The Weekly Market View

March 04 2019

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In a 'trade deal' markets trust

Optimism around a US-China trade deal fed the risk appetite of the financial markets till it encountered the hard tone of the US negotiator Robert Lighthizer whose scepticism about Chinese meeting US demands rather dented the optimism. Sticking with trade, it was interesting to see the Trump administration outline its goals for a free trade deal with UK taking a tough line on agricultural products and warning the UK against sealing a deal with China. It reminded us of the nice piece of writing "*The Beautiful Country and the Middle Kingdom: America and China, 1776 to the Present*" from John Pomfret wherein he outlines the relationship between China, UK and US since the Boston Tea Party. Focussing back on last week's risk asset performance, it was based on a rather delicate balance of positives and negatives, in our view. In the US, positive vibes created by a strong Q4 GDP growth print were offset by the weakness in a bunch of high frequency indicators for February (ISM manufacturing PMI, ISM manufacturing prices index, Markit manufacturing PMI and Michigan consumer sentiment). Brexit situation met a positive in the possibility of a parliamentary discussion on delaying the Brexit deadline but was countered by the Labour party announcing that it now backs a second Brexit referendum. Oil prices too had a friend and a foe. Positivity associated with OPEC cuts and trade optimism was offset by concerns about rising US production and global demand. Despite this, equity markets ended the week with marginal gains. Developed markets outperformed emerging markets. Both NASDAQ and DAX – which in the recent times have acted as yardsticks in measuring the success of US-China talks – outperformed. Precious metals recorded a mixed performance. USD gained against JPY but lost ground against EUR and GBP. UST yields moved higher on better than expected Q4 GDP print. Yields on German bunds and UK Gilts rose too as the economic data improved and the probability of a no-deal Brexit receded. Very broadly, safe havens underperformed. However, in the lime light were Chinese stocks which entered a bull market territory. Mainland Chinese stocks have performed strongly so far this year on high trading volumes. MSCI's implementation of the China A share inclusion in its benchmarks and its recent announcement of the positive result on its Consultation on weight increase of China A shares have helped.

Is leadership changing in the stock market?

With the Chinese equity market performing as strongly as it did, the question is if the stock market leadership is shifting from the US to China. Here are a few points we would consider. The strong performance of Chinese stocks was largely centred on the mainland stocks leaving behind their offshore counterparts which makes us think that the recent rally has been purely liquidity-driven thanks to MSCI. Earnings trends remain weak with 12month forward earnings growth expectations for MSCI China nearing zero. Long-term forward earnings growth expectations continue to move lower. Current valuations based on forward earnings are just at long-term average levels. On domestic economy, indicators still point to weakness. Whilst Beijing has been accommodative with its policy stimulus, National People's Congress (starting 5th March) will be closely watched not only for more policy stimulus but also for reforms. Elsewhere, the focus for next week will be on services PMI data across the globe. In the US, employment and wage data along with non-farm productivity are likely to be watched closely. In Europe, Q4 GDP print from Eurozone, industrial orders from Germany, industrial production from France are likely to be in focus especially with ECB meeting scheduled this week. In Asia, the focus will likely be on trade data from China and Japan.

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Past week global markets' performance

Index Snapshot (World Indices)

Index	Latest	Weekly Chg %	YTD %
S&P 500	2,803.7	0.4	11.8
Dow Jones	26,026.3	-0.0	11.6
Nasdaq	7,595.4	0.9	14.5
DAX	11,601.7	1.3	9.9
Nikkei 225	21,602.7	0.8	7.9
FTSE 100	7,106.7	-1.0	5.6
Sensex	36,063.8	0.5	-0.0
Hang Seng	28812.2	-0.0	11.5
Regional Markets (Sunday to Thursday)			
ADX	5137.8	-0.0	4.5
DFM	2635.8	-1.2	4.2
Tadaw ul	8492.7	-0.2	8.5
DSM	10111.6	-0.8	-1.8
MSM30	4144.47	2.2	-4.1
BHSE	1412.7	-0.2	5.6
KWSE	5231.7	-0.4	3.0
MSCI			
MSCI World	2,096.4	0.4	11.3
MSCI EM	1,051.5	-0.7	8.9

Global Commodities, Currencies and Rates

Commodity	Latest	Weekly Chg %	YTD %
ICE Brent USD/bbl	65.1	-3.1	20.9
Nymex WTI USD/bbl	55.8	-2.5	22.9
Gold USD/t oz	1293.4	-2.7	0.9
Silver USD/t oz	15.2	-4.5	-1.8
Platinum USD/t oz	859.2	1.9	8.1
Copper USD/MT	6572.0	1.3	10.2
Alluminium	1900.75	0.2	4.3
Currencies			
EUR USD	1.1365	0.3	-0.8
GBP USD	1.3202	1.1	3.6
USD JPY	111.89	1.1	2.0
CHF USD	0.9993	-0.1	-1.7
Rates			
USD Libor 3m	2.5985	-1.8	-7.4
USD Libor 12m	2.8790	-0.4	-4.2
UAE Eibor 3m	2.8625	0.4	0.9
UAE Eibor 12m	3.3052	-3.1	-7.5
US 3m Bills	2.4296	-0.5	3.2
US 10yr Treasury	2.7531	3.8	2.6

Summary market outlook

Global Yields	UST yields moved higher on better than expected Q4 GDP print. Yields on German bunds and UK Gilts rose too as the economic data improved and the probability of a no-deal Brexit receded. We expect the 10-year US Treasury yield to remain range bound between 2.7% and 3%, in line with the Fed's indicated long-term neutral rate.
Stress and Risk Indicators	VIX moved higher during the first half of the week but edged down in the latter half. 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 tracked the oil price lower.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	Equity markets ended the week with marginal gains. Developed markets outperformed emerging markets. Both NASDAQ and DAX – which in the recent times have acted as yardsticks in measuring the success of US-China talks – outperformed. Mainland China stocks performed strongly on MSCI announcement of index inclusion. Overall, we remain neutral 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 fell at the highest rate since August last year on strong economic outlook. However, we remain overweight on gold as a risk hedge against ongoing political and (potential) inflationary risks.
Energy	Oil prices fell over the past week after see-sawing as the positivity around OPEC cuts and trade optimism was offset by rising US production and demand concerns. Overall, 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 metal prices rose on trade optimism. We do not recommend industrial metals exposure as China reigns in demand.
Currencies	
EURUSD	The euro strengthened versus the dollar. Europe benefits from being a region most open to trade. Nevertheless, we expect the euro to remain under pressure due to the diverging monetary policies between the Fed and the ECB.
Critical levels	R2 1.1462 · R1 1.1414 · S1 1.1323 · S2 1.1280
GBPUSD	The pound sterling gained as risk of a "no-deal" Brexit faded. Whilst we see the pound sterling at some point recovering with the UK staying in the EU in all but name, it will for now remain under pressure due to political uncertainty, economic weakness and Brexit negotiations.
Critical levels	R2 1.3501 · R1 1.3351 · S1 1.3051 · S2 1.2901
USDJPY	The yen slightly weakened versus the greenback. We believe there will remain a bias for yen strength as emerging markets concerns will not abate soon.
Critical levels	R2 113.16 · R1 112.53 · S1 110.81 · S2 109.72

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
03/05/2019	New Home Sales MoM	Dec	-8.70%	16.90%	Market attention will be on labour market payroll data, also the housing data will be important.
03/06/2019	MBA Mortgage Applications	1-Mar	--	5.30%	
03/06/2019	Trade Balance	Dec	-$57.8b	-$49.3b	
03/07/2019	Initial Jobless Claims	2-Mar	225K	225K	
03/08/2019	Housing Starts MoM	Jan	9.90%	-11.20%	
03/08/2019	Housing Starts	Jan	1184K	1078K	
03/08/2019	Change in Nonfarm Payrolls	Feb	185K	304K	
03/08/2019	Unemployment Rate	Feb	3.90%	4.00%	
03/08/2019	Average Hourly Earnings YoY	Feb	3.30%	3.20%	
03/08/2019	Labor Force Participation Rate	Feb	--	63.20%	

Japan

	Indicator	Period	Expected	Prior	Comments
03/08/2019	GDP SA QoQ	4Q F	0.40%	0.30%	GDP growth and trade data from Japan will be watched closely.
03/08/2019	BoP Current Account Balance	Jan	¥161.0b	¥452.8b	

Eurozone

	Indicator	Period	Expected	Prior	Comments
03/04/2019	PPI YoY	Jan	2.90%	3.00%	All attention will be on ECB MPC meeting.
03/05/2019	Retail Sales YoY	Jan	2.10%	0.80%	
03/07/2019	GDP SA QoQ	4Q F	0.20%	0.20%	
03/07/2019	ECB MPC Meeting	7-Mar	No change		

United Kingdom

	Indicator	Period	Expected	Prior	Comments
03/07/2019	Halifax House Prices MoM	Feb	0.10%	-2.90%	Halifax house prices will be important.

China and India

	Indicator	Period	Expected	Prior	Comments
03/05/2019	BoP Current Account Balance (IN)	4Q	-$16.00b	-$19.10b	All eyes will be on China February release for foreign reserves, exports and CPI. In India BoP current account balance will be important.
03/07/2019	Foreign Reserves (CH)	Feb	$3087.90b	--	
03/08/2019	Trade Balance (CH)	Feb	$27.15b	$39.16b	
03/08/2019	Exports YoY (CH)	Feb	-2.20%	9.10%	
03/09/2019	CPI YoY (CH)	Feb	1.50%	1.70%	

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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