The Weekly Market View

November 04 2019

ADCB ASSET MANAGEMENT LIMITED

On the bright side of things

Equity markets rallied for another week as investors shrugged off the weakness in manufacturing data and reveled in the positive economic data and upbeat corporate earnings. US equities outperformed the most, led by the technology heavy NASDAQ index, posting weekly returns of almost 2% and reaching new record highs. The dollar weakened against the major currencies as risks in the form of US-China trade tensions and Brexit uncertainty subsided. Dollar weakness further supported a rally in the emerging market equities. The slowing yet positive and upbeat economic data buoyed the risk-on sentiment. The 3Q GDP print showed that growth rose by 1.9% in 3Q, down from 2% in 2Q, but beat consensus expectations. Another positive was the October jobs report which indicated that the economy added more jobs than expected in October, underscoring the health of the labor market. But, other economic indicators showed that the macro picture is still not upbeat. The ISM manufacturing print came in lower than expectation with continued contraction in the goods production. In addition, the prospects of US-China formal trade talks appeared uncertain after their meeting in Chile was cancelled. As a result, there was some degree of caution evident in investor sentiment, thus spurring flows into safe-have assets. The 10yr US Treasury yields ended lower and the yield curve flattened as the Fed signaled a pause to its mid-cycle adjustment after reducing policy rates at the MPC meeting last week. Precious metals also recorded weekly gains. Oil prices remained under pressure, mainly on reports of unexpected rise in US inventories and weakness in China factory activity.

Pockets of improvement but not all rosy yet

There are signs of improvement visible in economic data released over last week. The US GDP data showed that consumer spending was resilient in the third-quarter, rising by 2.9% qoq, though slightly lower than the growth seen in 2Q. Healthy labour market, as evident from recent payroll release, should continue to support the consumer spending. Yet, business investment remains weak, with the outlook clouded by the trade uncertainty and weakness in manufacturing activity. However, manufacturing indicators are showing some signs of stabilisation. While the recent ISM print was softer than expected, the components of new orders and employment have picked up recently. In China, Caixin manufacturing PMI, which focuses on smaller firms, surprised on the upside, moving more into the expansionary zone in contrast to the official PMI figure (covers larger firms), which remains below the level of 50. The divergence mainly hints at the way in which China is conducting its targeted stimulus measures. We believe that the global manufacturing cycle should start bottoming out soon. US trade tensions are likely to further de-escalate if there is progress made on the signing off of the "Phase 1" of the deal and the planned 15 December US tariffs on Chinese imports are forestalled. Financial conditions should remain loose in spite of the Fed hitting a pause button as the central bank continues to hold a dovish bias. Weakness in dollar should support the emerging market rally in the short term (Quarterly Investment View, October 2019). But on a strategic basis, we prefer to stick to our barbell strategy- overweight US equities with a preference for gold, cash and US Treasuries. In the coming week, markets will be closely tracking the ISM non-manufacturing release to assess the impact of trade tensions on non-manufacturing sector. Bank of England will be meeting this week with no action expected but possibility of a dovish tilt is likely.

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Global markets' performance snapshot

Index Snapshot (World Indices)

Index	Latest	Weekly Chg %	YTD %
S&P 500	3,067	1.5	22.3
Dow Jones	27,347	1.4	17.2
Nasdaq	8,386	1.7	26.4
DAX	12,961	0.5	22.7
Nikkei 225	22,851	0.2	14.2
FTSE 100	7,302	-0.3	8.5
Sensex	40,165	2.3	11.4
Hang Seng	27,101	1.6	4.9
Regional Markets (Sunday to Thursday)			
ADX	5,108	-1.1	3.9
DFM	2,747	-1.3	8.6
Tadawul	7,744	-2.1	-1.1
DSM	10,189	-1.8	-1.1
MSM30	4,000	0.3	-7.5
BHSE	1,523	-0.2	13.9
KWSE	5,717	-0.9	12.6
MSCI			
MSCI World	2,234	1.3	19.5
MSCI EM	1,042	1.3	8.6

Global Commodities, Currencies and Rates

Commodity	Latest	Weekly Chg %	YTD %
ICE Brent USD/bbl	61.7	-0.5	14.7
Nymex WTI USD/bbl	56.2	-0.8	23.8
Gold USD/t oz	1,514.3	0.6	18.2
Silver USD/t oz	18.1	0.5	17.1
Platinum USD/t oz	950.2	2.6	19.5
Copper USD/MT	5,797.0	-1.2	-2.8
Alluminium	1,798.0	3.7	-1.4
Currencies			
EUR USD	1.12	0.8	-2.5
GBP USD	1.29	0.9	1.6
USD JPY	108.19	-0.4	-1.4
CHF USD	0.99	-0.9	-0.3
Rates			
USD Libor 3m	1.89	-2.0	-32.7
USD Libor 12m	1.93	-1.6	-35.9
UAE Eibor 3m	2.08	-3.8	-26.8
UAE Eibor 12m	2.26	-0.8	-36.9
US 3m Bills	1.51	-8.9	-35.7
US 10yr Treasury	1.71	-4.7	-36.3

Summary market outlook

Global Yields	In the bond market, long-term bond yields dropped more than the short-term yields after the Fed signaled a pause to its easing. The 10yr US Treasury yields declined as investors still remained cautious amidst the risk-on rally. European bonds largely followed the trend in the US Treasury curve. Overall, we believe that the long-term US rates will remain in line with the Fed's target Fed fund rate.
Stress and Risk Indicators	The VIX stayed low in the absence of any market surprises. 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 market performance was negative last week, with Saudi stocks coming under pressure ahead of the announcement of Aramco IPO. 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 continued to perform strongly and positive in absence of material bad news – at both macro and micro level. Overall, 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 metals held to their year-to-date gains as dollar continued to weaken. We remain overweight gold as a risk hedge against ongoing political and (potential) inflationary risks.
Energy	Oil prices were under pressure on reports of surprise rise in US inventories and weak China factory activity. Overall, oil prices are likely to remain sustained as the market is roughly balanced.
Industrial Metals	Industrial metals registered mixed performance – copper prices fell and aluminium prices rose. We do not recommend industrial metals exposure as China reigns in demand.
Currencies	
EURUSD	The euro strengthened versus the greenback. We expect the euro to remain stable.
Critical levels	R2 1.1199 · R1 1.1182 · S1 1.1139 · S2 1.1112
GBPUSD	The pound sterling appreciated versus the US dollar with the prospects of no-deal Brexit fading away. We expect the cable to be stable with Pound sterling likely to follow the euro rather than USD.
Critical levels	R2 1.2994 · R1 1.2970 · S1 1.2925 · S2 1.2903
USDJPY	The yen appreciated against the dollar. The BoJ yield curve targeting should put continuing downward pressure on the yen.
Critical levels	R2 108.57 · R1 108.38 · S1 107.94 · S2 107.70

Note: R2, R1, S2 and S1 refer to Bloomberg calculated weekly technical resistance and support levels.

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Forthcoming important economic data

United States

	Indicator	Period	Expected	Prior	Comments
11/04/2019	Durable Goods Orders	Sep F	-1.10%	-1.10%	
11/04/2019	Factory Orders	Sep	-0.40%	-0.10%	
11/05/2019	Markit US Services PMI	Oct	51	51	
11/05/2019	ISM Non-manufacturing	Oct	53.4	52.6	ISM Non-manufacturing will be closely tracked.
11/07/2019	Initial Jobless Claims	2-Nov	215K	218K	
11/08/2019	Wholesale Inventories MoM	Sep F	-0.30%	-0.30%	
11/08/2019	U. of Mich. Sentiment	Nov P	95.5	95.5	

Japan

	Indicator	Period	Expected	Prior	Comments
11/06/2019	Jibun Bank PMI Composite	Oct F		49.8	Focus will be on Japan PMI.
11/06/2019	Jibun Bank PMI Services	Oct F		50.3	

Eurozone

	Indicator	Period	Expected	Prior	Comments
11/04/2019	Markit Manufacturing PMI	Oct F	45.7	45.7	
11/06/2019	Retail Sales YoY	Sep	2.40%	2.10%	Retail sales and PMI will be important.
11/07/2019	ECB Publishes Economic Bulletin				

United Kingdom

	Indicator	Period	Expected	Prior	Comments
11/07/2019	BOE MPC Meeting	Nov	No Change		Eyes will be on BOE MPC meeting.

China and India

	Indicator	Period	Expected	Prior	Comments
11/05/2019	Markit PMI Services (IN)	Oct		48.7	
11/05/2019	Markit PMI Composite (IN)	Oct		49.8	
11/07/2019	Foreign Reserves (CH)	Oct	$3099.00b	$3092.43b	
11/09/2019	CPI YoY (CH)	Oct	2.30%	3.00%	Focus will be on China macro releases and in India PMI will be important.
11/09/2019	PPI YoY (CH)	Oct	-1.50%	-1.20%	
11/09/2019	Money Supply M2 YoY (CH)	Oct	8.40%	8.40%	

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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