The Weekly Market Note

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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

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Risk off mood returns

Global equity markets fell sharply with the sell-off in the US equities being the main trigger. US stocks corrected after investors digested the jump in US treasury yields, expectations of an aggressive Fed and impact of higher interest rates on global growth. The sell-off in US equities spilled over to other developed markets with European equities suffering the most. Emerging market equities also came under pressure, tracking the risk-off sentiment globally. However, with the dollar weakening, the decline in emerging market equities was limited. The sell-off in equities and risk-off mode led to investors repositioning into the US treasury markets and also other safe-haven assets. As a result, the 10-year US treasury yield moved lower while gold prices rose and the yen weakened on increased safe-haven appetite. The soft US CPI release was also one of the factors driving US treasury yield lower. The global sell-off and decline in US yields dragged bond yields in Europe lower. Elsewhere, oil prices dropped from the four-year high on increased equity market volatility and global growth concerns.

More correction likely but its important to stay calm

Last week's correction in equity markets is a reminder that spike in volatility is normal and investors should not be excessively scared of normality. In our view, *the current correction of the US equity market is the logical adjustment to the upward shift of the US yield curve*. This process might take more time, and in the short term the US equity market might further correct. Critically, however, US general credit conditions are likely to remain favourable through 2019, and a recession is therefore unlikely before 2020. This carries the implication that the current turmoil is not the prelude to a new bear market. Should the US equity market correct another 10% from current levels, we will consider deploying current cash holdings to further raise our current US equity overweight, and as a result move the global equity asset class from neutral to overweight. On the other hand, as long as the US dollar continues to strengthen, we do not yet see any reason to upgrade Emerging Market and European equities.

In terms of economic data, focus will be on the FOMC meeting minutes, however, we do not expect any shift in language given the Fed members have been clear in providing their stance on the economy and policy rates. In emerging markets, all eyes will be on the China 3rd quarter GDP release which is expected to show that growth subsided from the previous quarter.

Past week global markets' performance

Index Snapshot (World Indices)

Index	Latest	Weekly Chg %	YTD %
S&P 500	2,767.1	-4.1	3.5
Dow Jones	25,340.0	-4.2	2.5
Nasdaq	7,496.9	-3.7	8.6
DAX	11,523.8	-4.9	-10.8
Nikkei 225	22,694.7	-4.6	-0.3
FTSE 100	6,995.9	-4.4	-9.0
Sensex	34,733.6	1.0	2.0
Hang Seng	25801.5	-2.9	-13.8
Regional Markets (Sunday to Thursday)			
ADX	4967.8	-0.5	12.9
DFM	2755.3	-1.2	-18.2
Tadawul	7530.8	-4.6	4.2
DSM	9861.5	0.1	15.7
MSM30	4489.76	-0.6	-12.0
BHSE	1316.0	-0.6	-1.2
KWSE	5065.8	-0.8	-
MSCI			
MSCI World	2,063.4	-4.1	-1.9
MSCI EM	980.1	-2.1	-15.4

Global Commodities, Currencies and Rates

Commodity	Latest	Weekly Chg %	YTD %
ICE Brent USD/bbl	80.4	-4.4	20.3
Nymex WTI USD/bbl	71.3	-4.0	18.1
Gold USD/t oz	1217.1	1.1	-6.6
Silver USD/t oz	14.6	-0.4	-13.9
Platinum USD/t oz	838.3	1.9	-9.7
Copper USD/MT	6325.0	2.3	-11.6
Alluminium	2034.5	-4.6	-9.9
Currencies			
EUR USD	1.1560	0.3	-3.7
GBP USD	1.3153	0.3	-2.7
USD JPY	112.21	-1.3	-0.4
CHF USD	0.9929	0.1	-1.9
Rates			
USD Libor 3m	2.4364	1.2	43.8
USD Libor 12m	2.9634	0.2	40.6
UAE Eibor 3m	2.7013	4.1	50.5
UAE Eibor 12m	3.4434	2.8	33.6
US 3m Bills	2.2630	2.4	64.5
US 10yr Treasury	3.1613	-2.2	31.4

Summary market outlook

Bonds	
Global Yields	The 10-year US Treasuries yields declined on safe-have appetite and soft inflation reading. Overall, we expect the 10-year yield to remain consolidated below 3% as further uptick in yields will only trigger a buying opportunity for long-duration fixed income investors.
Stress and Risk Indicators	The VIX levels jumped in line with the sell-off in the equity market. However, we believe that volatility is unlikely to remain low given the backdrop of markets' fear of central bank policy normalization and trade tensions.
Equity Markets	
Local Equity Markets	GCC markets suffered losses, tracking the sell-off trend globally and on account of increased regional tensions. We remain neutral on GCC equities given the potential for further dollar strength and range-bound oil prices, but we maintain our overweight call on Saudi equities.
Global Equity Markets	Global equities fell sharply, with the sell-off sparked by the decline in US equities amidst concerns that rising bond yields and Fed tightening could impact the current growth trajectory. However, European equities declined the most and were the worst performers last week. Emerging equities also suffered, yet the sell-off was limited as the dollar weakened against majority of the currencies. Overall, we believe that with the upward adjustment in interest rates, we could witness more equity market corrections in the short-term. We remain neutral on global stocks and underweight on emerging stocks as the global risk reward trade-off continues to deteriorate with cooling global growth, higher US rates and a stronger US dollar.
Commodities	
Precious Metals	Gold prices jumped higher as investors rushed into safe-haven assets amidst increased market volatility. We remain overweight on gold as a risk hedge against ongoing political and (potential) inflationary risks.
Energy	Oil prices declined sharply on the back of the equity market sell-off and concerns on global growth slowdown. Overall the oil price is likely to remain sustained as the market is roughly balanced, supported by OPEC 2.0. discipline and Iran related geopolitical tensions might even trigger temporary spikes.
Industrial Metals	Industrial metals were mixed even though the dollar weakened. We do not recommend industrial metals exposure as China reigns in demand.
Currencies	
EURUSD	The euro ended flat versus the dollar. We expect the euro to remain under pressure due to the diverging monetary policies between the Fed and the ECB.
GBPUSD	The pound was mostly unchanged versus the greenback. Whilst we see the pound sterling at some point recovering with the UK staying in the EU in all but name, it will for now remain under pressure due to political uncertainty, economic weakness and Brexit negotiations.
USDJPY	The yen strengthened versus the dollar on the back of increased safe-haven appetite. We believe there will remain a bias for yen strength as emerging markets concerns will not abate soon.

Critical levels:

	R2	R1	S1	S2
EURUSD	1.1644	1.1602	1.1526	1.1492
GBPUSD	1.3296	1.3225	1.3114	1.3076
USDJPY	112.84	112.53	111.86	111.52

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
10/15/2018	Retail Sales Advance MoM	Sep	0.60%	0.10%	FOMC meeting minutes in focus this week.
10/16/2018	Capacity Utilization	Sep	78.20%	78.10%	
10/16/2018	NAHB Housing Market Index	Oct	67	67	
10/17/2018	MBA Mortgage Applications	12-Oct	--	-1.70%	
10/17/2018	Housing Starts	Sep	1210K	1282K	
10/17/2018	Housing Starts MoM	Sep	-5.60%	9.20%	
10/17/2018	FOMC Meeting Minutes	12-Sep	--	--	

Japan

	Indicator	Period	Expected	Prior	Comments
10/15/2018	Industrial Production MoM	Aug F	--	0.70%	Trade balance will be important.
10/18/2018	Trade Balance	Sep	-¥43.3b	-¥444.6b	
10/19/2018	Natl CPI Ex Fresh Food YoY	Sep	1.00%	0.90%	

Eurozone

	Indicator	Period	Expected	Prior	Comments
10/17/2018	CPI Core YoY	Sep F	0.90%	0.90%	All eyes on inflation release.
10/17/2018	CPI YoY	Sep F	2.10%	2.00%	
10/19/2018	ECB Current Account SA	Aug	--	21.3b	

United Kingdom

	Indicator	Period	Expected	Prior	Comments
10/15/2018	Rightmove House Prices MoM	Oct	--	0.70%	Attention will be on CPI and retail sales.
10/17/2018	CPI YoY	Sep	2.60%	2.70%	
10/17/2018	RPI YoY	Sep	3.50%	3.50%	
10/18/2018	Retail Sales Ex Auto Fuel YoY	Sep	3.80%	3.50%	

China and India

	Indicator	Period	Expected	Prior	Comments
10/15/2018	Wholesale Prices YoY (IN)	Sep	5.00%	4.53%	In China, all eyes will be on GDP release. In India, WPI will be important.
10/15/2018	Exports YoY (IN)	Sep	--	19.20%	
10/16/2018	CPI YoY (CH)	Sep	2.50%	2.30%	
10/19/2018	GDP YoY (CH)	3Q	6.60%	6.70%	
10/19/2018	Retail Sales YoY (CH)	Sep	9.00%	9.00%	
10/19/2018	Industrial Production YoY (CH)	Sep	6.00%	6.10%	

Sources

All information in this report has been obtained from the following sources except where indicated otherwise:

1. Bloomberg
2. Wall Street Journal
3. RTTNews
4. Reuters
5. Gulfbase
6. Zawya
7.

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