

The Weekly Market View

May 20 2019

Game of Phones

'Game of Thrones' (GoT) enthusiasts who might be disheartened by the conclusion of the series might find the 'Game of Phones' (GoP) engaging for the time being. Whilst it lacks the grandeur and the spirit of the GoT, GoP has enough content to keep its followers engaged. Last week, we saw a major turn in the GoP story when Mr. Trump turned up the heat on his counter-China rhetoric by banning Huawei, the largest Chinese manufacturer of telecom equipment. Broadly, risk appetite remained weak over the past week as Sino-US trade tensions simmered. Retaliating to the US tariffs, China imposed counter tariffs on some USD60bn US exports, including hundreds of agricultural, mining, and manufactured products. The trade-war turned into a tech-war around mid-week when Mr. Trump signed an executive order barring US firms from using telecom equipment from sources the administration deems national security threats. Shortly after the order was issued, the US Commerce Department formally added Huawei to the "Entity List" there by curtailing Huawei from both buying from US suppliers and selling to US consumers. With this turn in the story over the past week, equity markets registered losses, global yields retreated for the second consecutive week and USD strengthened. Supply pressures, potential for supply disruptions and rising tensions in the Middle East supported oil prices.

A trade-war is never black and white

In our view, the trade-war the US and China are engaged in does not have a binary outcome. Further, as we discussed in our last week's *The Weekly Market View*, this trade-war is here to stay for long. Trade conflict will be a recurring theme for decades to come, with escalation and de-escalation alternating depending on domestic cycles and domestic political pressures. Tech-war is here to stay as both China and US aim domination in this space. In fact, both these aspects of 'trade' and 'tech' are entangled, in our view. Thereby, lingering tech-war makes comprehensive US-China trade deal unlikely, US does not want to give away its trade deficit leverage without obtaining major favours in its tech-war. Indeed, this is reinforced by recent comments from Mr. Trump that "any agreement with China cannot be a "50-50" deal" (see *Trump says tariffs making companies leave China, a deal can't be '50-50'*, Reuters, 20 May 2019). In terms of the investment strategy, we advise caution in the near-term. However, US equities (overweight) are likely to be more resilient to the trade war and also to a rise in geo-political risks. Further out, we still believe that global growth is likely to pick up in the second half of this year – thanks to a growth revival in Europe and potential stimulus in China. This should support risk asset performance over the 12 month horizon. From an asset allocation perspective, we remain neutral equities and alternatives, underweight bonds and overweight cash/liquidity.

Past week global markets' performance

Index Snapshot (World Indices)

Index	Latest	Weekly Chg %	YTD %
S&P 500	2,860	-0.8	14.1
Dow Jones	25,764	-0.7	10.4
Nasdaq	7,816	-1.3	17.8
DAX	12,239	1.5	15.9
Nikkei 225	21,250	-0.4	6.2
FTSE 100	7,349	2.0	9.2
Sensex	37,931	1.2	5.2
Hang Seng	27,946	-2.1	8.1
Regional Markets (Sunday to Thursday)			
ADX	4,708	-7.4	-4.2
DFM	2,566	-2.1	1.4
Tadawul	8,622	-0.6	10.2
DSM	9,872	-0.6	-4.1
MSM30	3,852	-0.2	-10.9
BHSE	1,400	-2.0	4.7
KWSE	5,649	-0.8	11.2
MSCI			
MSCI World	2,117	-0.5	12.3
MSCI EM	996	-3.6	3.2

Global Commodities, Currencies and Rates

Commodity	Latest	Weekly Chg %	YTD %
ICE Brent USD/bbl	72.2	2.3	34.2
Nymex WTI USD/bbl	62.8	1.8	38.2
Gold USD/t oz	1277.5	-0.7	-0.3
Silver USD/t oz	14.4	-2.6	-7.0
Platinum USD/t oz	818.9	-5.4	3.0
Copper USD/MT	6025.0	-1.8	1.0
Alluminium	1819.0	2.3	-0.2
Currencies			
EUR USD	1.116	-0.7	-2.6
GBP USD	1.272	-2.1	-0.2
USD JPY	110.080	0.1	0.4
CHF USD	1.011	-0.1	-2.8
Rates			
USD Libor 3m	2.522	-0.2	-10.2
USD Libor 12m	2.635	-2.2	-12.3
UA E Eibor 3m	2.825	1.3	-0.4
UA E Eibor 12m	3.031	-5.6	-15.2
US 3m Bills	2.373	-1.8	0.8
US 10yr Treasury	2.391	-3.1	-10.9

Kishore Muktinutalapati

Equity Strategist

Tel: +971 (0)2 696 2358

kishore.muktinutalapati@adcb.com

Luciano Jannelli, Ph.D., CFA

Head Investment Strategy

Tel: +971 (0)2 696 2340

luciano.jannelli@adcb.com

Prerana Seth

Fixed Income Strategist

Tel: +971 (0)2 696 2878

prerana.seth@adcb.com

Mohammed Al Hemeiri

Analyst

Tel: +971 (0)2 696 2236

mohammed.alhemeiri@adcb.com

Noor Alameri

Analyst

Tel: +971 (0)2 694 5182

noor.alameri@adcb.com

Visit [Investment Strategy Webpage](#) to read our other reports

Summary market outlook

Global Yields	Global bond yields fell for the second consecutive week. 10Y UST yields fell below the 2.4% level and German bund yields slipped further into the negative territory. 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	Volatility become more volatile with the VIX index rising and falling through the week. We believe that volatility is likely to stay elevated due to the fear of global growth slowdown and concerns around trade.
Local Equity Markets	GCC markets lost some ground last week thanks to rising tensions in the Middle East. MSCI decision to not increase the weight of UAE's largest bank weighed on the ADX. 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	Equity prices corrected marginally. EM underperformed DM. 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.
Precious Metals	Performance of the precious metals was impeded by strength in USD. We remain overweight gold as a risk hedge against ongoing political and (potential) inflationary risks.
Energy	Supply pressures, potential for supply disruptions and rising tensions in the middle east supported 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 copper prices falling but aluminium prices rising. We do not recommend industrial metals exposure as China reigns in demand.
EURUSD	Broader USD strength meant EUR weakness against the USD. We expect the euro to remain stable with USD to lose some strength in 2019.
Critical levels	
GBPUSD	The pound fell against the USD on the news that indicated rising possibility of Mrs. May's resignation. We expect the cable to be stable with Pound sterling likely to follow the euro rather than USD.
Critical levels	
USDJPY	USD strengthened against the yen. We think the BoJ yield curve targeting should put continuing downward pressure on the yen.
Critical levels	

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

The Weekly Market View

May 20 2019

Forthcoming important economic data

United States

Indicator	Period	Expected	Prior	Comments
05/20/2019 Chicago Fed Nat Activity Index	Apr	-0.2	-0.15	
05/21/2019 Existing Home Sales MoM	Apr	2.70%	-4.90%	
05/22/2019 MBA Mortgage Applications	17-May	--	-0.60%	
05/22/2019 FOMC Meeting Minutes	1-May	--	--	FOMC minutes, PMI and durable goods order will be the focus in the US this week.
05/23/2019 Initial Jobless Claims	18-May	215K	212K	
05/23/2019 Markit Manufacturing PMI	May P	52.7	52.6	
05/23/2019 New Home Sales MoM	Apr	-3.20%	4.50%	
05/24/2019 Durable Goods Orders	Apr P	-2.00%	2.60%	

Japan

Indicator	Period	Expected	Prior	Comments
05/20/2019 GDP SA QoQ	1Q P	-0.10%	0.50%	
05/20/2019 Industrial Production MoM	Mar F	--	-0.90%	
05/23/2019 Nikkei PMI Mfg	May P	--	50.2	Attention will be on GDP. Also, PMI and industrial production will be important.
05/23/2019 Machine Tool Orders YoY	Apr F	--	-33.40%	
05/23/2019 Natl CPI Ex Fresh Food YoY	Apr	0.90%	0.80%	
05/24/2019 Natl CPI Ex Fresh Food, Energy YoY	Apr	0.60%	0.40%	
05/24/2019 All Industry Activity Index MoM	Mar	-0.20%	-0.20%	

Eurozone

Indicator	Period	Expected	Prior	Comments
05/20/2019 ECB Current Account SA	Mar	--	26.8b	
05/22/2019 Retail Sales MoM	Mar	1.00%	0.80%	PMI data and German IFO survey will be important.
05/23/2019 Markit Manufacturing PMI	May P	48.1	47.9	
05/23/2019 IFO Expectations (GE)	May	95.0	95.2	

United Kingdom

Indicator	Period	Expected	Prior	Comments
05/20/2019 Rightmove House Prices MoM	May	--	1.10%	
05/22/2019 CPI YoY	Apr	2.20%	1.90%	Attention will be on CPI and retail sales.
05/22/2019 CPI Core YoY	Apr	1.90%	1.80%	
05/24/2019 Retail Sales Ex Auto Fuel YoY	Apr	4.20%	6.20%	
05/24/2019 Retail Sales Inc Auto Fuel MoM	Apr	-0.30%	1.10%	

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

Disclaimer

ADCB Asset Management Limited ("AAML"), is a member of ADCB Group, licensed by Financial Services Regulatory Authority in Abu Dhabi Global Markets under financial services permission number 170036.

This publication is intended for general information purposes only. It should not be construed as an offer, recommendation or solicitation to purchase or dispose of any securities or to enter in any transaction or adopt any hedging, trading or investment strategy. Neither this publication nor anything contained herein shall form the basis of any contract or commitment whatsoever. Distribution of this publication does not oblige ADCB Group to enter into any transaction.

The content of this publication should not be considered as legal, regulatory, credit, tax or accounting advice. Anyone proposing to rely on or use the information contained in the publication should independently verify and check the accuracy, completeness, reliability and suitability of the information and should obtain independent and specific advice from appropriate professionals or experts regarding information contained in this publication. Investment products are not available to US persons.

Information and opinions contained herein is are based on various sources, including but not limited to public information, annual reports and statistical data that AAML considers accurate and reliable. However, AAML makes no representation or warranty as to the accuracy or completeness of any statement made in or in connection with this publication and accepts no responsibility whatsoever for any loss or damage caused by any act or omission taken as a result of the information contained in this publication. This publication is intended for customers who are either retail or professional investors.

Charts, graphs and related data or information provided in this publication are intended to serve for illustrative purposes only. The information contained in this publication is prepared as of a particular date and time and will not reflect subsequent changes in the market or changes in any other factors relevant to their determination. All statements as to future matters are not guaranteed to be accurate. AAML expressly disclaims any obligation to update or revise any forward looking statement to reflect new information, events or circumstances after the date of this publication or to reflect the occurrence of unanticipated events.

ADCB Group does and may at any time solicit or provide commercial banking, investment banking, credit, advisory or other services to the companies covered in its publications. As a result, recipients of this publication should be aware that any or all of foregoing services may at time give rise to a conflict of interest that could affect the objectivity of this publication. Opinions expressed herein may differ from opinions expressed by other businesses or affiliates of ADCB Group.

Past performance does not guarantee future results. Investment products are not bank deposits and are not guaranteed by ADCB Group. They are subject to investment risk, including possible of loss of principal amount invested. This publication may not be reproduced or circulated without ADCB Group written authority. The manner of circulation and distribution may be restricted by law or regulation in certain jurisdictions. Persons who come into possession of this document are required to inform themselves of, and to observe such restrictions. Any unauthorized use, duplication, or disclosure of this document is prohibited by law and may result in prosecution.