

The Weekly Market View

July 22 2019

Mood swings between risk-on and risk-off

Market mood fluctuated between risk-on and risk-off last week with the latter taking over in the end. While the US equities kick-started the week on a positive note, with the S&P 500 and Dow Jones reaching new record highs, but the sentiment turned subdued towards the latter half of the week as the investors digested second-quarter corporate earnings reports. Separately, the backdrop of trade uncertainty and escalation of US-Iran tensions added to the cautious tone. The saying "Silence is golden" does not work in favour of US-China negotiations which have stalled over the issue of Huawei. In spite of the mixed week, there were some positive developments. China economic growth, albeit the slowest in 27 years, came in line with expectations while June data for retail sales and industrial production signalled pick-up in economic activity. In the US, retail sales rose by 0.4% in June, beating market expectations and adding to the strong momentum in consumer spending seen in April and May. Industrial production slightly disappointed, but manufacturing output rose for the second consecutive month, allaying concerns on the potential impact of trade tariffs on manufacturing activity. Market pricing of 50bp rate cut jumped in reaction to the extremely dovish comments from New York Fed's John Williams and Fed Vice Chairman Richard Clarida, but declined after the Fed spokesperson clarified the comments did not hint at potential policy action. As a result, short-dated US Treasury yields ended flat while the 10yr yields declined, thus flattening the curve. Risk-off sentiment pushed gold prices to reach new highs since 2013. Dollar, initially, weakened on the loose Fed policy expectation, but ended the week flat. Separately, oil prices declined in spite of increased US-Iran tensions, mainly on evidence of a large increase in global stockpiles.

ECB meeting, US GDP, UK new Prime Minister and corporate earnings in focus

With the beginning of the Fed blackout period, markets will be closely tracking the economic data to gauge the potential magnitude of July rate cut. At the time of writing, the Fed fund futures are pricing in 77.5% probability of a 25bp rate cut and 22.5% chance of 50bp rate cut. US GDP 2Q advance estimate is due on Friday and will throw light on the degree of deceleration in economic activity. Given the solid gains seen in retail sales, consumer spending is likely to have accelerated in the second quarter. But more important than the Fed, focus this week will be on the ECB meeting where Mario Draghi could lay the groundwork for additional monetary stimulus that he has been hinting at. Markets are currently pricing in a 50-50 chance of rate cut or no change with some also pricing in the possibility of another round of QE. However, we believe that the ECB is more likely to set the stage for loose monetary policy path for now and will do so by first revising its forward guidance. The degree of dovishness in the ECB commentary will have implications on the bond market which continue to dig deeper into the negative territory in anticipation of a big monetary policy boost. Sticking with Europe, political uncertainty will be partially lifted in the UK as the results of conservative party elections will reveal who will be taking over as the next Prime Minister on 23rd July. The odds continue to remain in favour of former London Mayor and Foreign Secretary Boris Johnson. Finally, corporate earnings will also remain in focus. More than a quarter of S&P 500 companies are due to report their second-quarter earnings which includes some of the FAANG names and also industrial giants like Boeing, Tesla, Ford, Caterpillar etc.

Global markets' performance snapshot

Index Snapshot (World Indices)

Index	Latest	Weekly Chg %	YTD %
S&P 500	2,977	-1.2	18.7
Dow Jones	27,154	-0.7	16.4
Nasdaq	8,146	-1.2	22.8
DAX	12,260	-0.5	16.1
Nikkei 225	21,467	-1.0	7.3
FTSE 100	7,509	0.0	11.6
Sensex	38,337	-1.0	6.3
Hang Seng	28,765	1.0	11.3

Regional Markets (Sunday to Thursday)

ADX	5,218	3.2	6.2
DFM	2,763	2.2	9.2
Tadaw ul	9,034	0.2	15.4
DSM	10,503	-0.9	2.0
MSM30	3,748	-1.2	-13.3
BHSE	1,538	0.0	15.0
KWSE	6,125	-0.1	20.6

MSCI

MSCI World	2,198	-0.8	16.5
MSCI EM	1,052	0.6	9.5

Global Commodities, Currencies and Rates

Commodity	Latest	Weekly Chg %	YTD %
ICE Brent USD/bbl	62.5	-6.4	16.1
Nymex WTI USD/bbl	55.6	-7.6	22.5
Gold USD/t oz	1,425.4	0.7	11.2
Silver USD/t oz	16.2	6.4	4.6
Platinum USD/t oz	845.5	1.7	6.3
Copper USD/MT	6,066.0	1.9	1.7
Alluminium	1,834.3	1.7	0.6

Currencies

EUR USD	1.12	-0.4	-2.0
GBP USD	1.25	-0.6	-1.9
USD JPY	107.71	-0.2	-1.8
CHF USD	0.98	-0.2	0.1

Rates

USD Libor 3m	2.26	-2.7	-19.5
USD Libor 12m	2.16	-3.3	-28.2
UAE Eibor 3m	2.62	0.5	-7.7
UAE Eibor 12m	3.00	2.1	-16.0
US 3m Bills	2.06	-3.1	-12.4
US 10yr Treasury	2.06	-3.1	-23.4

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Summary market outlook

Global Yields The 10yr UST yields declined on the back of risk-off sentiment but the 2yr yields ended flat as the market expectations of a big rate cut reduced. 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 The VIX index jumped higher in reaction to the equity market correction. 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 last week. ADX equities was the best performer, receiving boost from positive bank earnings results. 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 ended the week lower on corporate earnings woes and stall in US-China trade negotiations. 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 over the week, benefitting from the risk-off sentiment. We remain overweight on gold as a risk hedge against ongoing political and (potential) inflationary risks.

Energy Global growth concerns and multi-month high US oil inventories led to a decline in oil prices. Overall the oil price is 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 was mostly unchanged versus the dollar. We expect the euro to remain stable with USD to lose some strength in 2019.

Critical levels R2 1.1392 R1 1.1268 S1 1.1189 S2 1.1157

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

Critical levels R2 1.2594 R1 1.2548 S1 1.2466 S2 1.2430

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

Critical levels R2 108.40 R1 108.06 S1 107.29 S2 106.87

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
07/22/2019	Chicago Fed Nat Activity Index	Jun	0.1	-0.05	
07/23/2019	Existing Home Sales MoM	Jun	-0.20%	2.50%	
07/24/2019	MBA Mortgage Applications	19-Jul	--	-1.10%	
07/24/2019	Markit Manufacturing PMI	Jul P	51	50.6	All eyes will be on the advance release of US GDP 2Q. Also, PMI and durable goods will be important.
07/24/2019	New Home Sales MoM	Jun	5.40%	-7.80%	
07/25/2019	Wholesale Inventories MoM	Jun P	0.50%	0.40%	
07/25/2019	Durable Goods Orders	Jun P	0.70%	-1.30%	
07/25/2019	Initial Jobless Claims	20-Jul	219K	216K	
07/26/2019	GDP Annualized QoQ	2Q A	1.80%	3.10%	

Japan



	Indicator	Period	Expected	Prior	Comments
07/23/2019	Machine Tool Orders YoY	Jun F	--	-38.00	
07/26/2019	CPI YoY	Jul	1.00%	1.10%	Inflation data will be closely watched.
07/26/2019	CPI Ex-Fresh Food, Energy YoY	Jul	0.70%	0.80%	

Eurozone



	Indicator	Period	Expected	Prior	Comments
07/24/2019	Markit Manufacturing PMI	Jul P	47.6	47.6	
07/25/2019	IFO Expectations (GE)	Jul	94	94.2	Focus will be on ECB meeting. Also, PMI data and German IFO survey will be important.
07/25/2019	ECB Meeting	25-Jul	No Change		
07/27/2019	Retail Sales MoM	Jun	0.40%	-0.60%	

United Kingdom



	Indicator	Period	Expected	Prior	Comments
07/28/2019	Nationwide House PX MoM	Jul	0.20%	0.10%	Light week ahead.

China and India



	Indicator	Period	Expected	Prior	Comments
					No important data releases scheduled for the week.

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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