1.3	7.3

Global Commodities, Currencies and Rates

Commodity	Latest	Weekly Chg %	YTD %
ICE Brent USD/bbl	62.1	-1.0	15.4
Nymex WTI USD/bbl	52.7	-4.6	16.1
Gold USD/t oz	1316.6	-0.1	2.7
Silver USD/t oz	15.8	-0.5	2.2
Platinum USD/t oz	801.0	-2.8	0.7
Copper USD/MT	6207.0	1.8	4.1
Alluminium	1863.25	-0.2	2.2
Currencies			
EUR USD	1.1323	-1.2	-1.1
GBP USD	1.2944	-1.0	1.6
USD JPY	109.73	0.2	0.1
CHF USD	1.0005	0.5	-1.8
Rates			
USD Libor 3m	2.6978	-1.3	-3.9
USD Libor 12m	2.9358	-0.9	-2.3
UAE Eibor 3m	2.8513	7.5	0.5
UAE Eibor 12m	3.4836	0.7	-2.5
US 3m Bills	2.4116	1.1	2.4
US 10yr Treasury	2.6339	-1.9	-1.9

Summary market outlook

Global Yields	Developed market bond yields declined across the globe on increased safe-haven appetite. We expect the 10-year US Treasury yield to remain range bound between 2.7% and 3%, in line with the Fed's indicated long-term neutral rate.
Stress and Risk Indicators	The VIX moved slightly higher last week, yet remained close to its two-year low. We believe that volatility is likely to remain high given the backdrop of markets' fear of global growth slowdown and trade tensions.
Equity Markets	
Local Equity Markets	GCC equity markets lacked direction as oil prices remained weak. Saudi market is getting foreign flows while UAE markets provide bargain valuation. 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. We also prefer banks in the regional context.
Global Equity Markets	Global equities had a mixed week. European equities and Japanese stocks underperformed the most. Overall, we remain neutral equities with an overweight on US and underweight EU and EM (but with selective exposure to India, Brazil and South Africa).
Commodities	
Precious Metals	Gold prices were mostly unchanged as strong dollar bias offset by risk-off appetite. We remain overweight on gold as a risk hedge against ongoing political and (potential) inflationary risks.
Energy	Oil price, especially WTI, came under pressure as US rig counts increased. Overall, the oil price is likely to remain sustained as the market is roughly balanced and growth concerns appear now to be discounted.
Industrial Metals	Industrial metals registered mixed performance – aluminium prices fell and copper prices rose. We do not recommend industrial metals exposure as China reigns in demand.
Currencies	
EURUSD	The euro declined against the greenback as economic outlook in the region weakened. We expect the euro to remain under pressure due to the diverging monetary policies between the Fed and the ECB.
Critical levels	R2 1.1515 · R1 1.1419 · S1 1.1274 · S2 1.1225
GBPUSD	The pound sterling was also under pressure as Brexit uncertainty weighed. 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 1.3216 · R1 1.3080 · S1 1.2831 · S2 1.2718
USDJPY	The yen remained largely flat and resilient to broad dollar strength. We believe there will remain a bias for yen strength as emerging markets concerns will not abate soon.
Critical levels	R2 110.50 · R1 110.12 · S1 109.39 · S2 109.04

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
02/13/2019	MBA Mortgage Applications	8-Feb	--	-2.50%	MBA Mortgage, CPI, and retail sales will be the main releases. Also, Industrial production will be important.
02/13/2019	CPI YoY	Jan	1.50%	1.90%	
02/14/2019	Initial Jobless Claims	9-Feb	225K	234K	
02/14/2019	Retail Sales Advance MoM	Dec	0.10%	0.20%	
02/15/2019	Industrial Production MoM	Jan	0.10%	0.30%	
02/15/2019	Capacity Utilization	Jan	78.70%	78.70%	
02/15/2019	Univ. of Mich. Sentiment	Feb P	93.5	91.2	

Japan

	Indicator	Period	Expected	Prior	Comments
02/12/2019	Tertiary Industry Index MoM	Dec	-0.10%	-0.30%	The focus will be on PPI and Tertiary industry index. Also, GDP releases will be important.
02/12/2019	Machine Tool Orders YoY	Jan P	--	-18.30%	
02/13/2019	PPI YoY	Jan	1.00%	1.50%	
02/14/2019	GDP SA QoQ	4Q P	0.40%	-0.60%	
02/15/2019	Industrial Production MoM	Dec F	--	-0.10%	

Eurozone

	Indicator	Period	Expected	Prior	Comments
02/14/2019	GDP SA QoQ	4Q P	0.20%	0.20%	Attention will be on the GDP print.

United Kingdom

	Indicator	Period	Expected	Prior	Comments
02/11/2019	GDP QoQ	4Q P	0.30%	0.60%	All eyes will be on the GDP print.
02/11/2019	GDP YoY	4Q P	1.40%	1.50%	
02/11/2019	Industrial Production YoY	Dec	-0.50%	-1.50%	
02/15/2019	Retail Sales Ex Auto Fuel YoY	Jan	3.20%	2.60%	
02/15/2019	Retail Sales Inc Auto Fuel MoM	Jan	0.20%	-0.90%	

China and India

	Indicator	Period	Expected	Prior	Comments
02/10/2019	Money Supply M2 YoY (CH)	Jan	8.20%	8.10%	All eyes will be on China January releases for foreign reserves, CPI, and exports. In India, CPI and WPI will be important.
02/11/2019	Foreign Reserves (CH)	Jan	$3080.00b	$3072.71b	
02/12/2019	CPI YoY (IN)	Jan	--	2.19%	
02/12/2019	Industrial Production YoY (IN)	Dec	--	0.50%	
02/14/2019	Exports YoY (CH)	Jan	-3.20%	-4.40%	
02/14/2019	Wholesale Prices YoY (IN)	Jan	--	3.80%	
02/15/2019	CPI YoY (CH)	Jan	1.90%	1.90%	
02/15/2019	Exports YoY (IN)	Jan	--	0.30%	

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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