

The Weekly Market View

October 28 2019

A pro-cyclical environment

Financial markets continued to dance to a pro-cyclical tune. 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. Especially over the past week, equity markets continued to perform strongly in absence of material bad news – at both macro and micro level. Whilst the markets moved higher gradually over the week, intraday volatility remained significant – this to us, highlights the fragile sentiment of equity investors and does not come as a surprise given the rather light positioning into the asset class. Corporate earnings season underway showed that earnings are not as bad as feared. As a result, US equities (S&P 500) neared their all-time high and European markets are at year highs. European equities and Japanese equities outperformed US equities over the week. In the bond market, yields continued to rise. The UST 10Y yields rose through the week but remained volatile. Positive German data (IFO business sentiment showed stabilisation) meant a small rise in bund yields. Yield curves continued to steepen. In commodities while oil prices rose (as the demand concerns were offset by supply limitations), precious metals held to their year-to-date gains. FX moves were determined by a range of factors. Whilst a broader USD strength was noted across the board, the reasons for individual moves differed in our view. For example, EUR and GBP weakened against the USD on Brexit related risks while the JPY depreciated against USD on a weaker safe-haven bid.

Trick or treat

Over the course of next week, there are considerable number of important events and a plenty of data releases which can either trick or treat investors. At the time of writing this report, 31 October remains the deadline for the UK to leave the EU. Chinese communist party plenum along with the interest rate decisions from the US Fed and Bank of Japan are likely to provide clarity on future policy. Progress on US-China trade talks will be monitored too. In terms of the data, consumer confidence from the US and Europe, job market data in the US, ISM manufacturing data in the US along with Chinese PMI are likely to provide a quick assessment of the health of the global economy. After a decent start, earnings season will remain key.

We believe that the pro-cyclical environment will likely continue in the near-term. Global manufacturing cycle should find a cyclical bottom supported by improvement in automobiles and electronics cycle. Monetary policy should continue to remain supportive. Stable to weaker USD should help risk-sentiment. Earnings, which are 'not as bad as feared', should support equity markets. Inexpensive valuations and light positioning should help buffer equity markets on the downside. However, looking beyond this pro-cyclical bounce, the focus of the markets should shift back to the longevity of the current US economic expansion and political risks arising from the US Presidential elections next year. For details of our Investment Strategy and our asset allocation, see [Quarterly Investment View, October 2019](#).

Global markets' performance snapshot

Index Snapshot (World Indices)

Index	Latest	Weekly %	YTD %
S&P 500	3,023	1.2	22.5
Dow Jones	26,958	0.7	17.8
Nasdaq	8,243	1.9	24.2
DAX	12,895	2.1	22.1
Nikkei 225	22,800	1.4	13.9
FTSE 100	7,324	2.4	8.9
Sensex	39,058	-0.6	8.3
Hang Seng	26,667	-0.2	3.2

Regional Markets (Sunday to Thursday)

ADX	5,163	1.4	5.0
DFM	2,784	0.1	10.1
Tadawul	7,913	3.6	1.1
DSM	10,378	-0.5	0.8
MSM30	3,990	-0.4	-7.7
BHSE	1,526	0.0	14.1
KWSE	5,768	0.0	13.6

MSCI

MSCI World	2,216	1.3	18.0
MSCI EM	1,037	1.2	7.3

Global Commodities, Currencies and Rates

Commodity	Latest	Weekly %	YTD %
ICE Brent USD/bbl	62.0	4.4	15.3
Nymex WTI USD/bbl	56.7	5.4	24.8
Gold USD/t oz	1,504.6	1.0	17.4
Silver USD/t oz	18.0	2.8	16.5
Platinum USD/t oz	925.8	4.0	16.4
Copper USD/MT	5,867.5	2.0	-1.6
Alluminium	1,733.5	-0.7	-4.9

Currencies

EUR USD	1.11	-0.8	-3.2
GBP USD	1.28	-1.2	0.6
USD JPY	108.67	0.2	-0.9
CHF USD	0.99	0.9	-1.2

Rates

USD Libor 3m	1.93	-1.3	-31.3
USD Libor 12m	1.96	-1.6	-34.9
UAE Eibor 3m	2.27	2.2	-20.1
UAE Eibor 12m	2.39	7.2	-33.2
US 3m Bills	1.66	0.3	-29.5
US 10yr Treasury	1.79	2.3	-33.2

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Summary market outlook

Global Yields

In the bond market, yields continued to rise. The UST 10Y yields rose through the week but remained volatile. Positive German data (IFO business sentiment showed stabilisation) meant a small rise in bund yields. Yield curves continued to steepen. 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

VIX fell over the past week as markets watched macro and micro risks across the globe. 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 were mixed last week. Saudi equities however performed strongly on news that the initial public offering (IPO) of the Saudi Arabian Oil Company (Saudi Aramco) will be delayed. 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 continued to perform strongly in absence of material bad news – at both macro and micro level. Whilst the markets moved higher gradually over the week, intraday volatility remained significant. 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 metals held to their year-to-date gains. We remain overweight gold as a risk hedge against ongoing political and (potential) inflationary risks.

Energy

Oil prices rose during the week, further strengthening their year-to-date gains. Overall the oil price is likely to remain sustained as the market is roughly balanced.

Industrial Metals

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

Currencies

EURUSD

The euro weaken versus the greenback. 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 weakened against 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
10/28/2019	Chicago Fed Nat Activity Index	Sep	0.05	0.1	
10/28/2019	Wholesale Inventories MoM	Sep P	0.30%	0.20%	
10/30/2019	MBA Mortgage Applications	25- Oct		-11.90%	
10/30/2019	GDP Annualized QoQ	3Q A	1.60%	2.00%	
10/30/2019	FOMC Meeting	30- Oct	25bp cut		Focus will be on FOMC. Also, initial jobless claims and ISM will be important.
10/31/2019	Initial Jobless Claims	212K	215K	96	
11/01/2019	Change in Nonfarm Payrolls	Oct	90K	136K	
11/01/2019	Unemployment Rate	Oct	3.60%	3.50%	
11/01/2019	Markit Manufacturing PMI	Oct F	51.5	51.5	

Japan



	Indicator	Period	Expected	Prior	Comments
10/29/2019	CPI YoY	Oct	0.70%	0.40%	
10/29/2019	CPI Ex-Fresh Food, Energy YoY	Oct	0.70%	0.60%	
10/31/2019	BoJ MPC Meeting	31- Oct	No change		All eyes will be on BoJ Meeting.
11/01/2019	Jobless Rate	Sep	2.20%	2.20%	
11/01/2019	Jibun Bank PMI Mfg	Oct F		48.5	

Eurozone



	Indicator	Period	Expected	Prior	Comments
10/30/2019	CPI YoY (GE)	Oct P	1.10%	1.20%	
10/31/2019	GDP SA QoQ	3Q A	0.10%	0.20%	Attention will be on Eurozone CPI.

United Kingdom



	Indicator	Period	Expected	Prior	Comments
10/29/2019	Nationwide House Px NSA YoY	Oct	0.30%	0.20%	
11/01/2019	Markit PMI Manufacturing SA	Oct	48.3	48.3	UK Manufacturing PMI will be important.

China and India



	Indicator	Period	Expected	Prior	Comments
10/31/2019	Manufacturing PMI (CH)	Oct	49.8	49.8	
11/01/2019	Caixin PMI Mfg (CH)	Oct	51	51.4	Focus will be on China and India Manufacturing PMI.
11/01/2019	Markit PMI Mfg (IN)	Oct		51.4	

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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