The Weekly Market View

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ASSET MANAGEMENT LIMITED

Starting 'high'

Financial markets, especially equities started the year on a high note registering strong gains on the first trading day of the year. Most of those gains were reversed on the subsequent trading day – thanks to a strong rise in geo-political risks associated with the US-Iran confrontation. Adding to the negative sentiment was the weaker than expected US ISM manufacturing data. Some positives – better than expected manufacturing PMIs in Europe, another cut to reserve ratio by PBOC and a confirmation regarding signing of the US-China phase-1 trade deal –which provided tailwinds for equities in the earlier part of the week were largely ignored subsequently.

As a result of this, financial market volatility rose. Equities registered marginal losses. EMs outperformed DMs and US outperformed rest of the developed world. GCC equity markets posted significant losses on Sunday 5 January. In the fixed income space, yields on US treasuries, German bunds and UK gilts fell. Steepening of the yield curves observed towards end of 2019, did reverse somewhat last week. Amongst currencies, broad USD weakness seen over the last few weeks ended. JPY strengthened against the USD in a classic risk-off move. In the commodities space, oil prices rose sharply on the possibility of supply disruption. Precious metals benefited from their safe-haven status. Industrial metal prices fell.

Hold your horses

As we argued in our report The Equity Strategist: 20 for 2020, November 27 2019 and subsequently in our Quarterly Investment View, January 2020, the biggest risk to markets in our view is likely to stem from politics where domestic (US elections and China-Hong Kong), bi-lateral (US-China, US-EU and Japan-South Korea) and international (North Korea and Iran) political risks are likely to simmer in the background. Looking at the current situation with US-Iran, the possibility of a confrontation is likely to persist in the near-term. This is expected to impact the US presidential election outcomes with a probable short-term boost to Mr. Trump's approval rating. However beyond that how Mr. Trump balances his image of 'strong on terrorism' vs. 'against Middle Eastern wars' is likely to determine his re-election prospects over the next few months. Also, any rise in unemployment or any weakness in economy arising in the US due to a confrontation with Iran is likely to dim Mr. Trump's re-election chances. Here, the impact of such confrontation on oil prices is important. In our view, while an oil price shock that can potentially tip the US economy into a recession is unlikely, oil prices are likely to stay elevated on higher risk premium. In that context, our **overweight energy equities** call should work well. Also, as a result of this situation, global policy/political uncertainty is likely to remain elevated. In this context, our **overweight position on gold** should act as a "market insurance" risk hedge. Any escalation in US-Iran situation is likely to make a cyclical case for **defense sector and cyber security related stocks** which we anyway like on a structural/thematic basis (see our report The Equity Thematician: A deglobalising world and our 'Yellow brick road', June 30 2019).

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Global markets' performance snapshot

Index Snapshot (World Indices)

Index	Latest	Weekly %	1Y %
S&P 500	3,235	-0.1	27.8
Dow Jones	28,635	0.0	22.2
Nasdaq	9,021	0.2	33.9
DAX	13,219	-0.9	22.8
Nikkei 225	23,657	-0.8	18.2
FTSE 100	7,622	-0.3	11.5
Sensex	41,465	-0.3	16.2
Hang Seng	28,452	0.8	11.0
Regional Markets (Sunday to Thursday)			
ADX	5,100	1.0	2.8
DFM	2,769	0.2	6.6
Tadawul	8,397	0.5	5.5
DSM	10,512	0.8	-0.2
MSM30	4,005	3.6	-6.6
BHSE	1,612	0.5	19.0
KWSE	6,271	0.6	19.2
MSCI			
MSCI World	2,376	-0.1	24.1
MSCI EM	1,128	0.5	16.5

Global Commodities, Currencies and Rates

Commodity	Latest	Weekly %	1Y %
ICE Brent USD/bbl	68.6	0.6	22.6
WTI USD/bbl	63.1	2.2	33.9
Gold USD/t oz	1,552.2	2.8	19.9
Silver USD/t oz	18.1	1.6	14.7
Platinum USD/t oz	982.0	3.8	23.1
Copper USD/MT	6,077.0	-2.2	4.6
Alluminium	1,798.8	-0.5	-1.0
Currencies			
EUR USD	1.12	-0.1	-2.0
GBP USD	1.31	0.0	3.6
USD JPY	108.09	-1.2	0.4
CHF USD	0.97	-0.2	1.4
Rates			
USD Libor 3m	1.87	-3.6	-33.0
USD Libor 12m	1.96	-2.0	-34.6
UAE Eibor 3m	2.16	-1.9	-27.4
UAE Eibor 12m	2.28	-4.9	-34.3
US 3m Bills	1.51	-2.8	-37.2
US 10yr Treasury	1.79	-4.6	-30.0

Summary market outlook

Global Yields	US treasury yields fell on the rise of geopolitical risks as well as due to weaker than expected US ISM manufacturing data. 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 sharply on rising geopolitical tensions and associated increase of uncertainty. 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	Thanks to the rise in geopolitical risks in the region, GCC equity markets posted significant losses on Sunday 5 January. 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	Equities registered marginal losses. EMs outperformed DMs and US outperformed the rest of the developed world. 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 metal prices rose on a safe haven bid. We remain overweight gold as a risk hedge against ongoing political and (potential) inflationary risks.
Energy	Oil prices rose sharply on the possibility of supply disruption. Overall, oil prices are likely to remain sustained as the market is roughly balanced.
Industrial Metals	Industrial metal prices weakened with copper falling the most. We do not recommend industrial metals exposure as China reigns in demand.
Currencies	
EURUSD	EUR depreciated against the USD, albeit only marginally. We expect the euro to remain stable.
Critical levels	R2 1.1210 · R1 1.1185 · S1 1.1130 · S2 1.1100
GBPUSD	GBP stayed flat against the USD. We expect the cable to be stable with Pound sterling likely to follow the euro rather than USD.
Critical levels	R2 1.3206 · R1 1.3144 · S1 1.3038 · S2 1.2992
USDJPY	JPY appreciated against the USD on falling risk appetite. The BoJ yield curve targeting should put continuing downward pressure on the yen.
Critical levels	R2 108.97 · R1 108.53 · S1 107.74 · S2 106.61

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
01/07/2020	Factory Orders	Nov	-0.70%	0.30%	Market attention will be on labour market payroll data, also MBA and durable goods orders will be important this week.
01/07/2020	Durable Goods Orders	Nov F	-2.00%	-2.00%	
01/08/2020	MBA Mortgage Applications	3- Jan		-5.30%	
01/09/2020	Initial Jobless Claims	4- Jan		222K	
01/10/2020	Change in Nonfarm Payrolls	Dec	162K	266K	
01/10/2020	Unemployment Rate	Dec	3.50%	3.50%	
01/10/2020	Wholesale Inventories MoM	Nov F	0.10%	0.00%	

Japan

Indicator	Period	Expected	Prior	Comments
				Light week.

Eurozone

	Indicator	Period	Expected	Prior	Comments
01/07/2020	Retail Sales YoY	Nov	1.50%	1.40%	Retail sales will be important.
01/08/2020	Factory Orders MoM (GE)	Nov	0.20%	-0.40%	
01/08/2020	Economic Confidence	Dec	101.4	101.3	

United Kingdom

Indicator	Period	Expected	Prior	Comments
				Light week.

China and India

	Indicator	Period	Expected	Prior	Comments
This week	Foreign Reserves (CH)	Dec		-$3095.59b	All eyes will be on China December releases for foreign reserves, CPI, and Money Supply M2. In India, industrial production will be important.
This week	PPI YoY (CH)	Dec	-0.40%	-1.40%	
This week	CPI YoY (CH)	Dec	4.70%	4.50%	
This week	Money Supply M2 YoY (CH)	Dec	8.40%	8.20%	
This week	Industrial Production YoY (IN)	Nov		-3.80%	

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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