The Weekly Market View

January 13 2020

ADCB ASSET MANAGEMENT LIMITED

Phew!

Markets sighed in relief last week as some of the geo-political risks associated with the US-Iran confrontation from the previous week abated. Also, data releases last week confirmed that the global economy remained resilient. To start with, US ISM non-manufacturing was better than expected indicating the strength of services economy. Indeed, services PMIs across the world remain above 50, the waterline that separates expansion from contraction. Euro area unemployment rate fell to 7.5%. The jobs picture in the US remained reasonably strong with the unemployment rate steady at a 50-year low although non-farm payrolls for December fell short of market expectations.

Equity markets rose as risk appetite improved last week. US outperformed other markets. German equities registered strong gains. EM outperformed DM broadly. VIX dropped significantly as a sign of relief in the markets. Within commodities, oil prices plunged as tensions in the Middle East eased. WTI prices fell further on increasing stockpiles. Precious metals clung to the gains from the previous week. In the bonds space, yields rose. The 10 year US Treasury yields ended the week higher, but slipped on Friday on the disappointing payrolls data. The 2 year US Treasury yields rose by 5bp, thus slightly flattening the curve. In Europe, bond yields rose in response to the risk-on sentiment. 10 year German bund yield edged higher, ending the week at -0.2% while the 10 year UK bond yield rose to 0.77%.

Make or brake

Financial markets had a stellar year in 2019 thanks to strong monetary stimulus. In 2020, political and geo-political risks are likely to be the key driver of financial market returns – especially equity market returns (for details see Quarterly Investment View, January 2020). However, in absence of any major geo-political risk-off event, earnings are likely to drive equity returns in the near future, especially as we go into the busy weeks of this earnings season. Analyst expectations for 12 month forward earnings have started to recover gradually over the last two months. In our view, very little earnings optimism is baked into equity prices at this stage. This should create an asymmetric price reaction to earnings surprises – i.e. earnings beats are likely to be rewarded well while misses are likely to be punished lightly. Thus this earnings season has the potential to either make a strong case for equities or at worst apply brakes on the ongoing equity rally, but not break the investment case.

Taking a deeper look at earnings, we note that the analyst consensus is expecting a strong rebound in earnings for some cyclical sectors (consumer discretionary, industrials, IT, materials and energy) and cyclical markets (UK, EM, Spain, Taiwan and South Korea) in 2020 from a rather depressed base in 2019. However, as we argued in our recent research reports, we would like to see more evidence of a rebound in hard data before we move aggressively into cyclical themes. For now, we stay defensive (prefer US by country and communication services by sector) and remain focused on structural themes like consumer-facing technology and services sector.

Global markets' performance snapshot

Index Snapshot (World Indices)			
Index	**Latest**	**Weekly %**	**YTD %**
S&P 500	3,265	0.9	1.1
Dow Jones	28,824	0.7	1.0
Nasdaq	9,179	1.8	2.3
DAX	13,483	2.0	1.8
Nikkei 225	23,851	0.8	0.8
FTSE 100	7,588	-0.5	0.6
Sensex	41,600	0.3	0.8
Hang Seng	28,638	0.7	1.6
Regional Markets (Sunday to Thursday)			
ADX	5,076	0.9	0.1
DFM	2,749	2.4	-0.6
Tadawul	8,346	1.9	0.0
DSM	10,444	1.5	0.8
MSM30	3,977	-0.4	-0.1
BHSE	1,597	1.4	-0.6
KWSE	6,230	3.0	-0.8
MSCI			
MSCI World	2,380	0.6	0.8
MSCI EM	1,129	0.9	1.7

Global Commodities, Currencies and Rates			
Commodity	**Latest**	**Weekly %**	**YTD %**
ICE Brent USD/bbl	65.0	-5.3	-1.5
WTI USD/bbl	59.0	-6.4	-3.3
Gold USD/t oz	1,562.3	0.7	2.6
Silver USD/t oz	18.1	0.3	1.0
Platinum USD/t oz	979.2	-0.3	0.5
Copper USD/MT	6,157.0	1.3	0.0
Alluminium	1,781.3	-1.0	-0.4
Currencies			
EUR USD	1.11	-0.4	-1.0
GBP USD	1.31	-0.1	-1.5
USD JPY	109.45	1.3	0.8
CHF USD	0.97	0.0	-0.6
Rates			
USD Libor 3m	1.84	-1.9	-3.7
USD Libor 12m	1.97	0.1	-1.5
UAE Eibor 3m	2.09	-1.7	-6.4
UAE Eibor 12m	2.30	-0.5	-2.3
US 3m Bills	1.53	1.5	-0.8
US 10yr Treasury	1.82	1.8	-5.1

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Summary market outlook

Global Yields	Global bond yields rallied over the week as risk-on sentiment gathered steam with the ease in geopolitical tensions. The 10 year US Treasury yields ended the week higher, but slipped on Friday on the disappointing payrolls data. The 2 year US Treasury yields rose by 5bp, thus slightly flattening the curve. In Europe, bond yields rose in response to the risk-on sentiment. 10 year German bund yield edged higher, ending the week at -0.2% while the 10 year UK bond yield rose to 0.77%. We believe that the long-term US rates will remain in line with the Fed's target Fed fund rate and further curve steepening risks are rising.
Stress and Risk Indicators	VIX dropped significantly as a sign of relief in the markets. However, we believe that volatility is likely to stay elevated due to the fear of global growth slowdown and concerns around trade.
Equity Markets	
Local Equity Markets	Local markets recovered some loses from previous week. We remain neutral on GCC equities as the potential for growth revival (aided by falling interest rates) and range-bound oil prices is offset by elevated geopolitical risk perceptions. In the regional context, we are overweight Saudi equities and prefer banks by sector.
Global Equity Markets	Equity markets rose as risk appetite improved last week. US outperformed other markets. German equities registered strong gains. EM outperformed DM broadly. We remain neutral on equities with an overweight on US and underweight EU and EM but we do acknowledge the risk of cyclicals outperforming in the near-term.
Commodities	
Precious Metals	Precious metal prices clung to their last week's gains. We remain overweight gold as a risk hedge against ongoing political and (potential) inflationary risks.
Energy	Oil prices plunged as tensions in the Middle East eased. WTI prices fell further on increasing stockpiles. Overall, oil prices are likely to remain sustained as the market is roughly balanced.
Industrial Metals	Industrial metal prices showed a mixed performance. We do not recommend industrial metals exposure as China reigns in demand.
Currencies	
EURUSD	EUR depreciated against the USD on broader USD strength. We expect the euro to remain stable.
Critical levels	R2 1.1156 · R1 1.1139 · S1 1.1095 · S2 1.1068
GBPUSD	Bank of England's hint at a potential rate cut weakened the GBP. We expect the cable to be stable with Pound sterling likely to follow the euro rather than USD.
Critical levels	R2 1.3121 · R1 1.3092 · S1 1.3039 · S2 1.3014
USDJPY	JPY depreciated against the USD on a classical risk-on move. The BoJ yield curve targeting should put continuing downward pressure on the yen.
Critical levels	R2 109.81 · R1 109.63 · S1 109.33 · S2 109.22

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
01/14/2020	CPI YoY	Dec	2.40%	2.10%	CPI, MBA, and retail sales will be the focus in the US this week. Also, industrial production will be important.
01/15/2020	MBA Mortgage Applications	10- Jan		13.50%	
01/16/2020	Retail Sales Advance MoM	Dec	0.30%	0.20%	
01/16/2020	Initial Jobless Claims	11- Jan	217K	214K	
01/17/2020	Housing Starts	Dec	1380K	1365K	
01/17/2020	Industrial Production MoM	Dec	-0.10%	1.10%	
01/17/2020	Capacity Utilization	Dec	77.10%	77.30%	
01/17/2020	U. of Mich. Sentiment	Jan P	99.3	99.3	

Japan

	Indicator	Period	Expected	Prior	Comments
0/14/2020	BoP Current Account Balance	Nov	¥1424.8b	¥1816.8b	Current account balance data will be important.
0/15/2020	Machine Tool Orders YoY	Dec P		-37.90%	
0/16/2020	PPI YoY	Dec	0.90%	0.10%	

Eurozone

	Indicator	Period	Expected	Prior	Comments
01/16/2020	CPI YoY (GE)	Dec F	1.50%	1.50%	All eyes will be on Eurozone CPI.
01/17/2020	CPI Core YoY	Nov		32.4b	

United Kingdom

	Indicator	Period	Expected	Prior	Comments
01/13/2020	Industrial Production YoY	Nov	-1.30%	-1.30%	Attention will be on CPI and retail sales.
01/15/2020	CPI YoY	Dec	1.50%	1.50%	
01/15/2020	CPI Core YoY	Dec	1.70%	1.70%	
01/15/2020	RPI YoY	Dec	2.30%	2.20%	
01/17/2020	Retail Sales Ex Auto Fuel YoY	Dec	3.00%	0.80%	
01/17/2020	Retail Sales Inc Auto Fuel MoM	Dec	0.60%	-0.60%	

China and India

	Indicator	Period	Expected	Prior	Comments
This week	CPI YoY (IN)	Dec	6.70%	5.54%	Trade and GDP data in China and trade and inflation data in India will be important.
This week	Trade Balance (CH)	Dec	$45.70b	$38.73b	
This week	Wholesale Prices YoY (IN)	Dec	2.42%	0.58%	
This week	Exports YoY (IN)	Dec		-0.30%	
This week	Industrial Production YoY (CH)	Dec	5.90%	6.20%	
This week	GDP YoY (CH)	Dec	6.00%	6.00%	

Sources

All information in this report has been obtained from the following sources except where indicated otherwise:

1. Bloomberg
2. Wall Street Journal
3. RTT News
4. Reuters
5. Gulfbase
6. Zawya

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