

## Trade woes keep markets under pressure

Trade woes and their possible impact on growth, at a time when signs of a global cooling are emerging, are weighing on risk sentiment. Global equity markets ended the last week mostly lower or flat. European equities were the worst performer as markets digested the news of Europe's retaliatory tariffs on EUR2.8bln worth of US imports. In the US, the Dow Jones underperformed the most due to the escalating trade tensions. The rebound in the US dollar received a further boost from the ongoing trade tensions and the hawkish remarks by Fed Chair Jerome Powell at the ECB forum. The diverging monetary policy bias from the ECB added pressure on the euro. At the OPEC meeting in Vienna, members of OPEC and Russia agreed on increasing the oil supply by circa 1 million barrels per day, beginning in July. Oil prices ended the week higher, before the OPEC announcement last Friday. On the other hand, gold prices fell during the week because of the stronger dollar bias and the hawkish Fed comments. Separately, investors rushed to US treasuries amidst the risk-off environment. The yield curve flattened further with the Fed pressing on for more rate hikes this year, putting pressure on short-term bond yields while the long-end bond yields dropped lower on trade war concerns.

## Data light week ahead

In the US, the commerce department is due to release the third estimate for the first-quarter GDP- not likely to drive the markets, but more importantly the focus will be on the core PCE release. In Europe, attention will be on the German IFO survey which is expected to record a further decline in June. The IFO survey matching market expectations would only further warrant the rising impact of China tightening risks on major developed market exporters including Germany. So far, signs of subdued economic growth have been widely evident in major developed markets except for the prime growth driver-US. However, it may be possible that the US is also slowly catching up with the growth cooling trend seen in the rest of the world. Last week's US PMI, even though firmly above the 50- threshold indicating an expansionary sentiment, slowed from its peak touched in April. This implies that the world's leading growth engine is unlikely to grow at the same pace as before, given that it is already running near full employment levels. Recent escalation of trade tensions is only going to add to these global growth concerns-the negative effect of it also was discussed at the recent ECB forum in Sintra last week. As such, we believe that even with a data light week, markets will remain occupied with the escalating trade rhetoric between US and its allies.

## Past week global markets' performance

### Index Snapshot (World Indices)

Index	Latest	Weekly Chg %	YTD %
S&P 500	2,754.9	-0.9	3.0
Dow Jones	24,580.9	-2.0	-0.6
Nasdaq	7,692.8	-0.7	11.4
DAX	12,579.7	-3.3	-2.6
Nikkei 225	22,516.8	-1.5	-1.1
FTSE 100	7,682.3	0.6	-0.1
Sensex	35,689.6	0.2	4.8
Hang Seng	29338.7	-3.2	-1.9

### Regional Markets (Sunday to Thursday)

ADX	4535.3	-3.8	3.1
DFM	2928.2	-3.6	-13.1
Tadaw ul	8206.4	-0.8	13.6
DSM	8922.5	-1.9	4.7
MSM30	4609.87	0.3	-9.6
BHSE	1309.5	0.2	-1.7
KWSE	4823.0	-0.4	-
MSCI			
MSCI World	2,114.9	-0.9	0.5
MSCI EM	1,088.0	-2.3	-6.1

### Global Commodities, Currencies and Rates

Commodity	Latest	Weekly Chg %	YTD %
ICE Brent USD/bbl	75.6	2.9	13.0
Nymex WTI USD/bbl	68.6	5.4	13.5
Gold USD/t oz	1270.6	-0.7	-2.5
Silver USD/t oz	16.5	-0.7	-2.8
Platinum USD/t oz	877.4	-1.2	-5.5
Copper USD/MT	6811.0	-4.6	-4.8
Alluminium	2193.25	-0.6	-2.9

### Currencies

EUR USD	1.1651	0.4	-2.9
GBP USD	1.3261	-0.1	-1.9
USD JPY	109.97	-0.6	-2.5
CHF USD	0.9881	-1.0	-1.4

### Rates

USD Libor 3m	2.3389	0.6	38.0
USD Libor 12m	2.7769	0.2	31.8
UAE Eibor 3m	2.4788	-0.3	38.1
UAE Eibor 12m	3.2004	2.9	24.2
US 3m Bills	1.9071	-0.5	38.6
US 10yr Treasury	2.8949	-0.9	20.4

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## Summary market outlook

### Bonds

#### Global Yields

The 10-year US Treasury bonds rallied as investors rushed to safe-havens amidst the escalating trade tensions. Overall, we expect the 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 jumped in reaction to the equity markets sell-off. However, 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 had a mixed week with Abu Dhabi and Dubai indices being heavily sold. Saudi received boost from the official inclusion into the MSCI Emerging market index. 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 were mostly lower or flat on the back of the escalating trade tensions. European equities were hurt the most with Europe announcing retaliatory tariffs on US imports. Dow Jones also underperformed with industrial stocks impacted by the trade woes. Emerging market equities were down on broad dollar strength and risk-off sentiment. Overall, we believe that the global risk reward trade-off has deteriorated with cooling growth, higher US rates and a stronger US dollar, such that we move neutral on global equities.

### Commodities

#### Precious Metals

Gold prices fell during the week, weighed by stronger US dollar. We remain overweight on gold as a risk hedge against ongoing political and (potential) inflationary risks.

#### Energy

Oil prices ended the week higher before the OPEC meeting in Vienna. However, at the OPEC meeting, members of the OPEC led by Saudi and Russia agreed on boosting oil production from July. We expect oil to continue trading in the broad range seen over the past 12 months. An enduring break-out at the upper end will be challenging given US production and stronger dollar to act as a ceiling on oil prices, but temporary break-out could occur if Iran related geopolitical tensions flare.

#### Industrial Metals

Industrial metals were weighed down by stronger dollar appetite. We do not recommend industrial metals exposure as China reigns in demand.

### Currencies

#### EURUSD

The euro declined versus the dollar with increasing expectations of diverging monetary policies from the ECB. We expect the euro to remain under pressure.

#### Critical levels



#### GBPUSD

The pound sterling was almost unchanged versus the dollar. 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



#### USDJPY

The yen ended the week lower versus the dollar on account of broad dollar strength. We believe there will remain a bias for yen strength as emerging markets concerns will not abate soon.

#### Critical levels



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
06/25/2018	Chicago Fed Nat Activity Index	May	0.3	0.34	
06/25/2018	New Home Sales MoM	May	0.80%	-1.50%	
06/27/2018	MBA Mortgage Applications	22-Jun	--	5.10%	GDP and core PCE will be the main releases. Also, MBA and wholesale inventories will be important.
06/27/2018	Wholesale Inventories MoM	May P	0.20%	0.10%	
06/27/2018	Durable Goods Orders	May P	-0.90%	-1.60%	
06/28/2018	Initial Jobless Claims	23-Jun	220K	218K	
06/28/2018	GDP Annualized QoQ	1Q T	2.20%	2.20%	
06/29/2018	PCE Core YoY	May	1.90%	1.80%	
06/29/2018	U. of Mich. Sentiment	Jun F	99.2	99.3	

### Japan

	Indicator	Period	Expected	Prior	Comments
06/29/2018	Tokyo CPI Ex-Fresh Food YoY	Jun	0.6%	0.50%	All focus will be on Industrial Production.
06/29/2018	Industrial Production MoM	May P	-1.00%	0.50%	

### Eurozone

	Indicator	Period	Expected	Prior	Comments
06/25/018	Ifo Business Climate	Jun	101.8	102.2	
06/25/018	Ifo Expectations	Jun	98	98.5	
06/27/2018	PPI YoY	May	--	1.40%	Attention will be on IFO survey and ECB publishes economic bulletin.
06/28/018	ECB Publishes Economic Bulletin				
06/28/2018	Consumer Confidence	Jun F	-0.5	-0.5	
06/29/2018	Retail Sales YoY	May	1.80%	1.20%	

### United Kingdom

	Indicator	Period	Expected	Prior	Comments
06/28/2018	Nationwide House PX MoM	Jun	0.30%	-0.20%	All eyes will be on the GDP data.
06/29/2018	GDP QoQ	1Q F	0.10%	0.10%	
06/29/2018	GDP YoY	1Q F	1.20%	1.20%	

### China and India

	Indicator	Period	Expected	Prior	Comments
06/29/2018	Current Account Balance (CH)	1Q F	--	-\$28.2b	Manufacturing PMI will be important.
06/30/2018	Manufacturing PMI (CH)	Jun	51.8	51.9	

## Sources

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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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