The Weekly Market View

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Still waiting…

Financial markets are still waiting for the details of the phase-1 trade deal between the US and China. Ever since the first mention of such a deal-in-making five weeks ago, risk-appetite has recovered quite significantly and equity markets performed strongly. However, the performance last week showed some evidence that markets remain vulnerable to the developments (or lack thereof) on trade. Markets came under acute pressure following Mr. Trump's comments that the US has not agreed to any roll-back of tariffs already levied on China and that the US will impose more tariffs in case there is no deal. A rather volatile week saw equities register gains albeit at a softer pace than in the recent weeks. However, US equity indices climbed to new record highs. European markets lagged. Large cap stocks in the UK and Japan came under pressure as their currencies strengthened against the USD. Hong Kong equities sold-off quite aggressively due to a sharp escalation in the social unrest there. EM equities overall suffered on weakness in Chinese equities. In the sovereign bond markets, 10Y bond yields fell in the US and Germany. Yield curves flattened. In the currencies market, USD weakened across the board. EUR gained ground on better than expected Q3 GDP numbers which confirmed that Germany avoided a technical recession. GBP too strengthened against the USD on positive political developments in the UK. Commodities on the other hand remained influenced by China. Last week, which saw disappointing Chinese data (industrial output, retail sales and fixed-asset investment) also saw acute weakness in industrial metal prices. Precious metals, however, continued to cling to their year-to-date gains.

Too far, too fast?

As we had envisaged earlier (see The Equity Strategist, September 17 2019), fading trade uncertainty, stabilization of the manufacturing sector and a strong policy support triggered a pro-cyclical rotation over the last couple of months. In fact the recent strong performance of equities which came on the heels of volatility during summer, might leave the market participants wondering if this rally has now gone too far, too fast. In our view, this pro-cyclical rally has a bit further to run but the returns are likely to slow going into the year-end. The arguments of 'there is no alternative' (TINA) and 'fear of missing out' (FOMO) have gathered pace in the recent weeks and this is likely to underpin equity market performance in coming weeks. Cyclical data improvements are likely to provide further support. Valuations, sentiment and positioning are still not an impediment for performance ahead. However, some of the tail winds that propelled equities over the last two months are likely to fade. The impact of the yield curve steepening on equities might have played out to a good extent. The earnings season is largely concluded and therefore bottom-up drivers of equities are no longer in charge.

From an asset allocation perspective, on a strategic basis, we continue to hold a risk-barbell with quality tilt. We balance our overweight US equities with overweight US treasuries, gold and cash.

Global markets' performance snapshot

Index Snapshot (World Indices)

Index	Latest	Weekly %	YTD %
S&P 500	3,120	0.9	24.5
Dow Jones	28,005	1.2	20.1
Nasdaq	8,541	0.8	28.7
DAX	13,242	0.1	25.4
Nikkei 225	23,303	-0.4	16.4
FTSE 100	7,303	-0.8	8.5
Sensex	40,357	0.1	11.9
Hang Seng	26,327	-4.8	1.9
Regional Markets (Sunday to Thursday)			
ADX	5,138	0.1	4.5
DFM	2,701	0.1	6.8
Tadawul	7,924	1.6	1.2
DSM	10,363	0.9	0.6
MSM30	4,084	1.1	-5.5
BHSE	1,505	-0.9	12.5
KWSE	5,729	0.6	12.8
MSCI			
MSCI World	2,265	0.6	21.2
MSCI EM	1,042	-1.5	8.6

Global Commodities, Currencies and Rates

Commodity	Latest	Weekly %	YTD %
ICE Brent USD/bbl	63.3	1.3	17.7
WTI USD/bbl	57.7	0.8	27.1
Gold USD/t oz	1,468.2	0.6	14.6
Silver USD/t oz	17.0	0.9	9.5
Platinum USD/t oz	890.6	0.4	12.0
Copper USD/MT	5,812.0	-2.3	-2.6
Alluminium	1,759.5	-3.3	-3.5
Currencies			
EUR USD	1.11	0.3	-3.5
GBP USD	1.29	1.0	1.2
USD JPY	108.80	-0.4	-0.8
CHF USD	0.99	-0.7	-0.7
Rates			
USD Libor 3m	1.90	0.1	-32.2
USD Libor 12m	1.96	-1.9	-34.8
UAE Eibor 3m	2.14	-2.3	-24.6
UAE Eibor 12m	2.26	-1.4	-36.9
US 3m Bills	1.56	1.2	-33.7
US 10yr Treasury	1.83	-5.7	-31.8

Summary market outlook

Global Yields	In the sovereign bond markets, 10Y bond yields fell in the US and Germany on uncertainty around a phase-1 trade deal between US and China. Yield curves flattened. Overall, 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	Marginal fall in volatility coincided with a small rise in equity markets over the past week. 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 performed strongly last week led by Saudi equities. 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	A rather volatile week saw equities register gains albeit at a softer pace than in the recent weeks. US equity indices climbed to new record highs. European markets lagged. Large cap stocks in the UK and Japan came under pressure as their currencies strengthened against the USD. Hong Kong equities sold-off quite aggressively due to a sharp escalation in the social unrest there. EM equities overall suffered on weakness in Chinese equities. 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, continued to cling to their year-to-date gains. We remain overweight gold as a risk hedge against ongoing political and (potential) inflationary risks.
Energy	Oil prices rose last week as market sentiment oscillated between weak demand and the potential for a balanced market. Overall, oil prices are likely to remain sustained as the market is roughly balanced.
Industrial Metals	Last week, which saw disappointing Chinese data (industrial output, retail sales and fixed-asset investment) also saw acute weakness in industrial metal prices. We do not recommend industrial metals exposure as China reigns in demand.
Currencies	
EURUSD	EUR gained against the greenback on better than expected Q3 GDP numbers which confirmed that Germany avoided a technical recession. We expect the euro to remain stable.
Critical levels	R2 1.1083 · R1 1.1067 · S1 1.1025 · S2 1.0999
GBPUSD	GBP strengthened against the USD on positive political developments in the UK. We expect the cable to be stable with Pound sterling likely to follow the euro rather than USD.
Critical levels	R2 1.2946 · R1 1.2922 · S1 1.2870 · S2 1.2843
USDJPY	The Japanese yen strengthened against the greenback on a broader weakness in the latter. The BoJ yield curve targeting should put continuing downward pressure on the yen.
Critical levels	R2 109.25 · R1 109.03 · S1 108.41 · S2 108.02

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
11/18/2019	NAHB Housing Market Index	Nov	71	71	All eyes will be on the FOMC minutes this week. Focus will also be on the housing data, PMI, and initial jobless claims.
11/19/2019	Housing Starts	Oct	1320K	1256K	
11/20/2019	MBA Mortgage Applications	15- Nov		9.60%	
11/20/2019	FOMC Meeting Minutes	30- Oct			
11/21/2019	Initial Jobless Claims	16- Nov	218K	225K	
11/21/2019	Existing Home Sales MoM	Oct	2.00%	-2.20%	
11/22/2019	Markit Manufacturing PMI	Nov P	51.5	51.3	
11/22/2019	U. of Mich. Sentiment	Nov F	95.7	95.7	

Japan

	Indicator	Period	Expected	Prior	Comments
11/21/2019	Machine Tool Orders YoY	Oct F		-37.40%	PMI data and inflation releases will be closely tracked by the market.
11/22/2019	Natl CPI YoY	Oct	0.30%	0.20%	
11/22/2019	Natl CPI Ex Fresh Food, Energy YoY	Oct	0.60%	0.50%	
11/22/2019	Jibun Bank PMI Mfg	Nov P		48.4	

Eurozone

	Indicator	Period	Expected	Prior	Comments
11/19/2019	ECB Current Account SA	Sep		26.6b	Eurozone CPI and PMI data will be important.
11/20/2019	PPI YoY	Oct	-0.40%	-0.10%	
11/20/2019	CPI YoY	Oct	1.90%	1.90%	
11/22/2019	GDP SA QoQ	3A F	0.10%	0.10%	
11/22/2019	Markit Manufacturing PMI	Nov P	46.4	45.9	

United Kingdom

	Indicator	Period	Expected	Prior	Comments
11/18/2019	Rightmove House Prices MoM	Nov		0.60%	PMI manufacturing will be watched.
11/22/2019	Markit PMI Manufacturing SA	Nov P	48.8	49.6	

China and India

	Indicator	Period	Expected	Prior	Comments
					No important data releases scheduled for the week.

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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