The Weekly Market View

February 10 2020

ADCB ASSET MANAGEMENT LIMITED

On recovery mode

Equity markets rallied over last week as investors focused on the positive economic data while progress on China's containment efforts and vaccine eased Coronavirus concerns. Markets also received boost from reports of China announcing reduction in its tariffs on US imports, adding relief that China was still able to stick to its "Phase 1" promises amidst its fight against the virus. Incoming economic releases signalled that the global economy started 2020 on a strong note. Global composite PMI rose to ten-month high in January. Signs of manufacturing recovery building up were evident in the bounce-back of manufacturing PMIs, particularly in Europe. In the US, the ISM manufacturing print for January beat expectations and moved into the expansion territory and non-manufacturing print further firmed up above 55 level. Non-farm payrolls for January came in at 225K, better than consensus expectations of 165K. As a result, US stocks posted weekly gains, ending the week at record highs. Emerging market equities gained by 2.8%, slightly outperforming developing market equities. Within developed markets, DAX Index and NASDAQ Index were the top performers. In currencies, broad dollar strength was evident, bolstered by the solid jobs report. Safe-haven appetite pared back with gold recording weekly losses and yen depreciating versus the dollar. US Treasury yields corrected higher, yet remained close to their one-year low, still accounting for the lingering virus concerns. Oil prices struggled amidst concerns on the impact of virus on oil demand and the OPEC failing to arrive at a final decision on the extension of supply cuts. As a result, local market equities suffered, derailing from the rally in the global equities.

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Yet tracking the virus

Equity markets have shaken-off the two weeks of sell-off, yet the same has not translated in a massive upward correction in 10yr UST yields. Even positive economic data surprises have failed to push yields higher, signaling that the bond markets are ignoring the data and tracking the headwinds, the US-Iran tensions (first) and coronavirus concerns (latter). With the widespread nature of the 2019-nCov outbreak and lockdown of Chinese cities lasting for almost a month, possibility of near-term blip in growth in China is imminent. This will, of course, have implications for the global economy, may be even severe than that seen during the SARs outbreak, given the increase in China's contribution to the world's GDP since 2003. However, any growth slowdown will be temporary as it will be offset by the slew of stimulus measures introduced by China. In addition, in the event of massive growth slowdown and tightness in financial conditions (not our base case scenario), central banks will be ready to deploy their monetary tools. It is not surprising that markets were quick in pricing in rate cuts after the Fed warned that the outbreak was "new risk" to its economic outlook. As such, rebound in global growth, which is already underway, could possibly push back but not be completely overturned by the outbreak. While we stay overweight US Treasuries, as a protection against any spike in equity market volatility, we believe that the 10yr UST levels are way too compressed and steepening risks are rising. Evidence from previous outbreaks suggests that the 10yr UST yield rebounded to the pre-outbreak levels, typically 1-2 months post the outbreak scare. For details on our asset allocation views, see Quarterly Investment View, January 2020.

Global markets' performance snaps

Index Snapshot (World Indices)

Index	Latest	Weekly %	YTD %
S&P 500	3,328	3.2	3.0
Dow Jones	29,103	3.0	2.0
Nasdaq	9,521	4.0	6.1
DAX	13,514	4.1	2.0
Nikkei 225	23,828	2.7	0.7
FTSE 100	7,467	2.5	-1.0
Sensex	41,142	1.0	-0.3
Hang Seng	27,404	4.1	-2.8
Regional Markets (Sunday to Thursday)			
ADX	5,087	-1.3	0.2
DFM	2,770	-0.7	0.2
Tadawul	8,053	-2.3	-4.0
DSM	10,205	-2.3	-2.1
MSM30	4,129	1.2	3.7
BHSE	1,656	-0.1	2.8
KWSE	6,276	-0.8	-0.1
MSCI			
MSCI World	2,416	2.7	2.0
MSCI EM	1,102	2.8	-2.1

Global Commodities, Currencies and Rates

Commodity	Latest	Weekly %	YTD %
ICE Brent USD/bbl	54.5	-6.3	-17.5
Nymex WTI	50.3	-2.4	-17.6
Gold USD/t oz	1,570.4	-1.2	3.5
Silver USD/t oz	17.7	-1.9	-0.8
Platinum USD/t oz	967.7	0.7	0.1
Copper USD/MT	5,653.0	1.5	-8.2
Alluminium	1,703.3	-0.0	-4.8
Currencies			
EUR USD	1.09	-1.3	-2.4
GBP USD	1.29	-2.4	-2.8
USD JPY	109.75	1.3	1.0
CHF USD	0.98	1.5	-1.1
Rates			
USD Libor 3m	1.73	-1.2	-9.3
USD Libor 12m	1.83	1.6	-8.1
UAE Eibor 3m	1.96	-5.3	-11.1
UAE Eibor 12m	2.31	-2.2	0.7
US 3m Bills	1.54	-0.2	-0.5
US 10yr Treasury	1.58	5.1	-17.4

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Summary market outlook

Global Yields	Global bond yields slightly rose last week with concerns on coronavirus easing while global economic data scored positive. In the US, treasury yields across the curve edged higher yet the 10yr US Treasury yield ended the week at 1.58%, still shy from to its one year low. We believe 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 index stabilised with coronavirus concerns easing. However, we believe that volatility will likely stay elevated given the range of risks on the horizon. This entire episode of the coronavirus would be a part of our 'high volatility' narrative for 2020 and our risk-barbell positioning.
Equity Markets	
Local Equity Markets	GCC markets were an exception to global equity rally as oil prices tumbled further. Omani stocks were the only outperformer, recording 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	Equity markets rallied with US stocks reaching new record highs. EM equities partially recouped their losses, performing better than the developed market equities. Overall, we remain neutral on equities with an overweight on US and underweight EU and EM.
Commodities	
Precious Metals	Gold prices came under pressure as safe-haven appetite waned on easing outbreak concerns. We remain overweight on gold as a risk hedge against ongoing political and (potential) inflationary risks.
Energy	Oil prices fell sharply on concerns of the coronavirus negatively impacting global growth and the OPEC failing to arrive at a decision to extend supply cuts. Overall, we believe that oil prices are likely to remain sustained as the market is roughly balanced.
Industrial Metals	Industrial metal prices stabilized last week, receiving support from announcement of China stimulus measures. We do not recommend industrial metals exposure as China reigns in demand.
Currencies	
EURUSD	EUR weakened against the USD as the dollar rallied on strong economic data. We expect the euro to remain stable.
Critical levels	R2 1.1147 · R1 1.1120 · S1 1.1041 · S2 1.0990
GBPUSD	GBP depreciated against the greenback due to broad dollar strength. We expect the cable to be stable with Pound sterling likely to follow the euro rather than USD.
Critical levels	R2 1.3295 · R1 1.3250 · S1 1.3121 · S2 1.3036
USDJPY	JPY weakened against the dollar on reduced safe-haven demand. BoJ yield curve targeting should put continuing downward pressure on the yen.
Critical levels	R2 109.42 · R1 108.89 · S1 108.07 · S2 107.78

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
02/13/2020	CPI YoY	Jan	2.40%	2.30%	CPI and Retail Sales will be closely tracked by the market.
02/13/2020	CPI Ex Food and Energy YoY	Jan	2.20%	2.30%	
02/13/2020	Initial Jobless Claims	8-Feb	211K	202K	
02/14/2020	Export Price Index YoY	Jan	--	-0.70%	
02/14/2020	Retail Sales Advance MoM	Jan	0.30%	0.30%	
02/14/2020	Capacity Utilization	Jan	76.80%	77.0%	
02/14/2020	Univ. of Mich. Sentiment	Feb P	99.3	99.8	

Japan

	Indicator	Period	Expected	Prior	Comments
02/10/2020	BoP Current Account Balance	Dec	¥464.7b	¥1436.8b	PPI YoY will be important.
02/12/2020	Machine Tool Orders YoY	Jan P	--	-33.50%	
02/13/2020	PPI YoY	Jan	1.50%	0.90%	
02/14/2020	Tertiary Industry Index MoM	Dec	0.10%	1.30%	

Eurozone

	Indicator	Period	Expected	Prior	Comments
02/12/2020	Industrial Production WDA YoY	Dec	-1.90%	-1.50%	Eyes will be on the GDP print.
02/14/2020	Trade Balance SA	Dec	19.0b	19.2b	
02/14/2020	GDP SA QoQ	4Q P	0.10%	0.10%	

United Kingdom

	Indicator	Period	Expected	Prior	Comments
02/11/2020	GDP YoY	4Q P	0.80%	1.10%	Focus will be on GDP print.
02/11/2020	Industrial Production YoY	Dec	-0.80%	-1.60%	

China and India

	Indicator	Period	Expected	Prior	Comments
02/10/2020	Money Supply M2 YoY (CH)	Jan	8.60%	8.70%	China macro data will be closely tracked.
02/10/2020	PPI YoY(CH)	Jan	0.00%	-0.50%	
02/10/2020	CPI YoY (CH)	Jan	4.90%	4.50%	
02/12/2020	CPI YoY(IN)	Jan	7.50%	7.35%	
02/12/2020	Exports YoY(IN)	Jan	--	-1.80%	
02/14/2020	Wholesale Prices YoY(IN)	Jan	2.83%	2.59%	

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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