# The Weekly Market View

June 10 2019

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## An inclusive rally

Most assets recorded gains over the past week as the cheer of easy central bank policy prevailed over concerns about global growth and persistent trade disputes. Future markets pricing implies a greater than 90% likelihood of at least one 25bps rate cut in the Fed funds rate by end of 2019. Market seems to be expecting a rate cut as early as July this year. A total of 100bps of rate cuts by end of 2020 appear to be priced in – c65bps this year and c35bps next year. These high expectations for interest rate cuts in the US resulted in financial markets pushing to one side disappointments in the US data (purchasing managers index and non-farm payrolls data). Equity markets after having suffered losses over the previous few weeks, recovered some of their losses. Rally in equities was led by the US stocks. European equities did well too. Developed market equities outperformed their emerging market counterparts. Globally, rates tumbled on softer economic data, trade uncertainties and dovish central banks. Precious metals rallied due to prevalent uncertainties and weaker USD. Greenback lost ground as the markets started pricing in Fed funds rate cuts. Accommodative stance from the ECB also helped the EUR gain slightly. Oil prices fell as the US crude stock inventories hit two-year high. Overall the message from the market last week was clear – that it is willing to overlook the trade-wars and slowing growth should the policy stance remain accommodative.


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## Too far too fast?

With the market starting to aggressively price in rate cuts from the Fed, the question now is what would happen if rate cuts don't materialise. Indeed most professional forecasters remain less convinced of a Fed rate cut soon. Accordingly, in case the Fed walks away from an accommodative stance (in its meeting on 18-19 June), risk assets should come under pressure but quality should outperform. However history suggests that it is highly unlikely that Fed will disappoint markets at this stage. Over the past thirty years, there have been thirteen occasions in which the futures market expected a cut in the Fed funds rate the day prior to a scheduled FOMC meeting and in all these instances Fed delivered a rate cut. Whilst US equities delivered strong returns following the first rate cut from the Fed, it proved to be a defensive rally – with consumer staples and healthcare outperforming IT. Thinking about the broader asset allocation, we think one should be positioned for the uncertainty (in growth, trade and policy) with allocations to both ends of the risk spectrum – overweight cash & liquidity, gold and US treasuries on low-risk end and overweight US equities on high-risk side.

## Past week global markets' performance

Index Snapshot (World Indices)

| Index | Latest | Weekly Chg % | YTD % |
|---|---|---|---|
| S&P 500 | 2,873 | 4.4 | 14.6 |
| Dow Jones | 25,984 | 4.7 | 11.4 |
| Nasdaq | 7,742 | 3.9 | 16.7 |
| DAX | 12,045 | 2.7 | 14.1 |
| Nikkei 225 | 20,885 | 1.4 | 4.3 |
| FTSE 100 | 7,332 | 2.4 | 9.0 |
| Sensex | 39,616 | -0.2 | 9.8 |
| Hang Seng | 26,965 | 0.2 | 4.3 |
| **Regional Markets (Sunday to Thursday)** | | | |
| ADX | 5,004 | - | 1.8 |
| DFM | 2,620 | - | 3.6 |
| Tadawul | 8,516 | - | 8.8 |
| DSM | 10,319 | 1.5 | 0.2 |
| MSM30 | 3,942 | 0.1 | -8.8 |
| BHSE | 1,435 | -0.0 | 7.3 |
| KWSE | 5,765 | 0.7 | 13.5 |
| **MSCI** | | | |
| MSCI World | 2,127 | 3.9 | 12.9 |
| MSCI EM | 1,007 | 0.9 | 4.3 |

Global Commodities, Currencies and Rates

| Commodity | Latest | Weekly Chg % | YTD % |
|---|---|---|---|
| ICE Brent USD/bbl | 63.3 | -1.9 | 17.6 |
| Nymex WTI USD/bbl | 54.0 | 0.9 | 18.9 |
| Gold USD/t oz | 1340.9 | 2.7 | 4.6 |
| Silver USD/t oz | 15.0 | 2.9 | -3.0 |
| Platinum USD/t oz | 807.1 | 1.7 | 1.5 |
| Copper USD/MT | 5770.0 | -0.2 | -3.3 |
| Alluminium | 1737.5 | -2.3 | -4.7 |
| **Currencies** | | | |
| EUR USD | 1.133 | 1.5 | -1.0 |
| GBP USD | 1.274 | 0.9 | -0.1 |
| USD JPY | 108.190 | -0.1 | -1.4 |
| CHF USD | 0.988 | -1.3 | -0.5 |
| **Rates** | | | |
| USD Libor 3m | 2.451 | -2.1 | -12.7 |
| USD Libor 12m | 2.346 | -6.5 | -21.9 |
| UAE Eibor 3m | 2.730 | 0.0 | -3.8 |
| UAE Eibor 12m | 3.019 | 0.0 | -15.5 |
| US 3m Bills | 2.267 | -3.1 | -3.7 |
| US 10yr Treasury | 2.081 | -2.1 | -22.5 |

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## Summary market outlook

| | |
|---|---|
| Global Yields | Globally, rates tumbled on softer economic data, trade uncertainties and dovish central banks. UST yields dropped to multi-month low. We expect the 10-year US Treasury yield to remain range bound between 2.5% and 2.8%, in line with the Fed's indicated long-term neutral rate. |
| Stress and Risk Indicators | Risk-on sentiment saw the VIX drop during the week. 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 | Local equity markets were closed largely through the week for Eid holidays. We remain neutral on GCC equities given the 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 | Strong rally in global equities was led by the US. DM outperformed EM. Overall, we remain neutral on equities with an overweight on US and underweight EU and EM. We prefer selective exposure to Australia, Hong Kong, Spain and Switzerland amongst DMs and to India, Brazil and South Africa among EMs. |
| **Commodities** | |
| Precious Metals | Gold prices rose on weaker USD. We remain overweight 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 fall in oil prices. We think the oil price is likely to remain sustained as the market is roughly balanced and growth concerns appear now to be discounted. |
| Industrial Metals | Industrial metals remained under pressure with China growth concerns weighing on the sentiment. We do not recommend industrial metals exposure as China reigns in demand. |
| **Currencies** | |
| EURUSD | The euro strengthened versus the greenback – thanks to accommodative stance from the ECB. We expect the euro to remain stable with USD to lose some strength in 2019. |
| Critical levels | R2 1.1407 · R1 1.1371 · S1 1.1275 · S2 1.1215 |
| GBPUSD | Cable strengthened on broader US dollar weakness. We expect the cable to be stable with Pound sterling likely to follow the euro rather than USD. |
| Critical levels | R2 1.2806 · R1 1.2771 · S1 1.2694 · S2 1.2652 |
| USDJPY | Broader weakness in the US dollar meant Yen strength against the greenback. We think the BoJ yield curve targeting should put continuing downward pressure on the yen. |
| Critical levels | R2 108.96 · R1 108.58 · S1 107.84 · S2 107.50 |

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 |
|---|---|---|---|---|---|
| 06/12/2019 | MBA Mortgage Applications | 7-Jun | -- | 1.50% | Focus will be on the inflation and retail sales numbers. |
| 06/12/2019 | CPI YoY | May | 1.90% | 2.00% | |
| 06/13/2019 | Initial Jobless Claims | 8-Jun | 215K | 218K | |
| 06/14/2019 | Retail Sales Advance MoM | May | 0.60% | -0.20% | |
| 06/14/2019 | Industrial Production MoM | May | 0.20% | -0.50% | |
| 06/14/2019 | Capacity Utilization | May | 78.00% | 77.90% | |
| 0614/2019 | U. of Mich. Sentiment | Jun P | 98 | 100 | |

Japan

| | Indicator | Period | Expected | Prior | Comments |
|---|---|---|---|---|---|
| 06/10/2019 | BoP Current Account Balance | Apr P | ¥1514.5b | ¥2847.5b | GDP growth will be the main data point out of Japan. |
| 06/10/2019 | GDP SA QoQ | 1Q F | 0.60% | 0.50% | |
| 06/11/2019 | Machine Tool Orders YoY | May P | -- | -33.40% | |
| 06/12/2019 | PPI YoY | May | 0.70% | 1.20% | |
| 06/14/2019 | Industrial Production MoM | Apr F | -- | 0.60% | |

Eurozone

| | Indicator | Period | Expected | Prior | Comments |
|---|---|---|---|---|---|
| 06/10/2019 | Housing Starts | May | 210.0K | 235.5K | All eyes will be on Eurozone CPI. |
| 06/13/2019 | CPI YoY | May F | 1.40% | 1.40% | |

United Kingdom

| | Indicator | Period | Expected | Prior | Comments |
|---|---|---|---|---|---|
| 06/10/2019 | Industrial Production YoY | Apr | 0.90% | 1.30% | Industrial production and trade balance will be important. |
| 06/10/2019 | Trade Balance | Apr | -£4700m | -£5408m | |

China and India

| | Indicator | Period | Expected | Prior | Comments |
|---|---|---|---|---|---|
| 06/07/2019 | Foreign Reserves (CH) | May | $3090.00b | $3094.95b | All eyes will be in China May releases for foreign reserves and CPI. In India, WPI release will be important. |
| 06/12/2019 | CPI YoY (CH) | May | 2.70% | 2.50% | |
| 06/12/2019 | Exports YoY (IN) | May | -- | 0.60% | |
| 06/14/2019 | Industrial Production YoY (CH) | May | 5.40% | 5.40% | |
| 06/14/2019 | WPI YoY (IN) | May | 3.04% | 3.07% | |

## 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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