The Weekly Market View

November 11 2019

بنك أبوظبي التجاري
ADCB
ASSET MANAGEMENT LIMITED

The mood is 'risk-on', but...

Markets continued their risk-on move thanks to the prospect of a phase-1 trade deal between US and China, improvement in some cyclical soft data and a better-than-feared corporate earnings season. Equity markets continued to post gains during the week ended 8 November. Whilst the US equities rose to an all-time high, European equities posted gains for the fifth consecutive week. During the past week, Japanese equities outperformed broader equity indices. Emerging markets outperformed developed markets. GCC equity markets, however, came under pressure as investors waited for details of the initial public offering (IPO) of Saudi Aramco. Bond yields rose further on improvement in risk appetite. US 10 year treasury yields rose to 1.93% and yields on 10 year German bunds hit -0.26%. French bond yields rose to non-negative levels. In the commodities space, oil prices rose along with industrial metal prices; precious metals however lost value over the week on fading safe-haven demand.

In the FX market, USD strength was noticed across the board. In our view, better than expected growth data from the US drove the green back higher. Last week saw US ISM non-manufacturing index for October expand strongly from the previous reading and printing better than expected. University of Michigan consumer sentiment reading for October too showed a slight improvement.

...is this warranted?

As we envisaged earlier (see *The Equity Strategist, September 17 2019*), fading trade uncertainty, stabilization of the manufacturing sector and a strong policy support triggered a pro-cyclical rotation over the past few weeks. The question we now have is if this rally 'pro-cyclical' rally can continue in the near-term to medium-term. Here we make some considerations. First, which is more important for a revival in global growth – Chinese stimulus or trade? Here, in our view, whilst fading trade uncertainty does help improve corporate decision-making on capital expenditures, we think policy-making is more influential in reviving growth prospects. Second, has the manufacturing sector picked up following a revival in financial conditions? Here, we still see limited evidence on the improvement in the manufacturing sector. It is important to stress that the most leading 'hard' indicators are still lagging (Korean exports, Baltic Freight Index, Industrial Metals, etc.). Third consideration we have is if the manufacturing sector is important at all. On this, we remind ourselves that since the global financial crisis of 2008/09, we have had two episodes of manufacturing recessions (marked by the US ISM falling below the 50 mark) which did not result in an economic recession. This can be explained by a resilient services sector which now constitutes 80% of the economy and remains resilient to weakness in the manufacturing segment.

After all these considerations, we still believe that the right positioning is to have a more balanced 'strategic' asset allocation that makes the investment portfolios resilient to risks which are still prevalent, but still captures strategic opportunities in the global economy. For details of our Investment Strategy and our asset allocation, see *Quarterly Investment View, October 2019*.

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Global markets' performance snapshot

Index Snapshot (World Indices)

Index	Latest	Weekly Chg %	YTD %
S&P 500	3,093	0.9	23.4
Dow Jones	27,681	1.2	18.7
Nasdaq	8,475	1.1	27.7
DAX	13,229	2.1	25.3
Nikkei 225	23,392	2.4	16.9
FTSE 100	7,359	0.8	9.4
Sensex	40,324	0.4	11.8
Hang Seng	27,651	2.0	7.0
Regional Markets (Sunday to Thursday)			
ADX	5,108	-1.1	4.4
DFM	2,747	-1.3	6.6
Tadawul	7,744	-2.1	-0.4
DSM	10,189	-1.8	-0.2
MSM30	4,000	0.3	-6.5
BHSE	1,523	-0.2	13.5
KWSE	5,717	-0.9	13.6
MSCI			
MSCI World	2,234	0.7	20.4
MSCI EM	1,042	1.5	10.3

Global Commodities, Currencies and Rates

Commodity	Latest	Weekly Chg %	YTD %
ICE Brent USD/bbl	62.5	1.3	16.2
Nymex WTI USD/bbl	57.2	1.9	26.1
Gold USD/t oz	1,459.0	-3.7	13.8
Silver USD/t oz	16.8	-7.3	8.5
Platinum USD/t oz	887.2	-6.6	11.5
Copper USD/MT	5,951.5	2.7	-0.2
Alluminium	1,820.3	1.2	-0.1
Currencies			
EUR USD	1.10	-1.3	-3.9
GBP USD	1.28	-1.3	0.2
USD JPY	109.26	1.0	-0.4
CHF USD	1.00	1.2	-1.5
Rates			
USD Libor 3m	1.90	0.5	-32.3
USD Libor 12m	2.00	3.9	-33.5
UAE Eibor 3m	2.08	3.5	-22.0
UAE Eibor 12m	2.26	2.4	-35.9
US 3m Bills	1.54	2.0	-34.5
US 10yr Treasury	1.94	13.5	-27.7

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Summary market outlook

Global Yields	Global bond yields rallied with the recession fears receding and improvement in risk appetite. The 10yr UST yields rose sharply and the curve steepened, also on the back of strong ISM non-manufacturing print. Overall, we believe that the long-term US rates will remain in line with the Fed's target Fed fund rate and further curve steepening risks are rising.
Stress and Risk Indicators	The VIX declined in the absence of any market surprises. 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 market performance was negative last week, with Saudi stocks underperforming on lack of clarity on the Aramco IPO. We remain neutral on GCC equities as the potential for growth revival (aided by falling interest rates) and range-bound oil prices is offset by elevated geopolitical risk perceptions. In the regional context, we are overweight Saudi equities and prefer banks by sector.
Global Equity Markets	Equity markets performed well last week, with the S&P 500 Index reaching an all-time high. This was largely on the back of de-escalating US-China trade tensions and easing concerns on global economic slowdown. Non-US stocks including European, Japanese and emerging market stocks outperformed the US stocks. We remain neutral on equities with an overweight on US and underweight EU and EM but we do acknowledge the risk of cyclicals outperforming in the near-term.
Commodities	
Precious Metals	Precious metals, gold, silver and platinum dropped this week, as recession concerns declined. We remain overweight gold as a risk hedge against ongoing political and (potential) inflationary risks.
Energy	Oil prices were relatively stable this last week with only a 1.3% increase in prices. Overall, oil prices are likely to remain sustained as the market is roughly balanced.
Industrial Metals	Industrial metals registered a positive performance this week. We do not recommend industrial metals exposure as China reigns in demand.

Currencies

EURUSD	The euro weakened versus the greenback. We expect the euro to remain stable.							
Critical levels	R2	1.1032	R1	1.1028	S1	1.1019	S2	1.1014
GBPUSD	The pound sterling depreciated versus the US dollar, due to broad dollar strength. We expect the cable to be stable with Pound sterling likely to follow the euro rather than USD.							
Critical levels	R2	1.2824	R1	1.2813	S1	1.2784	S2	1.2766
USDJPY	The yen weakened against the dollar. The BoJ yield curve targeting should put continuing downward pressure on the yen.							
Critical levels	R2	109.31	R1	109.19	S1	109.14	S2	109.07

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
11/13/2019	MBA Mortgage Applications	8-Nov	-1.10%	-0.10%	Focus on CPI and Retail Sales
11/13/2019	CPI YoY	Oct	1.70%	1.70%	
11/13/2019	Real Avg Hourly Earning YoY	Oct		1.20%	
11/14/2019	Initial Jobless Claims	9-Nov	215K	211K	
11/15/2019	Retail Sales Advance MoM	Oct	0.20%	-0.30%	
11/15/2019	Capacity Utilization	Oct	77.0%	77.50%	

Japan

	Indicator	Period	Expected	Prior	Comments
11/12/2019	Machine Tool Orders YoY	Oct P	-	-35.50%	GDP 3Q print will be important.
11/14/2019	GDP SA QoQ	3QP	0.20%	0.30%	
11/14/2019	Tertiary Industry Index MoM	Sep	1.10%	0.40%	
11/15/2019	Industrial Production YoY	Sep F	-	1.10%	

Eurozone

	Indicator	Period	Expected	Prior	Comments
11/13/2019	Industrial Production WDA YoY	Sep	-2.30%	-2.80%	Inflation print will be closely tracked by the market.
11/14/2019	GDP SA QoQ	3QP	0.20%	0.20%	
11/15/2019	CPI YoY	Oct F	0.70 %	0.70%	
11/15/2019	CPI Core YoY	Oct F	1.10%	1.10%	

United Kingdom

	Indicator	Period	Expected	Prior	Comments
11/13/2019	CPI YoY	Oct	1.60%	1.70%	CPI will be important.
11/14/2019	Retail Sales Ex Auto Fuel YoY	Oct	3.40%	3.00%	

China and India

	Indicator	Period	Expected	Prior	Comments
This week	Aggregate Financing CNY(CH)	Oct	950.0b	2270.0b	Focus will be on China macro releases and in India CPI and WPI will be important.
This week	New Yuan Loans CNY(CH)	Oct	800b	1690b	
This week	Money Supply M2 YoY	Oct	8.40%	8.40%	
11/13/2019	CPI YoY(IN)	Oct	4.30%	3.99%	
11/14/2019	Wholesale Prices YoY(IN)	Oct	-0.22%	0.33%	
11/14/2019	Industrial Production YoY(CH)	Oct	5.40%	5.80%	
11/14/2019	Retail Sales YoY(CH)	Oct	7.80%	7.80%	

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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