

The Weekly Market View

July 15 2019

Good is good and bad is bad ...

Over the past weeks, we have seen markets considering 'bad is the new good' and 'good is the new bad'. Last week was no different. Risk-on sentiment persisted with US equity markets setting new records (S&P 500 scaling above the 3,000 mark and the Dow Jones Industrial Average moving above 27,000). GCC equity markets and commodity prices were higher too. All this against the backdrop of a range of bad news. European Commission cut its 2020 growth forecasts for EU. Chinese trade data and PPI disappointed. Japan and Korea engaged in a new trade/tech war. French law voted to impose a 3% digital tax on Facebook, Google and other American technology giants and US launched a probe into this. Meanwhile, a senior German official warned of impending US tariffs on the region. However, equity markets, especially those in the US, ignored all this as the primary focus was on Mr. Powell's testimony to Congress from which markets obtained a dovish signal. FOMC minutes from June meeting released last week also increased market expectations of a Fed rate cut this month. In the process, markets also ignored strong job data and higher core CPI from the US. After having performed strongly so far this year on a broad-based rally, markets should now move into a validation phase where differentiation is likely to dominate – 'good is good and bad is bad'. In fact last week might have actually seen this already. In the US, where the data was positive (strong jobs data, higher CPI and strong earnings releases), equity markets delivered positive returns. Across the Atlantic where the data was negative (EU growth forecasts downgraded, corporate profit warnings emerged and concerns about looming US tariffs resurfaced), equity markets incurred losses.

... you don't know which one you had

With markets now seeing a Fed rate cut coming in July, the discussion is likely to move to whether it will be just a one-off precautionary rate cut or more a beginning of an easing cycle. In our view, unless the global macro-economic data improves materially from this point forward, equity markets will be unwilling to settle for 'one and done'. Indeed, US economy is already on its longest economic expansion in its history and the chances of a recession (as measured by NY Fed probability of recession in the US) have risen rapidly. Global risks remain – uncertainty around the ongoing trade stand-off (US-China, US-Europe, US-France, Japan-Korea), Brexit, contracting manufacturing sector – just to name a few. Of course the policy support remains – from the Fed, the ECB and potentially more from China – helping to extend this cycle further. Worth reminding that whilst this is the longest economic expansion for the US, it has also been the weakest. Keep an eye on building vulnerabilities – for instance, USD13trn of sovereign debt is now yielding negative in the backdrop of rising global debt and fading demographic support. Therefore, whilst 'good is good and bad is bad' for now, in the long run looking at it retrospectively 'you don't know which one you had'. So go the lyrics from Sheryl Crow's album.

Global markets' performance snapshot

Index Snapshot (World equity indices)				Global Commodities, Currencies and Rates			
Index	Latest	Weekly Chg %	YTD Chg%	Commodities	Latest	Weekly Chg %	YTD Chg%
S&P 500	3,014	0.8	20.2	ICE Brent USD/bbl	66.7	3.9	24.0
Dow Jones	27,332	1.5	17.2	Nymex WTI USD/bbl	60.2	4.7	32.6
Nasdaq	8,244	1.0	24.2	Gold USD/t oz	1,416	1.2	10.4
DAX	12,323	-2.0	16.7	Silver USD/t oz	15.2	1.5	-1.8
Nikkei 225	21,686	-0.3	8.3	Platinum USD/t oz	831.0	2.6	4.4
FTSE 100	7,506	-0.6	11.6	Copper USD/MT	5,950	1.6	-0.3
Sensex	38,736	-2.0	7.4	Alluminium	1,803	0.9	-1.1
Hang Seng	28,472	-1.1	10.2	Currencies			
Regional Markets (Sunday to Thursday)				EUR USD	1.13	0.4	-1.7
ADX	5,052	1.1	2.8	GBP USD	1.26	0.4	-1.4
DFM	2,686	0.9	6.2	USD JPY	107.91	-0.5	-1.6
Tadawul	8,968	1.4	14.6	CHF USD	0.98	-0.7	-0.2
DSM	10,613	0.4	3.1	Rates			
MSM30	3,808	-0.4	-11.9	USD Libor 3m	2.322	0.5	-17.3
BHSE	1,537	1.7	14.9	USD Libor 12m	2.231	1.8	-25.8
KWSE	6,127	3.0	20.6	UAE Eibor 3m	2.623	-1.0	-7.6
MSCI				UAE Eibor 12m	2.884	-4.3	-19.3
MSCI World	2,205	0.3	17.5	US 3m Bills	2.130	-3.9	-9.6
MSCI EM	1,055	-0.9	8.8	US 10yr Treasury	2.122	4.3	-20.9

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Summary market outlook

Global Yields After having fallen significantly so far this year, 10 year UST yields rose slightly last week on higher than expected core CPI. We expect the 10-year US Treasury yield to remain range-bound, in line with the Fed's indicated long-term neutral rate.

Stress and Risk Indicators VIX fell on fading uncertainty around the US monetary policy outlook. 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 were supported by rising oil prices, improving liquidity prospects for the region and higher earnings expectations. 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 delivered positive returns – thanks to a strong performance from the US where S&P 500 and Dow Jones Industrial Average set new records. Europe and Emerging markets underperformed. 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 rose last week on stronger Fed rate cut expectations. We remain overweight on gold as a risk hedge against ongoing political and (potential) inflationary risks.

Energy Oil prices have increased over the week due to a significant decrease in crude oil inventories in the US and an impending storm in the gulf of Mexico causing a slowdown in production. Overall the oil price is likely to remain sustained as the market is roughly balanced.

Industrial Metals Industrial metal prices rose last week amid US dollar weakness. We do not recommend industrial metals exposure as China reigns in demand.

Currencies

EURUSD The euro strengthened versus the greenback as expectation of ECB stimulus rose while Fed rate cut prospects increased. We expect the euro to remain stable with USD to lose some strength in 2019.

Critical levels R2 1.1278 R1 1.1274 S1 1.1266 S2 1.1261

GBPUSD The pound appreciated versus the dollar due to US dollar weakness. We expect the cable to be stable with Pound sterling likely to follow the euro rather than USD.

Critical levels R2 1.2594 R1 1.2576 S1 1.2546 S2 1.2534

USDJPY The yen strengthened versus the dollar due to broad dollar weakness. We think the BoJ yield curve targeting should put continuing downward pressure on the yen.

Critical levels R2 108.05 R1 107.99 S1 107.87 S2 107.82

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
07/16/2019 Import Price Index YoY	Jun	-2.1%	-1.5%	Inflation, retail sales and consumer sentiment in focus
07/16/2019 Export Price Index YoY	Jun	--	-0.7%	
07/16/2019 Retail Sales Advance MoM	Jun	0.1%	0.5%	
07/16/2019 Industrial Production MoM	Jun	0.1%	0.4%	
07/16/2019 NAHB Housing Market Index	Jul	64	64	
07/17/2019 Total Net TIC Flows	May	--	-\$7.8b	
07/17/2019 Housing Starts	Jun	1260k	1269k	
07/17/2019 U.S. Federal Reserve Beige Book				
07/18/2019 Philadelphia Fed Business Outlook	Jul	5.0	0.3	
07/19/2019 U. of Mich. Sentiment	Jul P	98.6	98.2	

Japan



Indicator	Period	Expected	Prior	Comments
07/18/2019 Exports YoY	Jun	-5.4%	-7.8%	Trade and inflation data will be closely watched
07/18/2019 Imports YoY	Jun	-0.2%	-1.5%	
07/19/2019 Natl CPI YoY	Jun	0.7%	0.7%	

Eurozone



Indicator	Period	Expected	Prior	Comments
07/16/2019 Germany: ZEW Survey Current Situation	Jul	5.0	7.8	ZEW survey in Germany and Eurozone HICP under focus
07/16/2019 Germany: ZEW Survey Expectations	Jul	-22.0	-21.1	
07/17/2019 EZ: CPI YoY	Jun F	1.2%	1.2%	

United Kingdom



Indicator	Period	Expected	Prior	Comments
07/16/2019 ILO Unemployment Rate 3Mths	May	3.8%	3.8%	Unemployment rate, inflation and retail sales are important data releases this week.
07/17/2019 CPI YoY	Jun	2.0%	2.0%	
07/18/2019 Retail Sales Ex Auto Fuel YoY	Jun	2.6%	2.2%	

China and India



Indicator	Period	Expected	Prior	Comments
07/15/2019 India: Wholesale Prices YoY	Jun	2.3%	2.5%	India WPI and trade data will be watched. (China data – FAI, GDP – was released already at the time of writing this report).
07/15/2019 India: Trade Balance	Jun	-\$15,050m	-\$15,360m	

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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