The Weekly Market View

May 27 2019

ADCB ASSET MANAGEMENT LIMITED

Going digital on the new cold war

Global equities ended the week lower as US-China trade tensions escalated further in the form of a new "Technology cold war". After announcing bans on Huawei, the Trump administration relaxed its tone on Huawei and pointed to the possibility of keeping Huawei off the trade agenda. However, this was only later followed with reports of the Trump administration considering to impose restrictions on other China tech firms. Overall, risk-off sentiment gathered further steam putting risk assets across the board under selling pressure. Amongst the equity underperformers, the US tech stocks were the hardest hit. As appetite for risk assets faded, demand for safe-have assets including yen and US treasuries was seen rising. In addition to escalation of US-China trade tensions, rise in geopolitical tensions and signs of slowing global growth drove investments into safe-haven. The 10-year US Treasury yields fell to their lowest level since 2017 while bond yields in Europe and Japan deepened into negative territory. Fed minutes which again stressed on a patient monetary policy, failed to have any impact on the sentiment as market expectations of rate cuts paced further. Elsewhere, oil prices posted their biggest weekly decline on concerns of trade war impact on demand and reports of rising US crude oil inventories. In the UK, Brexit concerns took centre stage again as PM Theresa May announced her resignation, raising the risks of a "no-deal" Brexit. Sticking with politics, Indian PM Narendra Modi won his second term at the Lok Sabha general elections with a thumping majority. Indian equities rallied on assurance of policy continuity and were amongst the top outperformers last week.

Amidst the ongoing tech war, focus will turn to growth indicators

Trade conflicts now transformed in the form of the new tech cold war are expected to linger.While trade developments will continue to dominate, market attention will turn towards the upcoming growth indicators for signs of global economic slowdown. In the US, investors will watch out for the second estimate of the first quarter GDP and more importantly, the quarterly Core PCE print- which will throw light on the muted inflation trend and could have implications on the market pricing of Fed rate trajectory. In Europe, key reports on European consumer confidence along with the GDP releases will be in focus. Finally, in emerging markets, all eyes will be on China PMI releases which is expected to fall below 50. Q1 GDP releases coming out of Brazil, Turkey and India will also be closely watched by the markets. Overall, we expect markets to remain side-lined and hence, we remain cautious in the near term. We recommend staying overweight on US equities which are likely to be relatively more resilient against the backdrop of trade worries and heightened 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.

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Past week global markets' performance

Index Snapshot (World Indices)

Index	Latest	Weekly Chg %	YTD %
S&P 500	2,826	-1.2	12.7
Dow Jones	25,586	-0.7	9.7
Nasdaq	7,637	-2.3	15.1
DAX	12,011	-1.9	13.8
Nikkei 225	21,117	-0.6	5.5
FTSE 100	7,278	-1.0	8.2
Sensex	39,435	4.0	9.3
Hang Seng	27,354	-2.1	5.8
Regional Markets (Sunday to Thursday)			
ADX	4,803	0.9	-2.3
DFM	2,585	2.8	2.2
Tadawul	8,531	0.1	9.0
DSM	9,687	-1.4	-5.9
MSM30	3,876	0.4	-10.4
BHSE	1,408	0.7	5.3
KWSE	5,579	0.1	9.8
MSCI			
MSCI World	2,095	-1.0	11.2
MSCI EM	987	-1.0	2.2

Global Commodities, Currencies and Rates

Commodity	Latest	Weekly Chg %	YTD %
ICE Brent USD/bbl	68.7	-4.9	27.7
Nymex WTI USD/bbl	58.6	-6.6	29.1
Gold USD/t oz	1284.9	0.6	0.3
Silver USD/t oz	14.6	1.1	-6.0
Platinum USD/t oz	806.1	-1.6	1.4
Copper USD/MT	5919.0	-1.8	-0.8
Alluminium	1780.0	-2.1	-2.3
Currencies			
EUR USD	1.120	0.4	-2.2
GBP USD	1.271	-0.1	-0.3
USD JPY	109.310	-0.7	-0.3
CHF USD	1.002	-0.9	-1.9
Rates			
USD Libor 3m	2.525	0.1	-10.1
USD Libor 12m	2.619	-0.6	-12.9
UAE Eibor 3m	2.793	2.1	-1.6
UAE Eibor 12m	3.092	1.6	-13.5
US 3m Bills	2.337	-1.5	-0.8
US 10yr Treasury	2.320	-3.0	-13.6

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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	The VIX index was seen 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.
Equity Markets	
Local Equity Markets	GCC equities performed well in spite of global equity market sell-off and decline in oil prices. DFM was the best performer. 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 finished lower for the week amidst worries on escalating trade tensions. Sell-off was seen across the board, with the US tech stocks-led by Nasdaq, being the worst impacted. Indian equities rallied, on the other hand, as PM Modi's win signalling policy continuity. 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 were mostly flat during the week. We remain overweight gold as a risk hedge against ongoing political and (potential) inflationary risks.
Energy	Oil prices declined sharply on the back of concerns on global growth slowdown and reports of rise in US crude inventories. 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 continue to struggle and cooper remained under pressure. We do not recommend industrial metals exposure as China reigns in demand.
Currencies	
EURUSD	The euro strengthened versus the greenback. We expect the euro to remain stable with USD to lose some strength in 2019.
Critical levels	R2 1.1234 · R1 1.1218 · S1 1.1181 · S2 1.1160
GBPUSD	The pound appreciated in response to announcement of PM May's resignation but ended the week flat versus the dollar. We expect the cable to be stable with Pound sterling likely to follow the euro rather than USD.
Critical levels	R2 1.2783 · R1 1.2749 · S1 1.2664 · S2 1.2613
USDJPY	The yen appreciated versus the dollar on increased risk-off sentiment. We think the BoJ yield curve targeting should put continuing downward pressure on the yen.
Critical levels	R2 109.91 · R1 109.61 · S1 109.14 · S2 108.97

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

Forthcoming important economic data

United States

Date	Indicator	Period	Expected	Prior	Comments
05/29/2019	MBA Mortgage Applications	24-May	--	2.40%	GDP and core PCE will be the main releases this week.
05/30/2019	GDP Annualized QoQ	1Q S	3.10%	3.20%	
05/30/2019	Core PCE QoQ	1Q S	1.30%	1.30%	
05/30/2019	Initial Jobless Claims	25-May	214K	211K	
05/30/2019	Wholesale Inventories MoM	Apr P	0.10%	-0.10%	
05/31/2019	Univ. of Mich. Sentiment	May F	101.3	102.4	

Japan

Date	Indicator	Period	Expected	Prior	Comments
05/31/2019	Jobless Rate	Apr	2.40%	2.50%	Industrial production data and inflation release will be closely tracked by the market.
05/31/2019	CPI YoY	May	1.20%	1.40%	
05/31/2019	CPI Ex-Fresh Food, Energy YoY	May	1.00%	0.90%	
05/31/2019	Industrial Production MoM	Apr P	0.20%	-0.60%	

Eurozone

Date	Indicator	Period	Expected	Prior	Comments
05/31/2019	CPI YoY (GE)	May P	1.60%	2.00%	All eyes will be on Eurozone CPI.
05/31/2019	GDP YoY	Mar	1.20%	1.10%	

United Kingdom

Date	Indicator	Period	Expected	Prior	Comments
05/28/2019	Nationwide House PX MoM	May	0.00%	0.40%	Light week in terms of data releases.

China and India

Date	Indicator	Period	Expected	Prior	Comments
05/31/2019	Manufacturing PMI (CH)	May	49.9	50.1	In China manufacturing PMI will be important, and in India GDP will be important.
05/31/2019	GDP YoY (IN)	1Q	6.20%	6.60%	

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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