

Double whammy

Risk assets suffered their worst week this year on Fed's disappointment and renewed escalation of trade tensions. The Fed met market expectations by reducing policy rates by 25bp, marking the first rate cut since 2008. The policy statement acknowledged the possible implications of global uncertainty and muted inflation pressures as the reasons for easing rates. However, comments from Fed Chair Jay Powell disappointed the markets, as he referred to the recent rate cut as a "mid cycle adjustment to policy" rather than the "beginning of a prolonged easing cycle" which markets had pinned their hopes on. Adding to the market woes, US President Donald Trump, via a series of tweets, threatened to impose a new round of tariffs of 10% on the remaining USD300bn worth of Chinese imports. Trade tensions escalated further with China signalling its plans to retaliate, putting an end to the trade truce. In addition, signs of trade uncertainty negatively impacting the global manufacturing activity were evident in the July PMI manufacturing releases across the globe. As a result, US equities posted their worst week with technology-heavy NASDAQ being the worst hit. But European equities and emerging market stocks underperformed the most. The 10yr US Treasury yield, despite the less dovish Fed rate cut, slumped to the lowest level since 2016. Other safe-haven assets including gold and the Japanese yen also posted gains over the week. The US dollar rallied immediately in reaction to the Fed disappointment, but later weakened post the Trump tweets ending the week almost unchanged. The pound sterling continued to remain volatile on the back of Brexit worries. In commodities, crude oil prices declined over the week, with trade uncertainty and global growth concerns weighing on the sentiment.

No August break for trade

Last week which was one of the most important central bank weeks, yet again proved the kind of impact trade uncertainty could have on the financial markets. Implied fed fund future rates pared expectations of further rate cuts for the year last Wednesday as the Fed downplayed the possibility of a prolonged easing cycle. However, market pricing of rate cuts immediately rose after trade uncertainty returned with President Trump's tariff threats on China. Similarly, volatility in both equity and bond markets surged with the escalation of these trade tensions. Given the increased level of global trade uncertainty, we believe that risk assets will continue to remain vulnerable over the next few weeks. As a result, we stick with our diversified allocation – to US equities, US treasuries, gold and cash.

In the coming week, markets will be watching out on how China could possibly retaliate to the tariff escalation. The Chinese government has already asked its state-owned enterprises to halt imports of US agricultural products (Bloomberg, 5 Aug) while the Chinese yuan has breached the 7 level versus the greenback. Separately, set of economic releases including data on trade, exports and foreign reserves from China will be very important. Focus will also be on global growth with 2Q GDP releases scheduled in Japan and in the UK. In addition, the central banks of Australia, New Zealand, India, Thailand and Philippines will be holding meetings, with some of them likely to follow the Fed's recent easing.

Global markets' performance snapshot

Index Snapshot (World Indices)

Index	Latest	Weekly Chg %	YTD %
S&P 500	2,932	-3.1	17.0
Dow Jones	26,485	-2.6	13.5
Nasdaq	8,004	-3.9	20.6
DAX	11,872	-4.4	12.4
Nikkei 225	21,087	-2.6	5.4
FTSE 100	7,407	-1.9	10.1
Sensex	37,118	-2.0	2.9
Hang Seng	26,919	-5.2	4.2

Regional Markets (Sunday to Thursday)

ADX	5,230	-2.2	6.4
DFM	2,900	1.9	14.7
Tadaw ul	8,666	-2.2	10.7
DSM	10,398	-1.7	1.0
MSM30	3,777	0.8	-12.6
BHSE	1,550	1.4	15.9
KWSE	6,126	0.0	20.6

MSCI

MSCI World	2,173	-3.0	14.1
MSCI EM	1,025	-4.3	3.9

Global Commodities, Currencies and Rates

Commodity	Latest	Weekly Chg %	YTD %
ICE Brent USD/bbl	61.9	-2.5	15.0
Nymex WTI USD/bbl	55.7	-1.0	22.6
Gold USD/t oz	1,440.8	1.5	12.4
Silver USD/t oz	16.2	-1.2	4.6
Platinum USD/t oz	844.9	-2.4	6.3
Copper USD/MT	5,769.0	-3.0	-3.3
Alluminium	1,750.5	-2.0	-4.0

Currencies

EUR USD	1.11	-0.2	-3.0
GBP USD	1.22	-1.8	-4.6
USD JPY	106.59	-1.9	-2.9
CHF USD	0.98	-1.1	0.0

Rates

USD Libor 3m	2.24	-1.2	-20.2
USD Libor 12m	2.12	-3.7	-29.6
UAE Eibor 3m	2.59	3.4	-8.6
UAE Eibor 12m	2.85	0.5	-20.2
US 3m Bills	2.05	-3.0	-13.0
US 10yr Treasury	1.85	-10.9	-31.3

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Summary market outlook

Global Yields The 10yr US treasury yield fell to the lowest level since 2016, as trade tensions resurfaced. 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 jumped as trade uncertainty sparked a sell-off in equity markets. 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 mixed amidst the global sentiment. Equities in Bahrain, and Dubai posted weekly gains. 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 ended the week in red on escalation of trade tensions and Fed disappointment. European stocks and emerging market stocks underperformed the most. 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 rose as investors flocked to safe-haven assets amidst increased trade uncertainty. We remain overweight on gold as a risk hedge against ongoing political and (potential) inflationary risks.

Energy Global growth concerns, trade uncertainty and multi-month high US oil inventories led to fall in oil prices. Overall the oil price is likely to remain sustained as the market is roughly balanced.

Industrial Metals Industrial metals were broadly down last week. We do not recommend industrial metals exposure as China reigns in demand.

Currencies

EURUSD The euro ended the week flat versus the greenback. We expect the euro to remain stable with USD to lose some strength in 2019.

Critical levels **R2** 1.1148 **R1** 1.1128 **S1** 1.1076 **S2** 1.1045

GBPUSD The pound sterling depreciated versus the US dollar on the back of Brexit worries. We expect the cable to be stable with Pound sterling likely to follow the euro rather than USD.

Critical levels **R2** 1.2222 **R1** 1.2192 **S1** 1.2112 **S2** 1.2061

USDJPY The yen appreciated on increased safe-have appetite. We think the BOJ yield curve targeting should put continuing downward pressure on the yen.

Critical levels **R2** 108.74 **R1** 107.67 **S1** 106.01 **S2** 105.43

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	
08/07/2019	MBA Mortgage Applications	2- Aug	-1.40%	-1.90%	
08/07/2019	Initial Jobless Claims	3- Aug	215K	215K	Light week in terms of data releases
08/08/2019	Wholesale Inventories MoM	Jun F	0.20%	0.20%	

Japan



Indicator	Period	Expected	Prior	Comments	
08/08/2019	BoP Current Account Balance	Jun	¥1174.4b	¥1594.8b	
08/09/2019	GDP SA QoQ	Jun P	-1.80%	2.00%	GDP will be important.

Eurozone



Indicator	Period	Expected	Prior	Comments	
08/08/2019	ECB Publishes Economic Bulletin				
08/09/2019	Unemployment Rate	Jul	5.50%	5.5%	Focus will be on ECB economic bulletin.

United Kingdom



Indicator	Period	Expected	Prior	Comments
08/07/2019	Halifax House Prices MoM	Jul	0.30%	-0.30%
08/09/2019	GDP QoQ	2Q P	0.00%	0.50%
08/09/2019	GDP YoY	2Q P	1.40%	1.80%
08/09/2019	Industrial Production YoY	Jun	-0.30%	0.90%

GDP data will be the main focus.

China and India



Indicator	Period	Expected	Prior	Comments
07/07/2019	Foreign Reserves (CH)	Jul	\$3110.80b	\$3119.23b
07/07/2019	RBI MPC Meeting (IN)	7- Aug	No Change	
08/08/2019	Exports YoY (CH)	Jul	-0.20%	-1.30%
08/09/2019	CPI YoY (CH)	Jul	2.70%	2.70%
08/09/2019	BoP Current Account Balance (CH)	2Q P	--	\$49.0b
08/09/2019	Aggregate Financing CNY (CH)	Jul	1650.0b	2260.0b
08/09/2019	New Yuan Loans CNY (CH)	Jul	1300.0b	1660.0b

All eyes will be on China July releases for foreign reserves, exports, and inflation. In India, focus will be on the RBI meeting.

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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