The Weekly Market View

September 16 2019

ADCB ASSET MANAGEMENT LIMITED

De-escalation leads to rotation

Global risk assets had another stellar week, recording weekly gains for the third consecutive week. Trade developments continued to steer in the positive direction as China announced to exempt 16 types of US imports from tariffs followed by the US which also postponed the increase in tariffs on some of the Chinese imports. These actions from both the sides only further added to the possibility of a trade truce ahead of the face-to-face meeting scheduled in October. In addition to trade optimism, economic indicators in the US surprised on the upside. Retail sales rose for month of August while core inflation also advanced, both indicators beating market expectations and further advocating the signs of consumer strength in the US economy. Improving economic data pared market expectations of an aggressive Fed policy rate at the upcoming FOMC meeting. Amidst the positive market mood, there was clear rotation into risk assets, out of the safe-have assets with shift in preference also visible for cyclical stocks over defensive and value stocks over growth. On the other hand, global bond yields rallied with the ECB's less dovish forward guidance being an important catalyst, in addition to the trade optimism. Core European bond yields jumped, in spite of the ECB reducing the deposit rate by 10bp and announcing a fresh round of bond purchases, as the central bank stressed on the need of fiscal stimulus rather than monetary policy dependency to stimulate growth in the region. 10yr US Treasury yields rose to the highest level in six weeks while the euro advanced while the dollar weakened. At the same, gold prices declined amidst the risk-on mood while industrial metals rose.

Warm up to a weaker dollar?

An increase in US treasury yields along with a jump in industrial metal prices are signs of geopolitical risks waning. While these risks remain, recent trade truce only makes it evident that President Trump is now slowly shifting his focus towards the US economic cycle ahead of the 2020 election and hence, likely to de-escalate his trade rhetoric in the coming weeks. Apart from trade de-escalation, Fed easing will also remain on cards. The Fed, will continue to err on the side of caution and unlike the ECB, could remain on the easing mode at least until end of this year amidst the trade uncertainty and softness in economic growth. US yield curve inversion, a well-known recession flag, poses a challenge for the Fed and the central bank will be keen to avoid a prolonged yield curve inversion by reducing the short-term rates. Fed easing and Mr Draghi's latest move together are building prospects of dollar weakness in the coming few months. With the bond yields bottoming at the end of the last week, trade optimism taking over and increasing prospects of dollar weakness, we expect there will be an increasing preference for risk assets and within risk assets, there will be shift in preference for the cyclical and value stocks, at least through 2019. But, from an overall asset allocation perspective, we still feel comfortable to stick to our risk-adjusted strategy i.e. "barbell with quality tilt"- overweight US equities with a combination of overweight on US treasuries, gold and cash.

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Gobal markets' performance snapshot

Index Snapshot (World Indices)

Index	Latest	Weekly Chg %	YTD %
S&P 500	3,007	1.0	20.0
Dow Jones	27,220	1.6	16.7
Nasdaq	8,177	0.9	23.2
DAX	12,469	2.3	18.1
Nikkei 225	21,988	3.7	9.9
FTSE 100	7,367	1.2	9.5
Sensex	37,385	1.1	3.7
Hang Seng	27,353	2.5	5.8
Regional Markets (Sunday to Thursday)			
ADX	5,096	-0.4	3.2
DFM	2,888	-0.1	13.2
Tadawul	7,832	-2.8	0.1
DSM	10,462	2.0	1.1
MSM30	4,020	0.6	-6.9
BHSE	1,547	-0.3	14.6
KWSE	5,746	-3.5	12.0
MSCI			
MSCI World	2,202	1.2	17.1
MSCI EM	1,022	1.9	6.3

Global Commodities, Currencies and Rates

Commodity	Latest	Weekly Chg %	YTD %
ICE Brent USD/bbl	60.2	-2.1	11.9
Nymex WTI USD/bbl	54.9	-3.0	20.8
Gold USD/t oz	1,488.5	-1.2	16.1
Silver USD/t oz	17.4	-4.0	12.6
Platinum USD/t oz	948.6	-0.3	19.3
Copper USD/MT	5,870.0	1.4	-1.6
Alluminium	1,777.3	0.5	-2.5
Currencies			
EUR USD	1.11	0.4	-3.3
GBP USD	1.25	1.8	-1.9
USD JPY	108.09	1.1	-1.5
CHF USD	0.99	0.3	-0.8
Rates			
USD Libor 3m	2.14	0.2	-23.8
USD Libor 12m	2.05	5.1	-31.8
UAE Eibor 3m	2.31	0.6	-18.4
UAE Eibor 12m	2.44	-2.3	-31.7
US 3m Bills	1.96	0.4	-16.9
US 10yr Treasury	1.90	21.5	-29.4

Summary market outlook

Global Yields	Global bond yields jumped higher on trade optimism and ECB's less dovish forward guidance. The 10yr US Treasury yields rose to the highest level in six weeks, also on account of upbeat US economic data. Market expectations of an aggressive Fed rate cut reduced. Overall, we believe that the long-term US rates will remain in line with the Fed's target Fed fund rate. In Europe, non-core bonds spread tightening versus the core bonds in reaction to the ECB meeting. This trend is likely to continue given the overpricing of ECB rate cuts in the core bonds.
Stress and Risk Indicators	VIX remained low amidst the rally in the equity market. 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 market performance was negative last week, while equities in Oman posted weekly gains. 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. We also prefer banks in the regional context.
Global Equity Markets	Global equities ended the week in the positive territory on the back of trade optimism. Japanese stocks outperformed the most followed by European equities. Overall, we remain neutral on equities with an overweight on US and underweight EU and EM (but with selective exposure to India, Brazil and South Africa).
Commodities	
Precious Metals	Gold prices remain under pressure amidst the risk-on mood. We remain overweight gold as a risk hedge against ongoing political and (potential) inflationary risks.
Energy	Oil prices ended the week lower on reports that the OPEC is not planning to deepen supply cuts in December. Overall the oil price is likely to remain sustained as the market is roughly balanced.
Industrial Metals	Industrial metals performed well, with copper leading the rally. We do not recommend industrial metals exposure as China reigns in demand.
Currencies	
EURUSD	The euro strengthened against the US dollar in reaction to the ECB's move. We expect the euro to remain stable.
Critical levels	R2 1.1133 · R1 1.1103 · S1 1.1049 · S2 1.1026
GBPUSD	The pound sterling appreciated against the US dollar as fear of no-deal eased further. We expect the cable to be stable with Pound sterling likely to follow the euro rather than USD.
Critical levels	R2 1.2624 · R1 1.2562 · S1 1.2384 · S2 1.2266
USDJPY	The yen weakened against the dollar amidst the risk-on sentiment. BoJ yield curve targeting should put continuing downward pressure on the yen.
Critical levels	R2 108.44 · R1 108.26 · S1 107.91 · S2 107.73

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
09/17/2019	Industrial Production MoM	Aug	0.20%	-0.20%	FOMC meeting will be the main focus.
09/17/2019	Capacity Utilization	Aug	77.60%	77.50%	
09/17/2019	NAHB Housing Market Index	Sep	66	66	
09/18/2019	MBA Mortgage Applications	13- Sep		2.00%	
09/18/2019	Housing Starts MoM	Aug	4.70%	-4.00%	
09/18/2019	FOMC Meeting	18- Sep	25bp cut		
09/19/2019	Initial Jobless Claims	14- Sep	212K	204K	
09/19/2019	Existing Home Sales MoM	Aug	-0.90%	2.50%	

Japan

	Indicator	Period	Expected	Prior	Comments
09/18/2019	Exports YoY	Aug	-10.10%	-1.60%	Attention will be on the BoJ MPC meeting.
09/19/2019	All Industry Activity Index MoM	Jul		-0.80%	
09/19/2019	BoJ MPC Meeting	19- Sep	No Change		
09/20/2019	Natl CPI YoY	Aug	0.30%	0.50%	
09/20/2019	Natl CPI Ex Fresh Food, Energy YoY	Aug	0.50%	0.60%	

Eurozone

	Indicator	Period	Expected	Prior	Comments
09/18/2019	CPI YoY	Aug	1.90%	2.00%	CPI releases will be important.
09/18/2019	CPI Core YoY	Aug F	0.90%	0.90%	
09/20/2019	PPI YoY (GE)	Aug	0.60%	1.10%	
09/20/2019	Retail Sales MoM	Jul	0.60%	0.00%	

United Kingdom

	Indicator	Period	Expected	Prior	Comments
09/16/2019	Rightmove House Prices MoM	Sep		-1.00%	All eyes will be on the BoE meeting.
09/18/2019	CPI YoY	Aug	1.90%	2.10%	
09/18/2019	CPI Core YoY	Aug	1.80%	1.90%	
09/19/2019	BoE MPC meeting		No change		
09/19/2019	Retail Sales Ex Auto Fuel MoM	Aug	-0.30%	0.20%	

China and India

	Indicator	Period	Expected	Prior	Comments
09/16/2019	Wholesale Prices YoY (IN)	Aug	0.98%	1.08%	India WPI will be important.

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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