The Weekly Market View

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Signs of growth divergence in US and rest of the world

The overall mood in the markets continued to be centred on global central bank easing and signs of global economic slowdown. The week kick-started with positive developments in US-China trade front, which boosted the risk sentiment. This was then followed by string of PMI releases across the globe which continued to prove disappointing. In Europe, German industrial orders sank to the lowest level recorded since 2009. In addition to the weak economic backdrop, appointment of two dovish Fed members and confirmation of Christine Lagarde as the next ECB president, further fed into dovish policy expectations. However, upbeat US labour market data released on Friday, caught the markets by surprise. Non-farm payrolls rose by 224,000 in June, beating market expectations and recording the highest gain since January. Further classification indicated the strong job growth in manufacturing, shrugging off concerns of possible impact of trade uncertainty. The strong jobs reports pared market expectations of a 50bp rate cut at the upcoming Fed meeting in July. As a result, global equity markets saw a modest pullback on Friday, but ended the week in the positive territory. US treasuries came under selling pressure, with the front-end rates jumping the most over the week. In Europe, bond markets continued to rally on rising expectations of the ECB stimulus. The dollar ended the week higher due to divergence in growth data between the US and other developed markets. Gold prices moved lower on paring back of Fed rate cut expectations and stronger dollar. Oil prices slumped, mainly on global slowdown concerns.

Powell's semi-annual testimony, Fed minutes and US CPI in focus

Last week's highlight was the strong US data against the backdrop of weak global economic outlook. The strong jobs data should ease concerns that the US economic may not be slowing as fast as anticipated and thus should not compel the Fed to rush in reducing rates as early as the July meeting. Hence, it is not surprising that the markets reacted to the data by paring back their rate cut expectations. However, the Fed fund futures are still pricing in one rate cut of 25bp for the July meeting. We have our doubts that the Fed will be embarking on the easing cycle as early as July and hence we believe that the markets could be in for a disappointment. This week will be particularly important in terms of communication from the Fed and will shows signs whether the central bank is in agreement with the market expectations of a July rate cut. If the Fed's projections are not in line with market pricing, this signal could be noticeable at Fed Chair Jay Powell's semi-annual testimony on 10 July. Similarly, the Fed meeting minutes of June could also signal the seriousness of the Fed members in reducing rates. At the same time, we believe the case for a Fed rate cut still remains as inflation pressure continues to grind lower. June print for headline and core inflation in the US are due to be released this week and hence will be closely watched by the markets. In addition, we believe that the Fed may also be willing to join the bandwagon of rate cutters as loose monetary policy in other developed markets will only put upward pressure on the dollar, adding to the disinflation worries.

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Past week global markets' performance

Index Snapshot (World Indices)

Index	Latest	Weekly Chg %	YTD %
S&P 500	2,990.4	1.7	19.3
Dow Jones	26,922.1	1.2	15.4
Nasdaq	8,161.8	1.9	23.0
DAX	12,568.5	1.4	19.0
Nikkei 225	21,746.4	2.2	8.7
FTSE 100	7,553.1	1.7	12.3
Sensex	39,513.4	0.3	9.6
Hang Seng	28774.8	0.8	11.3
Regional Markets (Sunday to Thursday)			
ADX	5003.2	0.4	1.8
DFM	2658.9	0.1	5.1
Tadaw ul	8846.5	0.3	13.0
DSM	10566.5	1.1	2.6
MSM30	3822.59	-1.6	-11.6
BHSE	1511.2	2.7	13.0
KWSE	5984.5	2.0	13.0
MSCI			
MSCI World	2,205.6	1.2	17.1
MSCI EM	1,059.9	0.5	9.7

Global Commodities, Currencies and Rates

Commodity	Latest	Weekly Chg %	YTD %
ICE Brent USD/bbl	64.2	-3.5	19.4
Nymex WTI USD/bbl	57.5	-1.6	26.6
Gold USD/t oz	1399.5	-0.7	9.1
Silver USD/t oz	15.0	-2.1	-3.2
Platinum USD/t oz	810.3	-2.9	1.8
Copper USD/MT	5857.0	-1.9	-1.8
Alluminium	1787	0.3	-2.0
Currencies			
EUR USD	1.1225	-1.3	-2.1
GBP USD	1.2521	-1.4	-1.8
USD JPY	108.47	0.6	-1.1
CHF USD	0.9916	1.6	-1.0
Rates			
USD Libor 3m	2.3114	-0.4	-17.7
USD Libor 12m	2.1916	0.6	-27.1
UAE Eibor 3m	2.6485	2.7	-6.7
UAE Eibor 12m	3.0127	2.7	-15.7
US 3m Bills	2.2152	6.2	-5.9
US 10yr Treasury	2.0338	1.4	-24.2

Summary market outlook

Global Yields	US treasuries came under selling pressure as strong US jobs data pared back Fed rate cut expectations. We expect the 10-year US Treasury yield to remain range-bound, in line with the Fed's indicated long-term neutral rate.
Stress and Risk Indicators	VIX levels dropped mid-week but jumped later to end the week flat. 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	GCC equity markets ended the week mostly positive, in spite of decline in oil prices. Kuwaiti stocks rallied on reports of MSCI 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. We also prefer banks in the regional context.
Global Equity Markets	Global equity markets continued to rally on the back of global central bank dovish bias. US equities saw a pullback on Friday as strong jobs data reduced the aggressive pricing of rate cut expectations, yet ended the week in the positive territory. Japanese equities outperformed the most with Nikkei rising by 2.2%. Overall, we remain neutral on 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 dropped over the week on stronger dollar and reduced Fed rate expectations. However, we remain overweight on gold as a risk hedge against ongoing political and (potential) inflationary risks.
Energy	Oil prices slumped on concerns of worsening economic conditions in major economies, despite extension of OPEC deal with Russia to cut production. 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 also declined due to fears of lean demand from China. We do not recommend industrial metals exposure as China reigns in demand.

Currencies								
EURUSD	The euro weakened versus the greenback as expectation of ECB stimulus rose while Fed rate cut prospects reduced post the strong jobs report in the US. We expect the euro to remain stable with USD to lose some strength in 2019.							
Critical levels	R2	1.1438	R1	1.1403	S1	1.1309	S2	1.2149
GBPUSD	The pound depreciated versus the dollar in anticipation that the Bank of England will turn dovish. We expect the cable to be stable with Pound sterling likely to follow the euro rather than USD.							
Critical levels	R2	1.2813	R1	1.2775	S1	1.2671	S2	1.2605
USDJPY	The yen weakened versus the dollar on lower expectation of a Fed rate cut. We think the BoJ yield curve targeting should put continuing downward pressure on the yen.							
Critical levels	R2	108.06	R1	107.69	S1	107.00	S2	106.68

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
07/10/2019	FOMC Meeting Minutes	19-Jun	--	--	All eyes on the FOMC meeting minutes.
07/10/2019	Wholesale Inventories MoM	May	0.40%	0.40%	
07/11/2019	CPI Ex Food and Energy YoY	Jun	2.00%	2.00%	
07/11/2019	CPI YoY	Jun	1.60%	1.80%	
07/11/2019	Real Avg Hourly Earning YoY	Jun	--	1.30%	
07/11/2019	PPI Ex Food and Energy YoY	Jun	2.10%	2.30%	
07/11/2019	Initial Jobless Claims	6-Jul	221K	221K	

Japan

	Indicator	Period	Expected	Prior	Comments
07/09/2019	Real Cash Earnings YoY	May	-1.40%	-1.10%	PPI and Industrial production will be important.
07/10/2019	PPI YoY	Jun	0.40%	0.70%	
07/11/2019	Tertiary Industry Index MoM	May	-0.10%	0.80%	
07/12/2019	Industrial Production MoM	May	--	2.30%	

Eurozone

	Indicator	Period	Expected	Prior	Comments
07/11/2019	CPI YoY (GE)	Jun F	1.60%	1.60%	Industrial production will be important.
07/12/2019	Industrial Production WDA YoY	May	-1.60%	-0.40%	

United Kingdom

	Indicator	Period	Expected	Prior	Comments
07/10/2019	Industrial Production YoY	May	1.30%	-1.00%	Light week ahead.

China and India

	Indicator	Period	Expected	Prior	Comments
07/09/2019	Aggregate Financing CNY (CH)	Jun	1900.0b	1400.0b	Focus will be on China macro releases and India CPI.
07/09/2019	Money Supply M2 YoY (CH)	Jun	8.60%	8.50%	
07/10/2019	CPI YoY (CH)	Jun	2.70%	2.70%	
07/10/2019	PPI YoY (CH)	Jun	0.30%	0.60%	
07/12/2019	CPI YoY (IN)	Jun	3.20%	3.05%	
07/12/2019	Industrial Production YoY (IN)	May	3.10%	3.40%	

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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