The Weekly Market View

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A week not to forget

Global equities underwent massive selling pressure, marking the worst week since 2008 financial crisis in stock markets across the globe. Coronavirus concerns haunted market sentiment with the WHO raising the risk level on the virus while number of cases outside China continued to surge. Equity market volatility, captured by the VIX Index, surged to the highest level since 2011. The S&P 500 tumbled for the seventh consecutive day on Friday, declining by 12% but the Dow Jones was the worst hit, declining by more than 12%. Similarly, in Europe, the DAX index fell by more than 12%. Deepening coronavirus concerns and its possible impact on global growth led to markets aggressively pricing in more Fed rate cuts with a full 25bp rate cut priced in as early as March. Fed Chair Jay Powell on Friday gave assurance that the Fed will act as appropriate to provide support, further boosting the possibility of central bank action. Increased expectations of monetary stimulus and flight for safety amidst the global market sell-off pushed the 10yr UST yields to an all-time low of 1.16% at the end of the week. The short-end bonds yields declined more than the long-dated bonds and the 10-2yr UST curve steepened on the back of rising expectation of a Fed rate cut. In Europe, the 10yr German bunds, tracking the US Treasuries went deeper into the negative territory with markets renewing their expectation of rate cut by the ECB. However, the US dollar surprisingly weakened versus other major currencies, mainly given the limited scope of other DM central banks to increase stimulus compared to the Fed. On another surprise and odd move, gold- market's preferred safe-haven asset, recorded losses, mostly on investors rushing to cover their margin calls. Oil prices continued to decline with the Brent Crude falling to its lowest level in almost three years on increased concerns of decline in global oil demand.

Prerana Seth
Fixed Income Strategist
Tel: +971 (0)2 696 2878
prerana.seth@adcb.com

Luciano Jannelli, Ph.D., CFA
Head Investment Strategy
Tel: +971 (0)2 696 2340
luciano.jannelli@adcb.com

Kishore Muktinutalapati
Equity Strategist
Tel: +971 (0)2 696 2358
kishore.muktinutalapati@adcb.com

Mohammed Al Hemeiri
Analyst
Tel: +971 (0)2 696 2236
mohammed.alhemeiri@adcb.com

Noor Alameri
Analyst
Tel: +971 (0)2 694 5182
noor.alameri@adcb.com

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First symptoms of the Virus

After the tumultuous market sell-off last week, the upcoming week will have market participants and us scanning through the various data releases which could indicate the first-hand impact of the virus on global growth. After the severe decline in China PMI numbers over the weekend, focus will now turn towards manufacturing PMI releases across the globe, in particular the ISM manufacturing and the non-manufacturing PMIs in the US. Labour market data and commentary by Fed members will also be closely tracked by the markets, particularly ahead of the Fed meeting in March. The Fed's willingness to act has opened the door for further monetary stimulus support from the central bank. In the run-up to the meeting, the Fed will ensure through its communique that any move is viewed and interpreted as pre-caution rather than panic by the markets. While Fed action will provide support, we have our doubts that it will lead to sharp recovery in markets given the "supply side" nature of the shock, provided there is evidence of some peaking of non-China coronavirus count and more awareness that co-existence with the virus is possible. At the same time, there is possibility of sharp recovery in stocks that are less integrated in global manufacturing supply chains (mainly US markets). In the bond markets, the case for further steepening of the UST curve is building as we believe that the 10yr UST levels are too low as there is unlikely to be downgrade of the Fed's projections of the long-term neutral rate.

Hence, on our overall asset allocation, we continue to remain neutral on global equities with an overweight tilt on US equities and underweight on global bonds with an overweight on short-dated US Treasuries.

Global markets' performance snaps

Index Snapshot (World Indices)

Index	Latest	Weekly %	YTD %
S&P 500	2,954	-11.5	-8.6
Dow Jones	25,409	-12.4	-11.0
Nasdaq	8,567	-10.5	-4.5
DAX	11,890	-12.4	-10.3
Nikkei 225	21,143	-9.6	-10.6
FTSE 100	6,581	-11.1	-12.8
Sensex	38,297	-7.0	-7.2
Hang Seng	26,130	-4.3	-7.3
Regional Markets (Sunday to Thursday)			
ADX	4,901	-2.6	-3.4
DFM	2,590	-5.4	-6.3
Tadawul	7,628	-4.7	-9.1
DSM	9,490	-4.5	-9.0
MSM30	4,131	-1.4	3.8
BHSE	1,660	-0.5	3.1
KWSE	6,072	-1.9	-3.3
MSCI			
MSCI World	2,177	-10.9	-9.2
MSCI EM	1,031	-7.3	-9.8

Global Commodities, Currencies and Rates

Commodity	Latest	Weekly %	YTD %
ICE Brent USD/bbl	50.5	-13.6	-24.7
Nymex WTI USD/bbl	44.8	-16.1	-26.7
Gold USD/t oz	1,585.7	-3.5	4.1
Silver USD/t oz	16.7	-9.9	-7.1
Platinum USD/t oz	866.3	-11.2	-11.1
Copper USD/MT	5,573.0	-2.3	-9.5
Alluminium	1,685.5	-0.9	-5.8
Currencies			
EUR USD	1.10	1.7	-1.8
GBP USD	1.28	-1.1	-3.3
USD JPY	107.89	-3.3	-0.6
CHF USD	0.96	-1.4	0.2
Rates			
USD Libor 3m	1.46	-12.9	-23.4
USD Libor 12m	1.38	-20.1	-30.8
UAE Eibor 3m	1.89	0.7	-14.4
UAE Eibor 12m	2.14	-6.7	-6.7
US 3m Bills	1.27	-18.0	-17.9
US 10yr Treasury	1.15	-21.9	-40.1

Summary market outlook

Global Yields	Global bonds further extended their rally for another week as investors rushed into safe-haven assets. The 10yr UST yields tumbled to an all-time low of 1.16%. The short-end bonds yields declined more than the long-dated bonds as markets started aggressively pricing in Fed rate cuts and the 10-2yr UST curve steepened over the week. However, in Europe, the 10yr German bund went deeper into the negative territory with markets renewing their expectation of rate cut by the ECB and the yield curve flattened. We believe 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 rose sharply over the past week as concerns about the spread of COVID-19 outside of China intensified. As we have been arguing, we believe that volatility will likely stay elevated given the range of risks on the horizon. This entire episode of the coronavirus would be a part of our 'high volatility' narrative for 2020 and our risk-barbell positioning.
Equity Markets	
Local Equity Markets	Local markets came under pressure amidst the global market sell-off and 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. We also prefer banks in the regional context.
Global Equity Markets	Global equities had the worst week of sell-off since 2008 Financial crisis as coronavirus concerns escalated. Dow Jones and the DAX Index were the worst hit, declining by more than 12%. EM equities sold off, yet outperformed their DM counterpart. Overall, we remain neutral on equities with an overweight on US and underweight EU and EM.
Commodities	
Precious Metals	Gold prices declined, on a surprise turn, mostly on account of investors closing their margin calls. We remain overweight on gold as a risk hedge against ongoing political and (potential) inflationary risks.
Energy	Oil prices declined further on fears of virus impact on global oil demand. Overall, we believe that oil prices are likely to remain sustained as the market is roughly balanced.
Industrial Metals	Industrial metal prices remained weak due to intensifying growth concerns. We do not recommend industrial metals exposure as China reigns in demand.
Currencies	
EURUSD	EUR appreciated against the USD on account of broad dollar weakness. We expect the euro to remain stable.
Critical levels	R2 1.1112 · R1 1.1069 · S1 1.0967 · S2 1.0908
GBPUSD	GBP depreciated against the dollar. We expect the cable to be stable with Pound sterling likely to follow the euro rather than USD.
Critical levels	R2 1.3016 · R1 1.2920 · S1 1.2726 · S2 1.2629
USDJPY	The yen strengthened against the dollar, on the back of increased safe-haven appetite. BoJ yield curve targeting should put continuing downward pressure on the yen.
Critical levels	R2 111.26 · R1 109.58 · S1 106.86 · S2 105.83

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
03/02/2020	Markit Manufacturing PMI	Feb F	50.8	50.8	Market attention will be on labour market payroll data. Also, PMI, and goods order will be important this week.
03/02/2020	Construction Spending MoM	Jan	0.6%	-0.2%	
03/02/2020	ISM Manufacturing	Feb	50.5	50.9	
03/04/2020	ISM Non-Manufacturing Index	Feb	55	55.5	
03/04/2020	MBA Mortgage Applications	28- Feb		1.50%	
03/05/2020	Initial Jobless Claims	29- Feb		219K	
03/05/2020	Durable Goods Orders	Jan F	-0.20%	-0.20%	
03/05/2020	Factory Orders	Jan	-0.2%	1.8%	
03/06/2020	Change in Nonfarm Payrolls	Feb	175K	225K	
03/06/2020	Unemployment Rate	Feb	3.60%	3.60%	
03/06/2020	Labor Force Participation Rate	Feb	63.40%	63.40%	
03/06/2020	Wholesale Inventories MoM	Jan F		-0.20%	

Japan

	Indicator	Period	Expected	Prior	Comments
03/02/2020	Capital Spending YoY	4Q	-2.50%	7.10%	Japan PMI manufacturing will be important.
03/02/2020	Jibun Bank PMI Mfg	Feb F		47.6	

Eurozone

	Indicator	Period	Expected	Prior	Comments
03/02/2020	Markit Manufacturing PMI	Feb F	49.1	49.1	Focus will be on PPI and manufacturing PMI.
03/03/2020	PPI YoY	Jan	-0.40%	-0.70%	
03/04/2020	Retail Sales YoY	Jan	1.10%	1.30%	
03/04/2020	Markit Eurozone Services PMI	Feb F	52.8	52.8	

United Kingdom

	Indicator	Period	Expected	Prior	Comments
03/02/2020	Markit UK PMI Manufacturing SA	Feb F	51.9	51.9	PMI manufacturing data will be focus.
03/02/2020	Mortgage Approvals	Jan	68.0K	67.2K	

China and India

	Indicator	Period	Expected	Prior	Comments
This week	Caixin PMI Mfg (CH)	Feb	46	51.1	All eyes will be on China March releases for foreign reserves, trade balance, and PMI. In India, PMI manufacturing will be important.
This week	Markit PMI Mfg (IN)	Feb		55.3	
03/07/2020	Trade Balance(CH)	Feb	$12.75b	$3115.50b	
03/07/2020	Foreign Reserves(CH)	Feb			

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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