

Cautious tone ahead of Fed meeting and G20 meeting

Risk assets posted marginal gains, trading cautiously ahead of the upcoming Fed meeting this week and also the G20 meeting at the end of this month. Global equity markets were mostly muted to the economic and political developments that happened over the week. US-Mexico progress on trade drove stocks higher in the beginning of the week but the rally faded away in the latter days of the week. With various economic indicators scoring mixed, there was increasing speculation on what could be the Fed's next step. US inflation failed to show any signs of revival as the headline CPI came in weaker than market expectations and the core CPI disappointed for the fourth time in a row. Soft data also pointed to weakness with the University of Michigan's preliminary consumer sentiment index dropping lower. However, retail sales continued to grow in May, indicating that consumer spending was not dented in anticipation of a slowdown fears which markets envisage. Safe-haven assets including gold, the yen and US treasuries were mostly flat, also reflecting market's anticipation of this week's Fed meeting outcome. Oil prices declined as reports of rising US crude inventories offset the supply risks due to increased middle-east tensions.

What the Fed should say to rate cuts, not today!

Needless to say, the key event for this week will be the much-awaited Fed MPC meeting. This meeting will be pivotal in setting the tone for most assets in the weeks to come. Markets have now been pricing almost three rate cuts with more than 80% probability placed on the July meeting. Some forecasters are pinning hopes of a surprise rate cut at this week's meeting. We believe that the Fed will react to the rising trade risk uncertainty and its possible impact on economic growth, but only start laying the groundwork for the dovish turn. This could include 1) dropping the reference to "patient" approach and hinting at a more "proactive" ("whatever it takes") attitude in formulating monetary policy 2) modest downward projections in growth and inflation forecasts 3) changes in the famous "DOTs" which will be crucial in determining any rate cut projections for this year (magnitude of rate cuts) and a possible downward adjustment to the long-term neutral policy rate projections, mainly accounting for the subdued inflation scenario. Overall, we believe the Fed will not rush into any rate cuts immediately until there are clear signs of slowdown emerging from most of the economic indicators, but at the same time, do not rule out the possibility of future policy reduction on increasing external risks. What will be important for the markets is not only the dovish U-turn but whether the dovish tone will be sufficient for what the markets have priced in, any insufficiency could only disappoint the markets. Overall, we recommend positioning for uncertainty (in growth, trade and policy) – 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	2,887	0.5	15.2
Dow Jones	26,090	0.4	11.8
Nasdaq	7,797	0.7	17.5
DAX	12,096	0.4	14.6
Nikkei 225	21,117	1.1	5.5
FTSE 100	7,346	0.2	9.2
Sensex	39,452	-0.4	9.4
Hang Seng	27,118	0.6	4.9
Regional Markets (Sunday to Thursday)			
ADX	4,964	0.2	1.0
DFM	2,633	-0.7	4.1
Tadawul	8,942	2.8	14.2
DSM	10,516	2.1	2.1
MSM30	3,918	-0.9	-9.4
BHSE	1,449	0.2	8.3
KWSE	5,853	0.3	15.2
MSCI			
MSCI World	2,131	0.2	13.1
MSCI EM	1,015	0.8	5.1

Global Commodities, Currencies and Rates

Commodity	Latest	Weekly Chg %	YTD %
ICE Brent USD/bbl	62.0	-2.0	15.3
Nymex WTI USD/bbl	52.5	-2.7	15.6
Gold USD/t oz	1341.7	0.1	4.7
Silver USD/t oz	14.9	-0.9	-3.9
Platinum USD/t oz	804.9	-0.3	1.2
Copper USD/MT	5805.5	0.6	-2.7
Alluminium	1733.5	-0.2	-4.9
Currencies			
EUR USD	1.121	-1.1	-2.1
GBP USD	1.259	-1.2	-1.2
USD JPY	108.560	0.3	-1.0
CHF USD	0.999	1.1	-1.6
Rates			
USD Libor 3m	2.402	-2.0	-14.4
USD Libor 12m	2.247	-4.2	-25.3
UAE Eibor 3m	2.684	0.6	-5.4
UAE Eibor 12m	2.928	-3.3	-18.1
US 3m Bills	2.168	-4.3	-7.9
US 10yr Treasury	2.080	-0.0	-22.5

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Summary market outlook

Global Yields US treasuries rallied but ended the week flat on mixed economic data. 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 index dropped lower in absence of any surprises in the equity market. 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 markets performed decent last week with Saudi and Kuwait stocks outperforming the most. 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 Global equities were mostly flat last week, moving with caution ahead of the Fed meeting this week. 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 ended the week mostly unchanged, but holding on to its one-year high. 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 Performance of industrial metals was rather mixed with aluminium prices falling, but copper prices rising. We do not recommend industrial metals exposure as China reigns in demand.

Currencies

EURUSD The euro weakened versus the dollar. We expect the euro to remain stable with USD to lose some strength in 2019.

Critical levels R2 1.1320 R1 1.1264 S1 1.1178 S2 1.1147

GBPUSD The pound depreciated versus the greenback on reports of slowing economic growth and increased Brexit uncertainty. We expect the cable to be stable with Pound sterling likely to follow the euro rather than USD.

Critical levels R2 1.2729 R1 1.2659 S1 1.2549 S2 1.2510

USDJPY The yen was mostly flat against the dollar. We think the BoJ yield curve targeting should put continuing downward pressure on the yen.

Critical levels R2 108.86 R1 108.71 S1 108.01 S2 107.58

Note: R2, R1, S2 and S1 refer to Bloomberg calculated weekly technical resistance and support levels.

The Weekly Market View

June 17 2019

Forthcoming important economic data

United States

Indicator	Period	Expected	Prior	Comments
06/17/2019	NAHB Housing Market Index	Jun	67	66
06/18/2019	Housing Starts	May	1235K	1235K
06/18/2019	Housing Starts MoM	May	0.00%	5.70%
06/19/2019	MBA Mortgage Applications	14-Jun	--	26.80%
06/19/2019	FOMC Meeting	19-Jun	No Change	
06/20/2019	Initial Jobless Claims	25-Jun	220K	222K
06/21/2019	Markit Manufacturing PMI	Jun P	50.5	50.5
06/21/2019	Existing Home Sales	May	5.25m	5.19m

All eyes will be on the FOMC meeting this week. Focus will also be on the housing data, and the PMI releases.

Japan

Indicator	Period	Expected	Prior	Comments
06/20/2019	All Industry Activity Index MoM	Apr	0.70%	-0.40%
06/20/2019	Machine Tool Orders YoY	May F	--	--
06/20/2019	BoJ MPC Meeting	20-Jun	No Change	
06/21/2019	Natl CPI YoY	May	0.70%	0.90%
06/21/2019	Natl CPI Ex Fresh Food, Energy YoY	May	0.50%	0.60%
06/21/2019	Markit PMI Mfg	Jun P	--	49.8

Main focus will be on the BoJ MPC meeting.

Eurozone

Indicator	Period	Expected	Prior	Comments
06/18/2019	CPI YoY	May F	1.20%	--
06/19/2019	PPI YoY (GE)	May	2.20%	2.50%
06/19/2019	ECB Current Account SA	Apr	--	24.7b
06/20/2019	ECB Publishes Economic Bulletin			
06/21/2019	Markit Manufacturing PMI	Jun P	48	47.7

Focus will be on the ECB economic bulletin.

United Kingdom

Indicator	Period	Expected	Prior	Comments
06/10/2019	CPI YoY	May	2.00%	2.10%
06/10/2019	CPI Core YoY	May	1.70%	1.80%
06/20/2019	Retail Sales Ex Auto Fuel YoY	May	2.40%	4.90%
06/20/2019	Retail Sales Inc Auto Fuel MoM	May	-0.50%	0.00%
06/20/2019	BoE MPC Meeting	Jun	No Change	

Attention will be on the BoE meeting. CPI and retail sales print will also be important.

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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