

Pre-holiday cheer

Global risk assets rallied with uncertainty as two headwinds- US-China trade and Brexit were partially lifted last week. After more than two and a half years of discussions and negotiations, the US and China finally agreed on the preliminary "Phase 1" trade deal. The White House announced that the US will roll back the upcoming tariffs which were due to take effect from 15 December on USD160bn worth of Chinese imports, but also lower the tariff rate from 15% to 7.5% levied on USD120bn worth of Chinese imports. The relaxation was done in exchange of China agreeing to increase purchases of US agricultural, manufactured and energy products by about USD200bn over the next two years and promising to open its financial markets and avoid currency manipulation. Across the Atlantic, another cheer for the risk assets was the election victory of Boris Johnson, with a stronger mandate than before, reducing some of the political risk. The election victory will allow passage of his withdrawal bill, setting the stage for the UK to formally leave the EU by January 31 2020. Lastly, the Fed also closed the year with an accommodative stance, leaving policy rates unchanged and signaling a pause through 2020.

US stocks jumped to reach fresh records, receiving pre-holiday cheer from two key issues i.e. trade and Brexit. The rally spread across other risk assets with EM equities and Japanese equities outperforming the most. The pound sterling and UK stocks rallied in reaction to the UK election results. Bond markets reacted to the risk-on sentiment with yields ending higher in Europe. US treasury yields, however, stabilized after the release of disappointing retail sales data. Gold prices ended the week almost flat. On the other hand, energy and industrial metals posted gains.

The final hurrah of manufacturing bottoming out?

Risks may have faded, yet not completely vanished away. The "Phase 1" US-China deal should put a pause to the continuous rise in global market uncertainty but could add pressure on the Chinese policy makers, particularly the hard-liners. It may prove challenging for China to completely deliver on the promises made, particularly to uphold their commitments on US farm purchases. At the same time, receiving some commitment from China to buy US goods should boost the re-election chances of President Trump, and hence Mr. Trump could refrain from escalating matters like he did this year. Separately, in the UK, political uncertainty may have lifted but Brexit uncertainty will remain with the UK likely to enter a new phase of negotiating trade relations with the EU. As such, trade tensions are likely to moderate in the New Year and should anchor risk appetite in 2020. We maintain our constructive view for risk assets, but do not expect a repeat of 2019 performance. 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.

In the upcoming week, which also marks the second-last week of 2019 before markets get into holiday mood, focus will be on the preliminary PMI releases across the globe. After two uncertainties being lifted, markets will be waiting to look for some validation that recent manufacturing recession is bottoming out.

Global markets' performance snapshot

Index Snapshot (World Indices)				Global Commodities, Currencies and Rates			
Index	Latest	Weekly Chg %	YTD %	Commodity	Latest	Weekly Chg %	YTD %
S&P 500	3,169	0.7	26.4	ICE Brent USD/bbl	65.2	1.3	21.2
Dow Jones	28,135	0.4	20.6	Nymex WTI USD/bbl	60.1	1.5	32.3
Nasdaq	8,735	0.9	31.6	Gold USD/t oz	1,476.3	1.1	15.2
DAX	13,283	0.9	25.8	Silver USD/t oz	16.9	2.1	9.3
Nikkei 225	24,023	2.9	20.0	Platinum USD/t oz	928.7	3.6	16.8
FTSE 100	7,353	1.6	9.3	Copper USD/MT	6,154.0	4.9	3.2
Sensex	41,010	1.4	13.7	Alluminium	1,757.0	-0.4	-3.6
Hang Seng	27,688	4.5	7.1	Currencies			
Regional Markets (Sunday to Thursday)				EUR USD	1.11	0.6	-2.9
ADX	5,036	-0.2	2.5	GBP USD	1.33	1.5	4.6
DFM	2,722	1.0	7.6	USD JPY	109.38	0.7	-0.3
Tadawul	8,006	1.3	2.3	CHF USD	0.98	-0.7	-0.1
DSM	10,257	-1.0	-0.4	Rates			
MSM30	4,020	-0.2	-7.0	USD Libor 3m	1.90	0.5	-32.3
BHSE	1,567	1.3	17.2	USD Libor 12m	1.96	2.1	-34.7
KWSE	6,115	1.3	20.4	UAE Eibor 3m	2.11	-1.8	-25.7
MSCI				UAE Eibor 12m	2.44	6.5	-31.7
MSCI World	2,309	1.0	23.1	US 3m Bills	1.56	3.4	-33.9
MSCI EM	1,071	3.6	12.5	US 10yr Treasury	1.82	-0.7	-32.1

Prerana Seth

Fixed Income Strategist
Tel: +971 (0)2 696 2878
prerana.seth@adcb.com

Luciano Jannelli, Ph.D., CFA

Head Investment Strategy
Tel: +971 (0)2 696 2340
luciano.jannelli@adcb.com

Kishore Muktinutalapati

Equity Strategist
Tel: +971 (0)2 696 2358
kishore.muktinutalapati@adcb.com

Mohammed Al Hemeiri

Analyst
Tel: +971 (0)2 696 2236
mohammed.alhemeiri@adcb.com

Noor Alameri

Analyst
Tel: +971 (0)2 694 5182
noor.alameri@adcb.com

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Summary market outlook

Global Yields US Treasury yield jumped on reports of US-China reaching a trade deal but retraced lower after the disappointing retail sales number. 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 remained low in absence of any negative surprises, and positive move in the equity market. 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 well, benefitting from the global risk appetite. Saudi market was the best performer, mainly on the back of Aramco rally. 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 Global equities ended the week in the positive territory on the back of trade optimism. Emerging market equities recorded the largest weekly return. 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. We remain overweight gold as a risk hedge against ongoing political and (potential) inflationary risks.

Energy Oil prices rallied as global trade concerns were partially lifted with US-China reaching a new deal. Overall, oil prices are likely to remain sustained as the market is roughly balanced.

Industrial Metals Industrial metals performed well with Copper prices rising by 5% over the week. We do not recommend industrial metals exposure as China reigns in demand.

Currencies

EURUSD The euro strengthened against the US dollar. We expect the euro to remain stable.

Critical levels R2 1.1238 R1 1.1180 S1 1.1083 S2 1.1045

GBPUSD The pound sterling appreciated against the US dollar on the back of UK election cheer. We expect the cable to be stable with Pound sterling likely to follow the euro rather than USD.

Critical levels R2 1.3762 R1 1.3547 S1 1.3084 S2 1.2372

USDJPY The yen weakened versus the dollar with the gain in risk appetite. The BoJ yield curve targeting should put continuing downward pressure on the yen.

Critical levels R2 110.07 R1 109.73 S1 109.01 S2 108.64

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

The Weekly Market View

December 16 2019

Forthcoming important economic data

United States 

	Indicator	Period	Expected	Prior	Comments
12/16/2019	Markit Manufacturing PMI	Dec P	52.6	52.6	
12/17/2019	Housing Starts	Nov	1343K	1314K	
12/17/2019	Industrial Production MoM	Nov	0.80%	-0.80%	
12/17/2019	Capacity Utilization	Nov	77.40%	76.70%	
12/18/2019	MBA Mortgage Applications	13- Dec		3.80%	GDP and Core PCE will be the main releases this week. Also, MBA and initial jobless claims will be important.
12/19/2019	Initial Jobless Claims	14- Dec	225K	252K	
12/19/2019	Existing Home Sales	Nov	5.44m	5.46m	
12/20/2019	GDP Annualized QoQ	3Q T	2.10%	2.10%	
12/20/2019	Core PCE QoQ	3Q T	2.10%	2.10%	
12/20/2019	U. of Mich. Sentiment	Dec F	99.2	99.2	

Japan 

	Indicator	Period	Expected	Prior	Comments
12/16/2019	Jibun Bank PMI Mfg	Dec P		48.9	
12/16/2019	Tertiary Industry Index MoM	Oct	-3.60%	1.80%	
12/19/2019	Machine Tool Orders YoY	Nov F		-37.90%	Attention will be on the BoJ MPC meeting.
12/19/2019	BoJ MPC Meeting	19- Dec	No Change		
12/20/2019	Natl CPI YoY	Nov	0.50%	0.20%	
12/20/2019	Natl CPI Ex Fresh Food YoY	Nov	0.50%	0.40%	

Eurozone 

	Indicator	Period	Expected	Prior	Comments
12/16/2019	Markit Manufacturing PMI	Dep P	47.3	46.9	
12/18/2019	IFO Expectations (GE)	Dec	93	92.1	PMI data and German IFO survey will be important.
12/18/2019	CPI YoY	Nov F	1.00%	0.70%	
12/18/2019	CPI Core YoY	Nov F	1.30%	1.30%	

United Kingdom 

	Indicator	Period	Expected	Prior	Comments
12/16/2019	Markit PMI Manufacturing SA	Dec P	49.2	48.9	
12/18/2019	CPI YoY	Nov	1.40%	1.50%	
12/18/2019	CPI Core YoY	Nov	1.70%	1.70%	
12/19/2019	Retail Sales Ex Auto Fuel YoY	Nov	2.00%	2.70%	All eyes will be on the BoE meeting.
12/19/2019	Retail Sales Inc Auto Fuel MoM	Nov	0.20%	-0.10%	
12/19/2019	BoE MPC Meeting		No Change		

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China and India



	Indicator	Period	Expected	Prior	Comments
12/13/2019	BoP Current Account Balance (IN)	3Q	-\$7.10b	-\$14.30b	
This week	WPI YoY (IN)	Nov	0.82%	0.16%	
This week	Fixed Assets Ex Rural YTD YoY (CH)	Nov	5.20%	5.20%	All eyes will be on China industrial production, and retail sales. In India, WPI will be important.
This week	Industrial Production YoY (CH)	Nov	5.00%	4.70%	
This week	Retail Sales YoY (CH)	Nov	7.60%	7.20%	

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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