

# The Weekly Market View

December 09 2019

## Twists and turns in the tariff saga

Trade-war took the center stage over the last two weeks. Especially with the looming deadline for the proposed tariffs by the US on Chinese imports, markets continued to take account of the twists and turns in the tariff saga rather seriously. The real surprise came when President Trump said that he would raise tariffs on steel and aluminum imports from Brazil and Argentina. Last weeks also saw US administration proposing tariffs of up to 100% against USD2.4bn of French imports as a retaliation against France's new digital-services tax on US technology companies. In terms of the data, weak US personal consumption expenditure was offset by a rather strong job market. In the EU, consumer prices rose more than expected and the unemployment there fell to the lowest since the global financial crisis. However, weak industrial production data from Germany dampened the positive mood. In China, however, better than expected purchasing managers index (PMI) resulted in some positive sentiment in China-related markets.

Last week, equities registered modest gains despite the rise in volatility. US equities outperformed other developed markets. German equities gave up some of the year-to-date gains. UK large caps posted losses thanks to stronger GBP. On the fixed income side, in line with our expectations (see [Global bonds update: On a steep slope, November 21 2019](#)), yield curves steepened. In the FX market, a broader USD weakness was observed across the board. Oil prices rose on proposed OPEC+ production cuts. Precious metal prices fell and industrial metals showed a mixed picture.

## Tight rope walk to the year-end

After registering strong year-to-date gains (with equities rising more than 20% year-to-date and a simple 60/40 equity/bond portfolio enjoying so far, its best year since 2009), financial markets now face a rather important week. Over the next week, US FOMC meeting (11 December), UK parliamentary elections (12 December), ECB MPC (12 December) are all likely to be closely watched. However, the US-China trade situation is likely to take the lime light given the deadline of 15 December when US proposes to impose tariffs on another tranche of USD156bn of Chinese consumer goods imports.

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. Within equities, we are still overweight US and stick with quality and defensive themes. We do believe that the time for international stocks (outside the US) will come but it is not now. Going into 2020, we are closely watching 20 different aspects of the financial/economic/political/policy landscape that will impact financial markets (see [The Equity Strategist: 20 for 2020, November 27 2019](#)).

## Global markets' performance snapshot

Index Snapshot (World Indices)				Global Commodities, Currencies and Rates			
Index	Latest	Weekly %	YTD %	Commodity	Latest	Weekly %	YTD %
S&P 500	3,146	0.2	25.5	Brent USD/bbl	64.4	3.1	19.7
Dow Jones	28,015	-0.1	20.1	WTI USD/bbl	59.2	7.3	30.4
Nasdaq	8,657	-0.1	30.5	Gold USD/t oz	1,460.2	-0.3	13.9
DAX	13,167	-0.5	24.7	Silver USD/t oz	16.6	-2.7	7.0
Nikkei 225	23,354	0.3	16.7	Platinum USD/t oz	896.7	0.1	12.8
FTSE 100	7,240	-1.5	7.6	Copper USD/MT	5,867.5	0.2	-1.6
Sensex	40,445	-0.9	12.1	Alluminium	1,764.3	-0.9	-3.2
Hang Seng	26,498	0.6	2.5	<b>Currencies</b>			
<b>Regional Markets (Sunday to Thursday)</b>				EUR USD	1.11	0.4	-3.4
ADX	5,047	0.3	2.7	GBP USD	1.31	1.7	3.1
DFM	2,695	0.6	6.5	USD JPY	108.58	-0.8	-1.0
Tadawul	7,906	0.6	1.0	CHF USD	0.99	-0.9	-0.8
DSM	10,358	2.1	0.6	<b>Rates</b>			
MSM30	4,029	-0.9	-6.8	USD Libor 3m	1.89	-0.8	-32.7
BHSE	1,547	1.3	15.7	USD Libor 12m	1.92	-1.5	-36.0
KWSE	6,038	1.9	18.9	UAE Eibor 3m	2.21	5.1	-22.2
<b>MSCI</b>				UAE Eibor 12m	2.29	2.3	-35.9
MSCI World	2,279	0.2	21.9	US 3m Bills	1.50	-4.0	-36.1
MSCI EM	1,043	0.9	8.6	US 10yr Treasury	1.84	3.4	-31.6

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## Summary market outlook

**Global Yields** Yield curves steepened in both the US and Germany over the past weeks. 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** VIX rose over the last week despite modest gains for equities. Volatility has risen across the asset classes (equities, bonds and FX) but remains depressed in comparison to the peak during this summer. 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 moved higher over the week thanks to help from the OPEC+ which agreed to cut more production. Saudi Arabia equities posted strong gains on Sunday (8<sup>th</sup> December) – strongest daily gain since October 2018 on the back of completion of Saudi 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** Last week, equities registered modest gains despite the rise in volatility. US equities outperformed other developed markets. German equities gave up some of the year-to-date gains. UK large caps posted losses thanks to stronger GBP. We remain neutral on equities with an overweight on US and underweight EU and EM but we do acknowledge the risk of cyclical outperforming in the near-term.

## Commodities

**Precious Metals** Gold and silver prices gave up some of their year-to-date gains. We remain overweight gold as a risk hedge against ongoing political and (potential) inflationary risks.

**Energy** OPEC+ ministers signaled another round of deeper supply cuts in Q1 2020 resulting in oil prices increasing over the week. Overall, oil prices are likely to remain sustained as the market is roughly balanced.

**Industrial Metals** Industrial metals registered mixed performance – aluminium prices fell while copper prices rose. We do not recommend industrial metals exposure as China reigns in demand.

## Currencies

**EURUSD** The Euro gained against the US dollar on improved economic outlook for Eurozone and broader USD strength. We expect the euro to remain stable.

**Critical levels** R2 1.1140 R1 1.1100 S1 1.1030 S2 1.1000

**GBPUSD** The pound sterling appreciated against the US dollar and hit a seven month high as investors expected the Conservative Party to retain majority in the upcoming general election. We expect the cable to be stable with Pound sterling likely to follow the euro rather than USD.

**Critical levels** R2 1.3201 R1 1.3170 S1 1.3105 S2 1.3070

**USDJPY** The yen rose 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 109.07 R1 108.83 S1 108.43 S2 108.28

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
12/11/2019	MBA Mortgage Applications	6- Dec		-9.20%	All eyes will be on the FOMC meeting this week. Also, CPI, and initial jobless claims will be important.
12/11/2019	CPI YoY	Nov	2.00%	1.80%	
12/11/2019	FOMC Meeting	11- Dec	No Change		
12/11/2019	Initial Jobless Claims	7- Dec	212K	203K	
12/12/2019	Retail Sales Advance MoM	Nov	0.40%	0.30%	

Japan



	Indicator	Period	Expected	Prior	Comments
12/11/2019	PPI YoY	Nov	0.00%	-0.40%	
12/13/2019	Tankan Large Mfg Index	4Q	3	5	
12/13/2019	Industrial Production MoM	Oct F		-4.20%	

Eurozone



	Indicator	Period	Expected	Prior	Comments
12/12/2019	CPI YoY (GE)	Nov F	1.10%	1.10%	Attention will be on ECB MPC meeting.
12/12/2019	ECB MPC Meeting	12- Dec	No Change		

United Kingdom



	Indicator	Period	Expected	Prior	Comments
12/10/2019	Industrial Production MoM	Oct	0.20%	-0.30%	Manufacturing production will be important.
12/10/2019	Manufacturing Production MoM	Oct	0.00%	-0.40%	

China and India



	Indicator	Period	Expected	Prior	Comments
12/10/2019	CPI YoY (CH)	Nov	4.40%	3.80%	Focus will be on China Macro releases and India Industrial Production.
12/10/2019	PPI YoY (CH)	Nov	-1.50%	-1.60%	
12/12/2019	Industrial Production YoY (IN)	Oct	-4.50%	-4.30%	
12/12/2019	Exports YoY (IN)	Nov		-1.10%	

## 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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