The Weekly Market View

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بنك أبوظبي التجاري
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Sealed the 1st deal

Risk assets cheered the official signing of the "Phase 1" US-China deal and positive economic data. The US and China signed the "Phase 1" deal, putting temporary brakes on the trade escalations that lasted for almost 18 months. Both the sides agreed to specific terms covering intellectual property rights protection, exchange rate stability and technology transfer. On trade, China agreed to increase purchases of US goods by USD200bn over next two years (USD78bn of manufactured goods. USD52bn in energy, USD32bn of agricultural products and USD38bn in services), taking 2017 levels as the base level while the US agreed to reduce the tariff rate from 15% to 7.5% on USD120bn worth of Chinese imports. Apart from the positive trade developments, economic data from China was encouraging. China 4Q19 GDP came in line with expectations taking full-growth to 6.1% in 2019, albeit the slowest pace recorded in almost 30 years. Monthly report of retail sales, industrial production and fixed asset investment were better-than-expected. China credit impulse, a leading indicator of growth in the economy, also turned positive for the first time since 2017. In the US, while inflation release disappointed, retail sales print was upbeat. Separately, the earnings season kick-started the first week on a good note. Equity markets across the globe rallied, with the trade uncertainty partially lifted. The S&P500 crossed the 3300 level while NASDAQ outperformed the most. European stocks lagged the gains, with resurfacing concerns on US-Europe trade relationship. The dollar strengthened versus the euro and the pound sterling weakened on market expectations of a BoE rate cut firming up. In the bond markets, the US Treasuries ended the week flat but the curve steepened on the US Treasury's announcement of a new 20yr bond. Oil prices recorded losses as geopolitical tensions de-escalated. Gold ended the week mostly flat while industrial metals gained.

All is well..so far, so good

The closing of the "Phase 1" deal is likely to lift off some of the trade uncertainty that has been impacting the sentiment and business outlook for a very long time. But, the uncertainty will not completely vanish as tariffs on two-thirds of Chinese goods are still in place and will remain until after the US 2020 elections. In addition, the focus will now be on the commitment from both the sides to the agreed terms, particularly evaluation of China's commitment in regards to the agreed increase in purchases of US goods. Any slippage in commitment could spark tensions again and possibly lead to further retaliation. Paradoxically, 2020 being an election year, President Trump will have some incentives to foment tensions given that on trade the 'anti-China' stance is bipartisan and also the risk of a recession is not that high. Another question on investors' mind is "Who is next in Mr. Trump's Agenda?" with Europe being increasingly the most likely candidate, after China, Mexico, Canada and Japan. As such, trade issues are likely to remain a source of volatility. But with increased political volatility, economic volatility has been declining with improvements seen in economic data across the globe. As a result, we expect risk assets to perform well amidst significant price volatility, but record mild returns in 2020 compared to last year. We continue to remain neutral on global equities with an overweight on US equities and underweight on global bonds with short-duration overweight stance on US Treasuries.

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Global markets' performance snapshot

Index Snapshot (World Indices)

Index	Latest	Weekly %	YTD %
S&P 500	3,330	2.0	3.1
Dow Jones	29,348	1.8	2.8
Nasdaq	9,389	2.3	4.6
DAX	13,526	0.3	2.1
Nikkei 225	24,041	0.8	1.6
FTSE 100	7,675	1.1	1.8
Sensex	41,945	0.8	1.7
Hang Seng	29,056	1.5	3.1
Regional Markets (Sunday to Thursday)			
ADX	5,179	1.9	2.0
DFM	2,828	2.8	2.3
Tadawul	8,460	1.1	0.8
DSM	10,698	1.8	2.6
MSM30	4,061	2.1	2.0
BHSE	1,640	2.5	1.8
KWSE	6,351	1.9	1.1
MSCI			
MSCI World	2,406	1.6	2.4
MSCI EM	1,141	1.2	2.9

Global Commodities, Currencies and Rates

Commodity	Latest	Weekly %	YTD %
ICE Brent USD/bbl	64.9	-0.2	-1.7
Nymex WTI USD/bbl	58.5	-0.8	-4.1
Gold USD/t oz	1,557.2	-0.3	2.3
Silver USD/t oz	18.0	-0.4	0.5
Platinum USD/t oz	1,022.7	4.4	5.0
Copper USD/MT	6,276.5	1.9	2.0
Alluminium	1,790.8	0.5	0.1
Currencies			
EUR USD	1.11	-0.3	-1.2
GBP USD	1.30	-0.4	-1.9
USD JPY	110.14	0.6	1.4
CHF USD	0.97	-0.5	-0.2
Rates			
USD Libor 3m	1.82	-1.0	-4.7
USD Libor 12m	1.92	-2.2	-3.7
UAE Eibor 3m	2.06	-0.2	-6.6
UAE Eibor 12m	2.26	1.0	-1.3
US 3m Bills	1.55	1.5	0.6
US 10yr Treasury	1.82	0.1	-5.0

Summary market outlook

Global Yields	Global bond yields ended the week mostly unchanged, with the mid-week rally driven by the final signing of the US-China "Phase 1" deal fading away towards the end of the week. US treasury's announcement of initiating new 20yr bond sales caused the US treasury yield curve to steepen. European bonds led the decline in bond yields. Particularly, the UK gilt yields dropped the most with rising market expectations of a BoE rate cut. 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 dropped significantly as a sign of relief in the markets. However, 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 experienced relief rally with the de-escalation of geopolitical tensions. ADX and Dubai equities were the best performer last week. 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 performed well, encouraged by the official signing of US-China Phase 1 deal and upbeat economic data. U.S stocks outperformed the most with the S&P breaching the 3300 level while German equities- recorded the lowest return. Overall, 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 ended the week flat with the risk-on sentiment gathering steam. We remain overweight on gold as a risk hedge against ongoing political and (potential) inflationary risks.
Energy	Oil prices plunged as tensions in the Middle East eased. WTI prices fell further on increasing stockpiles. Overall, oil prices are likely to remain sustained as the market is roughly balanced.
Industrial Metals	Industrial metals performed well, with copper leading the rally. We do not recommend industrial metals exposure as China reigns in demand.

Currencies								
EURUSD	The euro weakened versus the US dollar on emerging concerns of US-EU trade relationship. We expect the euro to remain stable.							
Critical levels	R2	1.1163	R1	1.1128	S1	1.1071	S2	1.1051
GBPUSD	The pound sterling depreciated versus the US dollar as expectation of BoE rate cut rose. We expect the cable to be stable with Pound sterling likely to follow the euro rather than USD.							
Critical levels	R2	1.3159	R1	1.3087	S1	1.2976	S2	1.2936
USDJPY	The yen weakened against the dollar due to improved risk appetite. BoJ yield curve targeting should put continuing downward pressure on the yen.							
Critical levels	R2	110.40	R1	110.27	S1	110.03	S2	109.92

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
01/22/2020	MBA Mortgage Applications	17- Jan		30.20%	PMI manufacturing will be important.
01/22/2020	Chicago Fed Nat Activity Index	Dec	0.15	0.56	
01/22/2020	Existing Home Sales	Dec	5.43m	5.35m	
01/23/2020	Initial Jobless Claims	18- Jan	214K	204K	
01/24/2020	Markit Manufacturing PMI	Jan P	52.5	52.4	

Japan

	Indicator	Period	Expected	Prior	Comments
01/20/2020	Industrial Production MoM	Nov F		-0.90%	Eyes will be on the BoJ MPC Meeting.
01/21/2020	BoJ MPC Meeting	21- Jan	No Change		
01/23/2020	All Industry Activity Index MoM	Nov	0.40%	-4.30%	
01/24/2020	Natl CPI YoY	Dec	0.70%	0.50%	
01/24/2020	Natl CPI Ex Fresh Food YoY	Dec	0.70%	0.50%	
01/24/2020	Jibun Bank PMI Mfg	Jan P		48.4	

Eurozone

	Indicator	Period	Expected	Prior	Comments
01/20/2020	PPI YoY (GE)	Dec	-0.30%	-0.70%	ECB MPC meeting and PMI numbers will be the focus.
01/22/2020	CPI YoY	Dec	2.30%	2.20%	
01/23/2020	ECB MPC Meeting	23- Jan	No Change		
01/24/2020	Markit Manufacturing PMI	Jan P	46.8	46.3	
01/24/2020	Retail Sales MoM	Nov	0.60%	-1.20%	

United Kingdom

	Indicator	Period	Expected	Prior	Comments
01/21/2020	Jobless Claims Change	Dec		28.8K	UK PMI manufacturing will be important.
01/21/2020	ILO Unemployment Rate 3Mths	Nov	3.80%	3.80%	
01/24/2020	Markit PMI Manufacturing SA	Jan P	48.7	47.5	

China and India

	Indicator	Period	Expected	Prior	Comments
01/20/2020	5-Year Loan Prime Rate (CH)	Jan	4.80%	4.80%	In China , decision on the loan prime rate will be the main focus.
01/20/2020	1-Year Loan Prime Rate (CH)	Jan	4.10%	4.15.	

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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