# The Weekly Market View

April 29 2019

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## What the Fed taketh, the Fed giveth back

Bouncing off the December lows, US equity markets have recovered all the losses they incurred during Q4 last year. S&P 500 index is now back at a new all-time high thanks to the dovish pivot of the US Fed. Back in Q4 2018, markets feared hawkish Fed policies resulting in tighter financial conditions. However, thanks to the feedback loop, Fed turned a lot more accommodative in its communication in December and indicated "patience" in reference to any further rate increases. As a result, equity markets across the world and notably in the US have performed quite strongly so far this year. Evidence of better-than-expected global growth – coming from the US and also incrementally from China – added to the positive risk sentiment. Along with this, perceptions about a trade deal being struck between US and China also helped. Looking at other assets, oil prices rose c35% year-to-date, gold prices remained flat and USD strengthened. However, the signals from the US yield curve were rather more mixed – with the yields on ten year bonds falling and those on three month bills rising.

Looking at just last week's performance, there was evidence of positive risk sentiment. Thanks to the strong macro (Q1 GDP beats estimates) and micro (earnings season delivers positive surprises) data from the US, equity markets there outperformed markets elsewhere. Chinese equity markets, after a strong rally year-to-date, corrected significantly as market participants feared that the Chinese authorities would eventually scale back the stimulus. As a result, emerging market equities underperformed developed market equities. Oil prices rose strongly earlier in the week as US announced that it would not be renewing sanction waivers to eight countries that purchase oil from Iran; but fell in the second half on the news of ample inventories in US, UAE and Saudi Arabia. Stronger US economic data meant USD strength against the EUR. US treasury yields also fell on the back of weaker than expected inflation. Yields on German bunds turned negative again as the IFO business climate survey fell for the seventh time in the last eight months.

## A logical pause

After a strong rise so far this year, it might be reasonable to expect the market returns to slow down in the coming months. Especially, the seasonality ('Sell in May and go away?') and depressed levels of volatility (which normally precede some market pull back) also indicate scope for some consolidation for the risk assets in the near future. Risks in the near-term are around the US approach to Iran oil sanctions, US-EU trade conflict, US-China trade negotiations, Brexit, Chinese stimulus and also Central bank policy errors. Further, the current earnings season which is half-way in the US and still nascent elsewhere will be closely watched for further validation in the near term. Having said so, we remain positive on the outlook for equities over the next 12 months as we expect global growth to pick up in H2 2019.

In terms of validation, next week should provide a good amount of evidence relating to the economic activity (watch for PMIs from across the globe) and corporate earnings. Also, central bank meetings in the US and the UK will also be closely watched – not for the rate decision, but for the commentary from the central bank chairs. Japan will be on a 10-day Golden Week holiday.


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## Past week global markets' performance

Index Snapshot (World Indices)

| Index | Latest | Weekly Chg % | YTD % |
|---|---|---|---|
| S&P 500 | 2,939.9 | 1.2 | 17.3 |
| Dow Jones | 26,543.3 | -0.1 | 13.8 |
| Nasdaq | 8,146.4 | 1.9 | 22.8 |
| DAX | 12,315.2 | 0.8 | 16.6 |
| Nikkei 225 | 22,258.7 | 0.3 | 11.2 |
| FTSE 100 | 7,428.2 | -0.4 | 10.4 |
| Sensex | 39,067.3 | -0.2 | 8.3 |
| Hang Seng | 29605.0 | -1.2 | 14.5 |
| **Regional Markets (Sunday to Thursday)** | | | |
| ADX | 5391.9 | 0.9 | 9.7 |
| DFM | 2787.4 | -1.2 | 10.2 |
| Tadawul | 9275.5 | 0.4 | 18.5 |
| DSM | 10451.1 | 0.9 | 1.5 |
| MSM30 | 3940.37 | -1.1 | -8.9 |
| BHSE | 1442.2 | -0.3 | 7.8 |
| KWSE | 5705.6 | -1.6 | 12.3 |
| **MSCI** | | | |
| MSCI World | 2,173.8 | 0.6 | 15.4 |
| MSCI EM | 1,078.1 | -1.3 | 11.6 |

Global Commodities, Currencies and Rates

| Commodity | Latest | Weekly Chg % | YTD % |
|---|---|---|---|
| ICE Brent USD/bbl | 72.2 | 0.3 | 34.1 |
| Nymex WTI USD/bbl | 63.3 | -1.1 | 39.4 |
| Gold USD/t oz | 1286.2 | 0.8 | 0.4 |
| Silver USD/t oz | 15.1 | 0.4 | -2.6 |
| Platinum USD/t oz | 899.1 | -0.4 | 13.1 |
| Copper USD/MT | 6393.0 | -0.9 | 7.2 |
| Alluminium | 1818 | -1.7 | -0.3 |
| **Currencies** | | | |
| EUR USD | 1.1151 | -0.8 | -2.6 |
| GBP USD | 1.2916 | -0.6 | 1.3 |
| USD JPY | 111.58 | -0.3 | 1.7 |
| CHF USD | 1.0196 | 0.5 | -3.6 |
| **Rates** | | | |
| USD Libor 3m | 2.5828 | 0.1 | -8.0 |
| USD Libor 12m | 2.7175 | -1.1 | -9.6 |
| UAE Eibor 3m | 2.7850 | -2.4 | -1.9 |
| UAE Eibor 12m | 3.2527 | 5.1 | -9.0 |
| US 3m Bills | 2.4091 | -0.1 | 2.3 |
| US 10yr Treasury | 2.4982 | -2.4 | -6.9 |

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## Summary market outlook

| | |
|---|---|
| Global Yields | German 10-year Bund yields turned negative again. US 10-year Treasury yields fell to 2.5% on the back on weaker than expected inflation data. We expect the 10-year US Treasury yield to remain range bound between 2.5% and 2.8%, in line with the Fed's indicated long-term neutral rate. |
| Stress and Risk Indicators | VIX moved higher from a very depressed base. 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 returns were mixed last week – ADX, Tadawul and DSM gained while the rest registered losses. We remain neutral on GCC equities given the 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 | US equity markets hit a new all-time high. DM outperformed EM. Chinese equities lost ground. 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 and silver prices rose; but platinum prices fell. We remain overweight gold as a risk hedge against ongoing political and (potential) inflationary risks. |
| Energy | Oil prices rose strongly earlier in the week as US announced that it would not be renewing sanction waivers to eight countries that purchase oil from Iran; but fell in the second half on the news of ample inventories in US, UAE and Saudi Arabia. We think 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 fell on anticipation of Chinese authorities scaling down on the stimulus. We do not recommend industrial metals exposure as China reigns in demand. |
| **Currencies** | |
| EURUSD | Strong US GDP and weak German IFO print translated into the US dollar strength against the Euro. We expect the euro to remain stable with USD to lose some strength in 2019. |
| Critical levels | R2 1.1208 · R1 1.1179 · S1 1.1117 · S2 1.1083 |
| GBPUSD | Stronger growth momentum in the US meant US dollar strength against the Pound Sterling. We expect the cable to be stable with Pound sterling likely to follow the euro rather than USD. |
| Critical levels | R2 1.2979 · R1 1.2947 · S1 1.2880 · S2 1.2845 |
| USDJPY | Yen gained marginally against the US dollar as Japan's retail investors increased their net long yen positions against the dollar to near a record ahead of the nation's extended Golden Week holidays. BoJ yield curve targeting should put continuing downward pressure on the yen. |
| Critical levels | R2 112.28 · R1 111.93 · S1 111.33 · S2 111.08 |

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 |
|---|---|---|---|---|---|
| 05/01/2019 | MBA Mortgage Applications | 26-Apr | -- | -7.30% | |
| 05/01/2019 | Markit Manufacturing PMI | Apr F | 52.4 | 52.4 | |
| 05/01/2019 | ISM Manufacturing | Apr | 55.0 | 55.3 | |
| 05/01/2019 | FOMC Rate Decision | 1-May | No Change | | |
| 05/02/2019 | Initial Jobless Claims | 27-Apr | 220K | 230K | |
| 05/02/2019 | Durable Goods Orders | Mar F | -- | 2.70% | All eyes will be on FOMC meeting this week. Focus will also be on labour market payroll data. |
| 05/02/2019 | Factory Orders | Mar | 1.40% | -0.50% | |
| 05/03/2019 | Wholesale Inventories MoM | Mar P | 0.20% | 0.20% | |
| 05/03/2019 | Change in Nonfarm Payrolls | Apr | 185K | 196K | |
| 05/03/2019 | Average Hourly Earnings YoY | Apr | 3.30% | 3.20% | |
| 05/03/2019 | Labor Force Participation Rate | Apr | 62.90% | 63.00% | |
| 05/03/2019 | Underemployment Rate | Apr | -- | 7.30% | |

### Japan

| | Indicator | Period | Expected | Prior | Comments |
|---|---|---|---|---|---|
| 05/01/2019 | Nikkei PMI Mfg | Apr F | -- | 49.5 | Japan Manufacturing PMI will be important. |

### Eurozone

| | Indicator | Period | Expected | Prior | Comments |
|---|---|---|---|---|---|
| 04/30/2019 | CPI YoY (GE) | Apr P | 1.50% | 1.30% | |
| 04/30/2019 | GDP YoY | Feb | 1.40% | 1.60% | All eyes will be on Eurozone CPI. |
| 05/02/2019 | Retail Sales YoY | Mar | 2.90% | 4.70% | |
| 05/02/2019 | Markit Manufacturing PMI | Apr | 47.8 | 47.8 | |

### United Kingdom

| | Indicator | Period | Expected | Prior | Comments |
|---|---|---|---|---|---|
| 05/01/2019 | Nationwide House PX MoM | Apr | 0.10% | 0.20% | |
| 05/01/2019 | Markit PMI Manufacturing SA | Apr | 53.1 | 55.1 | All attention will be on BoE meeting. |
| 05/02/2019 | BOE MPC meeting | May | No Change | | |

### China and India

| | Indicator | Period | Expected | Prior | Comments |
|---|---|---|---|---|---|
| 04/30/2019 | Manufacturing PMI (CH) | Apr | 50.6 | 50.5 | |
| 05/02/2019 | Caixin PMI Mfg (CH) | Apr | 51 | 50.8 | Focus will be on China and India Manufacturing PMI. |
| 05/02/2019 | Nikkei PMI Mfg (IN) | Apr | -- | 52.6 | |

## 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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