## Markets stabilize for the second week

*Equity markets posted gains for the second consecutive week as geopolitical tensions eased. The stock markets which were most under pressure during the recent turmoil - European equities and Japanese equities - recorded the largest weekly gains. As tensions over Syria receded with no response from Russia, economic data and strong corporate earnings results to* Strong earnings are likely to have the better over an uptick in the short end of the yield curve. The major headwind for US equities are indisputably concerns about a trade war between the United States and China. Through November 2018 these concerns are likely not to fade and, as a result, we are likely going to see a rather volatile equity market. On the other hand, the upside for US companies is that successful negotiations might eventually lead to more market access in China. With economic growth in the US again doing better than in most other countries, and with overall financial conditions beneficial in spite of the Federal Reserve hiking rates, US equities still make sense.
*ok precedence. Retail sales in US finally rose in March, putting an end to a three-month streak of declines. The week also saw earning reports from 69 companies from the S&P 500 universe with earnings of 80% of these companies surpassing market expectations (Factset). Strong oil gains also led to the outperformance of the energy stocks last week. WTI crude and Brent crude, both hit new three-year record highs, mainly driven by reports that US crude inventories declined by 1.1mln barrels. Investors' concerns over the possible impact on global supply if sanctions were imposed on Venezuela and Iran also pushed oil prices higher. The dollar finally recorded its first weekly gains since December as the jump in oil prices spurred a rise in inflation expectations. Increased inflation expectations pushed the long-term US treasury yields higher with the 10-year yield rising above 2.95% while the yield curve steepened. Demand for other safe-havens like gold and yen was also subdued.*

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## US GDP, ECB and FAANGs corporate earnings to dominate this week

*Last week's risk on sentiment is likely to be continue this week too especially with the US signalling to resolve trade disputes amidst IMF warnings of financial risks arising from trade war threats. Nevertheless, it is still difficult to completely rule out any political noise ahead of the looming mid-term US elections and approaching deadline for US steel and aluminium exemptions (May 1st) and for domestic consulting period on China tariffs (May 21). For this week, the market's attention will move to monetary policy meetings in Europe and Japan. The ECB is scheduled to meet this Thursday and no change is expected, but markets will nonetheless be looking for any signs of a shift in stimulus plans. We expect a dovish bias given the recent subdued trend in inflation and softness in PMI indicators. Similarly, no policy change is expected from the BoJ on Friday, but the bank may revise down its outlook on economic growth and inflation in its quarterly outlook publication. Preliminary readings of the first-quarter GDP in the US, Europe and the UK will be closely watched by the markets. As for corporate earnings, the market's attention will be on the famous FAANG stocks. After strong earnings reported by Netflix last week, investor interest will be focused on Facebook earnings this Wednesday, especially after the recent slump in the stock amidst the privacy scandal. Google and Amazon will post their results on Monday and Thursday respectively, and will also be in the spotlight.*

## Past week global markets' performance

| Index Snapshot (World Indices) | | | |
|---|---|---|---|
| **Index** | **Latest** | **Weekly Chg %** | **YTD %** |
| S&P 500 | 2,670.1 | 0.5 | -0.1 |
| Dow Jones | 24,462.9 | 0.4 | -1.0 |
| Nasdaq | 7,146.1 | 0.6 | 3.5 |
| DAX | 12,540.5 | 0.8 | -2.9 |
| Nikkei 225 | 22,162.2 | 1.8 | -2.6 |
| FTSE 100 | 7,368.2 | 1.4 | -4.2 |
| Sensex | 34,415.6 | 0.7 | 1.1 |
| Hang Seng | 30418.3 | -1.3 | 1.7 |
| **Regional Markets (Sunday to Thursday)** | | | |
| ADX | 4706.6 | 0.2 | 7.0 |
| DFM | 3082.1 | -2.2 | -8.5 |
| Tadawul | 8277.1 | 3.8 | 14.5 |
| DSM | 9196.6 | 3.4 | 7.9 |
| MSM30 | 4759.65 | -0.4 | -6.7 |
| BHSE | 1301.4 | 0.7 | -2.3 |
| KWSE | - | - | - |
| **MSCI** | | | |
| MSCI World | 2,099.7 | 0.5 | -0.2 |
| MSCI EM | 1,168.2 | -0.2 | 0.8 |

| Global Commodities, Currencies and Rates | | | |
|---|---|---|---|
| **Commodity** | **Latest** | **Weekly Chg %** | **YTD %** |
| ICE Brent USD/bbl | 74.1 | 2.0 | 10.8 |
| Nymex WTI USD/bbl | 68.4 | 1.5 | 13.2 |
| Gold USD/t oz | 1336.4 | -0.7 | 2.6 |
| Silver USD/t oz | 17.1 | 2.8 | 1.1 |
| Platinum USD/t oz | 926.4 | -0.5 | -0.2 |
| Copper USD/MT | 6939.0 | 1.6 | -3.0 |
| Alluminium | 2485 | 8.5 | 10.0 |
| **Currencies** | | | |
| EUR USD | 1.2288 | -0.3 | 2.4 |
| GBP USD | 1.4000 | -1.7 | 3.6 |
| USD JPY | 107.66 | 0.3 | -4.7 |
| CHF USD | 0.9746 | 1.3 | -0.0 |
| **Rates** | | | |
| USD Libor 3m | 2.3592 | 0.3 | 39.2 |
| USD Libor 12m | 2.7603 | 1.1 | 31.0 |
| UAE Eibor 3m | 2.4467 | 0.3 | 36.3 |
| UAE Eibor 12m | 3.1238 | 2.8 | 21.2 |
| US 3m Bills | 1.7997 | 2.9 | 30.8 |
| US 10yr Treasury | 2.9602 | 4.7 | 23.1 |

*Please refer to the disclaimer at the end of this publication*

## Summary market outlook

### Bonds

**Global Yields**

Long-end US Treasury yields edged higher, moving above 2.95% as inflation expectations rose with the jump in oil prices. Overall, we expect 10-year yield to consolidate 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 index was mostly unchanged as investors still remained a bit cautious as equity markets stabilised. Volatility is unlikely to decline significantly given the backdrop of markets' fear of central bank policy normalization and geopolitical concerns.

### Equity Markets

**Local Equity Markets**

Majority of the GCC equity indices ended the week in the positive territory on account of sharp jump in oil prices with Saudi stocks outperforming the most. We remain neutral on GCC equities given the potential for further dollar strength and range-bound oil prices. We maintain our tactical call on Saudi equities on the back of their inclusion onto the MSCI watch list for potential promotion into the MSCI Emerging Markets index.

**Global Equity Markets**

Global equities stabilised for the second week in a row as focus shifted towards corporate earnings and economic data. Japanese equities and European equities benefitted the most from the further ease in geopolitical concerns and relatively stronger dollar. Energy stocks were one of the best performers with the surge in oil prices boosting sentiment. Overall, strong economic fundamentals along with robust corporate earnings growth support our overweight stance on equities.

### Commodities

**Precious Metals**

Gold prices slightly fell with ease in geopolitical tensions. We remain overweight on gold as a risk hedge against ongoing political and (potential) inflationary risks.

**Energy**

WTI and Brent crude prices rose to new three-year highs, on reports of decline in US crude inventories. We expect oil to continue trading in the broad range seen over the past 12 months. A break out at the upper end will be challenging given US production will likely act as a ceiling on oil prices.

**Industrial Metals**

Industrial metals rallied, mainly led by aluminium prices. Longer-term we do not recommend industrial metals exposure due to concerns around Chinese growth prospects post the Party Congress.

## Currencies

| | |
|---|---|
| **EURUSD** | The euro slightly weakened versus the dollar, declining to 1.23 level. We expect the euro to remain range bound with a minor upward bias. |

| Critical levels | R2 | 1.2407 | R1 | 1.2347 | S1 | 1.2239 | S2 | 1.2191 |
|---|---|---|---|---|---|---|---|---|

| | |
|---|---|
| **GBPUSD** | The pound depreciated versus the dollar as larger-than expected decline in inflation lowered market expectation of a BoE rate hike in May. We expect sterling to remain under pressure due to political uncertainty, economic weakness and Brexit negotiations. |

| Critical levels | R2 | 1.4268 | R1 | 1.4134 | S1 | 1.3931 | S2 | 1.3863 |
|---|---|---|---|---|---|---|---|---|

| | |
|---|---|
| **USDJPY** | The yen was relatively weak versus the dollar as appetite for safe-havens waned. We believe there will remain a bias for yen weakness given divergent monetary policies between Japan and the US. |

| Critical levels | R2 | 108.20 | R1 | 107.93 | S1 | 107.32 | S2 | 106.98 |
|---|---|---|---|---|---|---|---|---|

*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 |
|---|---|---|---|---|---|
| 04/23/2018 | Chicago Fed Nat Activity Index | Mar | 0.27 | 0.88 | All attention will be on GDP and Core PCE QoQ. Also, initial jobless claims, wholesale inventories, and MBA will be important. |
| 04/23/2018 | Markit US Manufacturing PMI | Apr p | 55.2 | 55.6 | |
| 04/23/2018 | Existing Home Sales MoM | Mar | 0.20% | 3.00% | |
| 04/24/2018 | New Home Sales MoM | Mar | 1.90% | -0.60% | |
| 04/25/2018 | MBA Mortgage Applications | 20-Apr | -- | 4.90% | |
| 04/26/2018 | Initial Jobless Claims | 21-Apr | 230K | 232K | |
| 04/26/2018 | Wholesale Inventories MoM | Mar p | 0.60% | 1.00% | |
| 04/26/2018 | Durable Goods Orders | Mar p | 1.40% | 3.00% | |
| 04/27/2018 | GDP Annualized QoQ | 1Q A | 2.00% | 2.90% | |
| 04/27/2018 | Core PCE QoQ | 1Q A | 2.50% | 1.90% | |
| 04/27/2018 | U. of Mich. Sentiment | Apr F | 98 | 97.8 | |

### Japan

| | Indicator | Period | Expected | Prior | Comments |
|---|---|---|---|---|---|
| 04/24/2018 | Machine Tool Orders YoY | Mar F | -- | 28.10% | Focus will be on the BoJ meeting |
| 04/25/2018 | All Industry Activity Index MoM | Feb | 0.50% | -1.80% | |
| 04/27/2018 | Industrial Production MoM | Mar P | 0.50% | 2.00% | |
| 04/27/2018 | BoJ meeting | 27-Apr | No change | | |

### Eurozone

| | Indicator | Period | Expected | Prior | Comments |
|---|---|---|---|---|---|
| 04/23/2018 | Markit Manufacturing PMI | Apr P | 53.5 | 53.7 | |

| | | | | | |
|---|---|---|---|---|---|
| 04/24/2018 | IFO Expectations (GE) | Apr | 99.5 | 100.1 | All eyes will be on ECB meeting and GDP advance release. |
| 04/26/2018 | ECB meeting | 26-Apr | No change | | |
| 04/27/2018 | GDP QoQ | 1Q A | 0.40% | 0.70% | |
| 04/27/2018 | GDP YoY | 1Q A | 2.30% | 2.50% | |
| 04/27/2018 | PPI YoY | Mar | -- | 1.80% | |
| 04/27/2018 | Consumer Confidence | Apr F | -- | 0.4% | |

**United Kingdom**

| | Indicator | Period | Expected | Prior | Comments |
|---|---|---|---|---|---|
| 04/27/2018 | Nationwide House PX MoM | Apr | -- | -0.20% | GDP release will be the main focus. |
| 04/27/2018 | Nationwide House Px NSA YoY | Apr | -- | 2.10% | |
| 04/27/2018 | GDP QoQ | 1Q A | 0.30% | 0.40% | |
| 04/27/2018 | GDP YoY | 1Q A | 1.40% | 1.40% | |

**China and India**

| | Indicator | Period | Expected | Prior | Comments |
|---|---|---|---|---|---|
| | | | | | No important data releases scheduled for the week. |

## 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

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