

# The Weekly Market View

November 26 2019

## Trade-on, Trade-off, Repeat!

As the title of the report suggests, market sentiment continued to oscillate between the hopes and doubts whether US and China will be able to formally finalize the 'Phase 1' deal. Last week, there were relatively more hints of "trade-off" or rather a delay in finalization of the 'Phase 1' deal from both the sides. US Senate passing the human rights bill on Hong Kong further complicated the matters, with China threatening with counteractive measures if President Trump signs off the bill. Markets also ignored the positive green shoots coming from the flash Manufacturing PMI releases in the US and the Europe. US Market manufacturing PMI rose to a seven month while the PMI for European region rose to a 3-month high, albeit remained in the contraction zone. Equity markets trod cautiously with most of the benchmarks ending the week flat or in the negative territory. European and Japanese equities suffered losses with the increased trade uncertainty with Japanese stocks underperforming the most on reports of BoJ reducing purchases of the domestic stocks. Safe-haven assets attracted some inflows, but failed to post massive gains even amidst the subdued mood. Gold prices and the yen were mostly unchanged. The 10yr US Treasury yield declined and the curve flattened, reversing some of the previous widening. In Europe, bond yields were mostly flat as the positive economic signals from PMI releases managed to offset the trade concerns. Oil prices rose slightly mainly on supply-side factors, but ended the week with no change. Local markets also lacked momentum, but Saudi stocks posted weekly gains.

## It's the 'Thanksgiving but focus will be on other T' - Trade

It's the Thanksgiving week in the US and but the focus will be on the other "T" that is "trade". Trade remains the biggest uncertainty in investors' minds in spite of incoming economic data showing signs of improvement. These concerns will continue to linger especially with the key deadline of December 15 of additional tariffs approaching closer. On the other hand, recent preliminary manufacturing PMIs numbers signal the possibility of a rebound in manufacturing activity. With signs of manufacturing bottoming out and continued strength in consumer spending, we believe that slowdown in US growth will be moderate and recession risks-which investors have been fearing throughout the year-are likely to fade away. Given our assumption of moderate growth and accommodative Fed in the coming year, we believe that the *US treasury yield curve is likely to steepen* and we recommend reducing duration on US Treasuries. Keeping the possibility of steeper UST curve and its implications for the emerging market bond performance in mind, we also *took profit on our tactical overweight call on emerging market dollar sovereign bonds* but still stick to our selective preference for high-quality GCC, Russia, Brazil and Indonesia dollar sovereign bonds.

From an asset allocation perspective, on a strategic basis, we continue to hold a risk-barbell with quality tilt. We balance our overweight US equities with overweight US treasuries, gold and cash.

## Global markets' performance snapshot

Index Snapshot (World Indices)			
Index	Latest	Weekly Chg %	YTD %
S&P 500	3,110	-0.3	24.1
Dow Jones	27,876	-0.5	19.5
Nasdaq	8,520	-0.2	28.4
DAX	13,164	-0.6	24.7
Nikkei 225	23,113	-0.8	15.5
FTSE 100	7,327	0.3	8.9
Sensex	40,359	0.0	11.9
Hang Seng	26,595	1.0	2.9
Regional Markets (Sunday to Thursday)			
ADX	5,042	-1.9	2.6
DFM	2,684	-0.6	6.1
Tadawul	8,063	1.7	3.0
DSM	10,267	-0.9	-0.3
MSM30	4,083	-0.0	-5.6
BHSE	1,506	0.0	12.6
KWSE	5,785	1.0	13.9
MSCI			
MSCI World	2,270	-0.4	20.7
MSCI EM	1,045	-0.0	8.6

## Global Commodities, Currencies and Rates

Commodity	Latest	Weekly Chg %	YTD %
ICE Brent USD/bbl	63.4	0.1	17.8
Nymex WTI USD/bbl	57.8	0.1	27.2
Gold USD/t oz	1,461.9	-0.4	14.1
Silver USD/t oz	17.0	0.3	9.9
Platinum USD/t oz	891.7	0.1	12.1
Copper USD/MT	5,834.0	0.4	-2.2
Alluminium	1,747.0	-0.7	-4.2
Currencies			
EUR USD	1.10	-0.3	-3.8
GBP USD	1.28	-0.5	0.7
USD JPY	108.66	-0.1	-0.9
CHF USD	1.00	0.8	-1.5
Rates			
USD Libor 3m	1.92	0.8	-31.7
USD Libor 12m	1.91	-2.4	-36.3
UAE Eibor 3m	2.20	3.7	-22.6
UAE Eibor 12m	2.29	2.0	-35.8
US 3m Bills	1.58	1.0	-33.1
US 10yr Treasury	1.77	-3.3	-34.0

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## Summary market outlook

### Global Yields

In the sovereign bond markets, 10yr UST yield declined and the curve flattened on uncertainty around a phase-1 trade deal between US and China. In Europe, German bund yields were mostly flat as positive economic signals overshadowed the trade concerns. 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

Volatility remained low but mixed amidst the marginal declines seen in equities. 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 showed mixed performance. Saudi market outperformed the most with banks boosting lending ahead of the Aramco listing. 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 market rally took a breather with most benchmarks recording margining declines. US equity indices ended the week almost unchanged. Japanese equities and European equities came under pressure amidst the increased trade uncertainty. Emerging market equities were mostly unchanged with the dollar remaining stable. We remain neutral on equities with an overweight on US and underweight EU and EM but we do acknowledge the risk of cyclical outperforming in the near-term.

## Commodities

### Precious Metals

Gold prices fell slightly in spite of curb in risk appetite. We remain overweight gold as a risk hedge against ongoing political and (potential) inflationary risks.

### Energy

Oil prices rose in the latter half of the week on the back of supply-side factors, yet ended the week flat. Overall, oil prices are likely to remain sustained as the market is roughly balanced.

### Industrial Metals

Industrial metals registered mixed performance – aluminium prices fell while copper prices rose. We do not recommend industrial metals exposure as China reigns in demand.

## Currencies

### EURUSD

The euro marginally weakened versus the US dollar. We expect the euro to remain stable.

### Critical levels



### GBPUSD

The pound sterling depreciated versus the US dollar. We expect the cable to be stable with Pound sterling likely to follow the euro rather than USD.

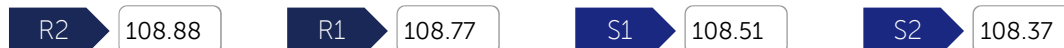
### Critical levels



### USDJPY

The yen ended flat versus the dollar. 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.

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## Forthcoming important economic data

United States



	Indicator	Period	Expected	Prior	Comments
11/25/2019	Chicago Fed Nat Activity Index	Oct	-0.2	-0.45	
11/26/2019	Wholesale Inventories MoM	Oct P	0.10%	-0.40%	
11/27/2019	MBA Mortgage Applications	22- Nov		-2.20%	
11/27/2019	GDP Annualized QoQ	3Q S	1.90%	1.90%	GDP and Core PCE will be the main releases this week.
11/27/2019	Core PCE QoQ	3Q S	2.20%	2.20%	
11/27/2019	Durable Goods Orders	Oct P	-0.80%	-1.20%	
11/27/2019	Initial Jobless Claims	23- Nov	221K	227K	

Japan



	Indicator	Period	Expected	Prior	Comments
11/29/2019	Jobless Rate	Oct	2.40%	2.40%	
11/29/2019	Tokyo CPI YoY	Nov	0.60%	0.40%	Inflation release will be closely tracked by the market.
11/29/2019	Tokyo CPI Ex-Fresh Food YoY	Nov	0.60%	0.50%	
11/29/2019	Industrial Production MoM	Oct P	-2.00%	1.70%	

Eurozone



	Indicator	Period	Expected	Prior	Comments
11/25/2019	IFO Expectations	Nov	92.5	91.5	
11/28/2019	Consumer Confidence	Nov F		-7.2	CPI and IFO will be important.
11/28/2019	CPI YoY (GE)	Nov P	1.20%	1.10%	

United Kingdom



	Indicator	Period	Expected	Prior	Comments
11/28/2019	Nationwide House PX MoM	Nov	0.10%	0.20%	Light week in terms of economic releases.
11/29/2019	Mortgage Approvals	Oct	65.4K	65.9K	

China and India



	Indicator	Period	Expected	Prior	Comments
11/29/2019	GDP YoY (IN)	3Q	4.60%	5.00%	Both China Manufacturing PMI and India GDP will be important.
11/30/2019	Manufacturing PMI (CH)	Nov	49.5	49.3	

## 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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