

The Weekly Market View

October 14 2019

Bon (risk) appétit

Last week saw a strong risk-on move in the markets thanks to positive developments in the US-China trade talks as well as in Brexit negotiations. On the US-China trade front, both parties have agreed to a phase-1 of the deal. This deal, albeit not the ultimate solution to the US-China standoff, provided a much needed relief to the markets which were sceptical about even a truce being achieved. Some optimism around Brexit deal being reached also helped the risk sentiment. As a result, equities moved higher rather sharply. In the week when all major global equity indices registered gains, US equities underperformed other markets like Germany, UK and Japan. EM equities outperformed DM equities. Oil prices rose last week supported by both supply (attack on an Iranian oil tanker) and demand (US-China trade deal helped reviving growth prospects) aspects. Gold prices fell on lacklustre demand for safe haven assets. Industrial metals like copper and aluminium gained. FX moves last week reinforced the risk-on sentiment. While USD lost ground against the EUR and GBP, it did appreciate against the JPY. In the bond markets, yields rallied (bonds sold off) and yield curves steepened on improved risk sentiment thanks to geopolitical developments. In the US, whilst the yields on 3 month T-bills fell, 10Y yields rose sharply. Internal controversies in the ECB regarding the restart of the quantitative easing program – brought to the light by the September ECB meeting minutes – resulted in bond markets there experiencing a small sell-off.

An uncrowded camp

Equity markets, despite their strong performance year-to-date, appear to be a less-crowded trade. Sentiment as indicated by the American Association of Individual Investors (AAII) survey and the US put call volume ratio indicate strong pessimism. Fund flows data, which points to an ongoing rotation out of equities into bonds since the beginning of this year, provides little evidence of excessive enthusiasm towards equities. Against this backdrop, we remain optimistic on the near-term outlook for equities. In the near-term, equity markets are likely to be driven by the industrial cycle finding a bottom while consumer and services sectors remain strong. Policy, especially the monetary side, remains very accommodative. We believe that the US-China trade stand-off is unlikely to materially deteriorate in the near-term. Weakness in earnings appears to be priced in and there are upside risks to this in our view.

Next week – when the earnings season gets underway – is likely to provide confirmation of the earnings resilience in both the US and in Europe, in our view. Other than earnings, markets are likely to focus on retail sales data (from the US, UK and China), industrial production (US, Eurozone, Japan and China) and inflation (Eurozone, China and India) data releases next week.

Global markets' performance snapshot

Index Snapshot (World Indices)

Index	Latest	Weekly %	YTD %
S&P 500	2,970	0.6	18.5
Dow Jones	26,817	0.9	15.0
Nasdaq	8,057	0.9	21.4
DAX	12,512	4.2	18.5
Nikkei 225	21,799	1.8	8.9
FTSE 100	7,247	1.3	7.7
Sensex	38,127	1.2	5.7
Hang Seng	26,308	1.9	1.8

Regional Markets (Sunday to Thursday)			
Index	Latest	Weekly %	YTD %
ADX	5,073	0.9	3.3
DFM	2,810	1.8	11.4
Tadawul	7,695	-2.8	-1.7
DSM	10,228	-0.8	-0.7
MSM30	4,014	-0.3	-7.2
BHSE	1,523	0.7	13.9
KWSE	5,706	1.2	12.5

MSCI			
Index	Latest	Weekly %	YTD %
MSCI World	2,150	1.2	15.7
MSCI EM	997	1.5	4.7

Global Commodities, Currencies and Rates

Commodity	Latest	Weekly %	YTD %
ICE Brent USD/bbl	60.5	3.7	12.5
WTI USD/bbl	54.7	3.6	20.5
Gold USD/t oz	1,489.0	-1.0	16.2
Silver USD/t oz	17.5	0.0	13.3
Platinum USD/t oz	895.1	1.7	12.6
Copper USD/MT	5,763.0	2.9	-3.4
Alluminium	1,714.0	0.3	-6.0

Currencies			
Pair	Latest	Weekly %	YTD %
EUR USD	1.10	0.6	-3.6
GBP USD	1.27	2.7	-0.6
USD JPY	108.29	1.3	-1.3
CHF USD	1.00	0.2	-1.5

Rates			
Instrument	Latest	Weekly %	YTD %
USD Libor 3m	2.00	-1.3	-28.7
USD Libor 12m	1.96	5.5	-34.9
UAE Eibor 3m	2.31	1.1	-18.6
UAE Eibor 12m	2.31	-0.9	-35.4
US 3m Bills	1.66	-1.6	-29.5
US 10yr Treasury	1.73	13.1	-35.6

Kishore Muktinatalapati
Equity Strategist
Tel: +971 (0)2 696 2358
kishore.muktinatalapati@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

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Summary market outlook

Global Yields Yields rallied (bonds sold off) and yield curves steepened on improved risk sentiment thanks to geopolitical developments. In the US, whilst the yields on 3 month T-bills fell, 10Y yields rose sharply. Internal controversies in the ECB regarding the restart of the quantitative easing program – brought to the light by the September ECB meeting minutes – resulted in bond markets there experiencing a small sell-off. Overall, we believe that the long-term US rates will remain in line with the Fed's target Fed fund rate.

Stress and Risk Indicators Volatility indicator VIX fell on positive developments on the US China trade front and on Brexit. 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 underperformed the most, while the UAE market outperformed the most. 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 All major global equity indices registered gains, US equities underperformed other markets like Germany, UK and Japan. EM equities outperformed DM equities. Overall, 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 metal prices weakened last week as the demand for safe haven assets declined. We remain overweight gold as a risk hedge against ongoing political and (potential) inflationary risks.

Energy Oil prices rose last week supported by both supply (attack on an Iranian oil tanker) and demand (US-China trade deal helped reviving growth concerns) aspects. Overall the oil price is likely to remain sustained as the market is roughly balanced.

Industrial Metals Industrial metals like copper and aluminium gained last week. However, we do not recommend industrial metals exposure as China reigns in demand.

Currencies

EURUSD EUR gained against the greenback on improving risk appetite associated with US-China trade deal and positive developments around Brexit. We expect the euro to remain stable.

Critical levels R2 1.1097 R1 1.1070 S1 1.1008 S2 1.0974

GBPUSD GBP gained against the USD thanks to positive developments around Brexit. We expect the cable to be stable with Pound sterling likely to follow the euro rather than USD.

Critical levels R2 1.2901 R1 1.2785 S1 1.2474 S2 1.2280

USDJPY The yen weakened against the dollar due to waning safe haven demand. BoJ yield curve targeting should put continuing downward pressure on the yen.

Critical levels R2 109.10 R1 108.69 S1 107.82 S2 107.36

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
10/16/2019	MBA Mortgage Applications	11- Oct		5.20%	
10/16/2019	Retail Sales Advance MoM	Sep	0.30%	0.40%	
10/16/2019	NAHB Housing Market Index	Oct	68	68	
10/17/2019	Housing Starts MoM	Sep	-3.40%	12.30%	Focus will be on the US retail sales, industrial production and the corporate earnings season.
10/17/2019	Initial Jobless Claims	12- Oct	215K	210K	
10/17/2019	Industrial Production MoM	Sep	-0.20%	0.60%	
10/17/2019	Capacity Utilization	Sep	77.70%	77.90%	

Japan



	Indicator	Period	Expected	Prior	Comments
10/15/2019	Tertiary Industry Index MoM	Aug	0.60%	0.10%	
10/15/2019	Industrial Production MoM	Aug F		-1.20%	Industrial production and inflation data are likely to be monitored.
10/18/2019	Natl CPI YoY	Sep	0.20%	0.30%	
10/18/2019	Natl CPI Ex Fresh Food, Energy YoY	Sep	0.50%	0.60%	

Eurozone



	Indicator	Period	Expected	Prior	Comments
10/16/2019	CPI YoY	Sep F	0.90%	1.00%	Eurozone inflation likely to be under focus.
10/18/2019	ECB Current Account SA	Aug		20.5b	

United Kingdom



	Indicator	Period	Expected	Prior	Comments
10/16/2019	CPI YoY	Sep	1.80%	1.70%	UK inflation and retail sales are important data releases next week.
10/16/2019	CPI Core YoY	Sep	1.70%	1.50%	
10/16/2019	RPI YoY	Sep	2.70%	2.60%	
10/17/2019	Retail Sales Ex Auto Fuel YoY	Sep	2.90%	2.20%	
10/17/2019	Retail Sales Inc Auto Fuel MoM	Sep	-0.20%	-0.20%	

China and India



	Indicator	Period	Expected	Prior	Comments
10/14/2019	Wholesale Prices YoY (IN)	Sep	0.90%	1.08%	Inflation data in India and industrial production in China are important to watch.
10/14/2019	CPI YoY (IN)	Sep	3.81%	3.21%	
10/15/2019	CPI YoY (CH)	Sep	2.90%	2.80%	
10/18/2019	Industrial Production YoY (CH)	Sep	5.00%	4.40%	

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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