The Weekly Market Note

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Global equity markets remain under pressure

Global equity markets experienced a major correction last week mainly on account of some disappointments in the US tech sector and growing fears of a China-induced global growth slowdown. The global market sell-off was triggered by US equities which reversed their year-to-date return into the negative territory due to down-beating results from the technology sector. Two major technology companies including Apple and Alphabet reported a slowdown in their third quarter revenues, missing market expectations. In spite of their earnings meeting expectations, revenue misses led to increasing doubts about continued corporate profitability going into 2019. Even though the US Company earnings reported so far have been nothing but robust, market sentiment seems to be overcrowded by other concerns including China growth slowdown risks and tighter Fed path. Investors even ignored the robust growth numbers for the third quarter coming out of US last week. The advance print of 3Q US GDP rose by 3.5%, higher than market expectation and driven by strong consumption demand. The US dollar strengthened versus other major currencies, boosted by strong economic data. The yen was the only exception though, which advanced due to increased safe-haven appetite. On the other hand, inflation expectations dropped in reaction to the disappointing core PCE release, thus pushing the 10-year US treasury yields lower. Increase in stock market volatility also boosted appetite for safe-haven assets. Elsewhere, oil prices extended their declines for the third consecutive week, mainly on concerns of a possible increase in OPEC production next year. GCC markets, however, remained relatively resilient especially when compared with global markets.

US labour market releases in focus

In the upcoming week, market attention will be on the US labour market data releases and also on China PMI data. Markets are likely to remain nervous. If over the past weeks growth concerns appear to have been dominant, there is a chance that wages rising above 3% on a year-over-year basis, and the job market creating almost 200'000 new jobs, might once more foster concerns that the Federal Reserve will hike too fast and thereby induce a growth slowdown. We think that these concerns are overdone and, given overall credit conditions in the US, we are unlikely to see a recession in the US anytime soon. As such, the market is right now going through a correction, also because of the upward shift in the yield curve. We see some further downside, but not the beginning of a bear market. As for China, we do not expect major stimulus. The country's economy is likely to further slow. A major devaluation is unlikely, but the renminbi is likely to remain weak. Slower growth in China and a stronger US dollar means that emerging markets will overall remain under pressure.

Past week global markets' performance

Index Snapshot (World Indices)

Index	Latest	Weekly Chg %	YTD %
S&P 500	2,658.7	-3.9	-0.6
Dow Jones	24,688.3	-3.0	-0.1
Nasdaq	7,167.2	-3.8	3.8
DAX	11,200.6	-3.1	-13.3
Nikkei 225	21,184.6	-6.0	-6.9
FTSE 100	6,939.6	-1.6	-9.7
Sensex	33,349.3	-2.8	-2.1
Hang Seng	24717.6	-3.3	-17.4
Regional Markets (Sunday to Thursday)			
ADX	4882.3	-1.2	11.0
DFM	2736.4	0.0	-18.8
Tadawul	7835.6	2.3	8.4
DSM	10153.4	-0.0	19.1
MSM30	4452.91	-0.0	-12.7
BHSE	1315.5	-0.5	-1.2
KWSE	5039.6	0.8	-
MSCI			
MSCI World	1,981.9	-3.9	-5.8
MSCI EM	939.6	-3.3	-18.9

Global Commodities, Currencies and Rates

Commodity	Latest	Weekly Chg %	YTD %
ICE Brent USD/bbl	77.6	-2.7	16.1
Nymex WTI USD/bbl	67.6	-2.2	11.9
Gold USD/t oz	1233.5	0.6	-5.3
Silver USD/t oz	14.7	0.5	-13.2
Platinum USD/t oz	832.7	0.2	-10.3
Copper USD/MT	6159.0	-0.5	-13.9
Alluminium	1994.25	-0.8	-11.7
Currencies			
EUR USD	1.1403	-1.0	-5.0
GBP USD	1.2828	-1.9	-5.1
USD JPY	111.91	-0.6	-0.7
CHF USD	0.9970	0.1	-2.3
Rates			
USD Libor 3m	2.5204	1.7	48.8
USD Libor 12m	3.0568	1.2	45.1
UAE Eibor 3m	2.6788	1.3	49.2
UAE Eibor 12m	3.4772	0.1	34.9
US 3m Bills	2.3193	0.7	68.6
US 10yr Treasury	3.0755	-3.7	27.9

Summary market outlook

Bonds	
Global Yields	The 10-year US Treasuries yields moved lower on increased safe-haven appetite and disappointing inflation numbers. 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. 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 stabilized further while geopolitical tensions took a backseat. 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 remained under selling pressure, with the sell-off first triggered by US stocks. Risk-off sentiment took over on account of concerns over global growth and a tighter Fed policy. Emerging markets, particularly Asian equities suffered the most on fears of China growth slowdown risks. Overall, we believe that with any 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 ended higher in spite of stronger dollar bias. 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 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 remained under pressure with China growth concerns weighing on the sentiment. We do not recommend industrial metals exposure as China reigns in demand.
Currencies	
EURUSD	The euro depreciated versus the dollar. We expect the euro to remain under pressure due to the diverging monetary policies between the Fed and the ECB.
Critical levels	R2 1.1472 · R1 1.1437 · S1 1.1352 · S2 1.1301
GBPUSD	The pound weakened 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.
Critical levels	R2 1.2880 · R1 1.2854 · S1 1.2790 · S2 1.2751
USDJPY	The yen strengthened versus the dollar on 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 113.28 · R1 112.60 · S1 111.30 · S2 110.69

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
10/31/2018	MBA Mortgage Applications	26-Oct	--	4.90%	Eyes will be on MBA mortgage applications, US PMI, and trade balance.
11/01/2018	Initial Jobless Claims	27-Oct	212K	215K	
11/01/2018	Markit Manufacturing PMI	Oct F	55.8	55.9	
11/02/2018	Trade Balance	Sep	-$53.6b	-$53.2b	
11/02/2018	Change in Nonfarm Payrolls	Oct	193K	134K	
11/02/2018	Unemployment Rate	Oct	3.70%	3.70%	
11/02/2018	Factory Orders	Sep	0.50%	2.30%	
11/02/2018	Durable Goods Orders	Sep F	--	0.80%	

Japan

	Indicator	Period	Expected	Prior	Comments
10/30/2018	Jobless Rate	Sep	2.40%	2.40%	Manufacturing PMI data will be important.
10/31/2018	Industrial Production MoM	Sep P	-0.30%	0.20%	
11/01/2018	Nikkei PMI Mfg	Oct F	--	53.1	

Eurozone

	Indicator	Period	Expected	Prior	Comments
10/30/2018	GDP SA QoQ	3Q A	0.30%	0.40%	Eurozone CPI will be important.
10/30/2018	Consumer Confidence	Oct F	-2.7	-2.7	
10/30/2018	CPI YoY (GE)	Oct P	2.40%	2.30%	
10/31/2018	Retail Sales YoY (GE)	Sep	1.00%	1.60%	
11/02/2018	Markit Manufacturing PMI	Oct F	52.1	52.1	

United Kingdom

	Indicator	Period	Expected	Prior	Comments
11/01/2018	Nationwide House PX MoM	Oct	0.20%	0.30%	Attention will be on BoE meeting.
11/01/2018	Markit PMI Manufacturing SA	Oct	53	53.8	
11/01/2018	BOE Asset Purchase Target	Nov	435b	435b	
11/01/2018	BOE Corporate Bond Target	Nov	10b	10b	

China and India

	Indicator	Period	Expected	Prior	Comments
10/31/2018	Manufacturing PMI (CH)	Oct	50.6	50.8	All eyes will be on China November releases for Caxin PMI. In India, focus will be on Nikkei PMI.
11/01/2018	Caixin PMI Mfg (CH)	Oct	50	50	
11/01/2018	Nikkei PMI Mfg (IN)	Oct	--	52.2	

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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