The Weekly Market View

March 12 2018

Markets rally as trade war and inflation concerns wane

Markets rallied last week as the threat of trade war faded after the Trump administration announced its plans of exempting Canada and Mexico from the import tariffs on steel and aluminium and also indicated that it may add more countries to the exemption list. In addition, strong employment data with slower pace of gain in wages, further boosted the rally in stock market. Non-farm payrolls rose by 313K, higher than market expectation of 200K. Separately, the January number for average hourly earnings (which had stoked inflation fears leading to market sell-off last month) was revised lower to 2.8% yoy, but more importantly the growth in labor earnings slowed to 2.6% yoy in February, putting the "Goldilocks" environment back on the table. Majority of the equity market indices ended up in the positive territory with technology stocks leading the rally. European stocks ended the week higher as the ECB sounded slightly dovish at its MPC meeting. While the ECB advocated stronger growth prospects and also removed its commitment of increasing asset purchases, the ECB president Mario Draghi highlighted the recent rise in protectionism adding to risk to growth outlook while inflation pressures remain subdued in the region. Emerging market stocks performed well as the dollar remained stable last week. Safe-haven assets including gold and US treasuries were mostly unchanged with inflation concerns receding post the wage inflation data. Industrial metals came under pressure, led by declines in steel and alluminium prices. In contrast, oil prices ended the week higher, driven by ease in geopolitical tensions after President Trump hinted at a meeting with North Korean leader Kim Jong UN. Reports of first weekly decline in US rig count added to the positive sentiment in the oil market.

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All eyes on the US CPI print

After last week's labour market data, markets will now be paying close attention to the headline CPI and core CPI. The 10-year US Treasury yields rose in reaction to the strong job numbers, but the rise was moderate as the growth in labour earnings slowed. The upcoming CPI numbers mark the last set of economic releases before the Fed's March meeting and hence will be a key driver for the markets this week. While markets are pricing in a full probability of Fed hiking rates by 25bp at the meeting, the inflation release will be crucial in determining the future Fed rate hike trajectory. A stronger-than expected CPI print leading to increased expectations of more than three Fed rate hikes could prove hurtful for US treasuries, particularly the short-dated bonds. In addition, supply pressure on long-dated treasuries is expected to resurface ahead of the heavy bond auction schedule this week (more long-dated bond supply). However, this volatility may recede if US CPI comes in line with market estimates. Separately, fears of a full-blown trade war may have waned with Canada and Mexico exempted from import tariffs. Yet, markets will be still be closely tracking if any progress has been made on the ongoing negotiations between Europe-Japan and the US to advocate for similar exemptions.

Past week global markets' performance

Index Snapshot (World Indices)

Index	Latest	Weekly Chg %	YTD %
S&P 500	2,786.6	3.5	4.2
Dow Jones	25,335.7	3.3	2.5
Nasdaq	7,560.8	4.2	9.5
DAX	12,346.7	3.6	-4.4
Nikkei 225	21,469.2	1.4	-5.7
FTSE 100	7,224.5	2.2	-6.0
Sensex	33,307.1	-2.2	-2.2
Hang Seng	30996.2	1.3	3.6
Regional Markets (Sunday to Thursday)			
ADX	4527.1	-1.7	2.9
DFM	3157.5	-1.7	-6.3
Tadawul	7562.1	2.6	4.6
DSM	8308.3	-4.8	-2.5
MSM30	4929.8	-1.5	-3.3
BHSE	1370.2	-0.7	2.9
KWSE	6778.2	0.2	5.8
MSCI			
MSCI World	2,149.3	2.8	2.2
MSCI EM	1,207.2	2.1	4.2

Global Commodities, Currencies and Rates

Commodity	Latest	weekly Chg %	YTD %
ICE Brent USD/bbl	65.5	1.7	-2.1
Nymex WTI USD/bbl	62.0	1.3	2.7
Gold USD/t oz	1323.9	0.1	1.6
Silver USD/t oz	16.6	0.4	-2.1
Platinum USD/t oz	965.6	-0.1	4.0
Copper USD/MT	6808.0	-1.1	-4.9
Alluminium	2104.5	-1.9	-6.8
Currencies			
EUR USD	1.2307	-0.1	2.5
GBP USD	1.3850	0.3	2.5
USD JPY	106.82	1.0	-5.5
CHF USD	0.9513	1.5	2.4
Rates			
USD Libor 3m	2.0888	3.1	23.3
USD Libor 12m	2.5445	1.9	20.8
UAE Eibor 3m	2.0750	2.8	15.6
UAE Eibor 12m	2.6820	0.7	4.1
US 3m Bills	1.6592	1.2	20.6
US 10yr Treasury	2.8938	1.0	20.3

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Summary market outlook

Bonds	
Global Yields	US treasuries were largely unchanged as inflation fears receded post the slower growth in wage inflation. 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 dropped lower as strong job numbers aided equity market rally. However, volatility is unlikely to decline significantly given the backdrop of markets' fear of central bank policy normalization.
Equity Markets	
Local Equity Markets	GCC equity markets had a mixed week, though Saudi stocks performed well on increased hopes of an upgrade from MSCI and FTSE. 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 rallied in reaction to the strong US job numbers while slowdown in wage growth eased market's inflation fears. Technology stocks benefitted the most from the strong economic data. European equities also fared well with the ECB advocating a dovish tilt. Emerging market equities also rose higher with the dollar ending the week almost flat. Overall, we continue to believe that strong economic fundamentals along with robust corporate earnings growth will support demand for global equities.
Commodities	
Precious Metals	Gold prices were mostly flat during the week. We remain overweight on gold as a risk hedge against ongoing political and (potential) inflationary risks.
Energy	Oil prices rose with prospects of easing geopolitical tensions as President Trump hinted at the possibility of solving matters with North Korea. The sentiment in the market also received boost from the first weekly decline seen in the US oil rig count. 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 came under pressure, led by decline in steel and alluminium 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 ended flat versus the dollar, failing to draw any momentum from the ECB meeting. We expect the euro to remain range bound with a minor upward bias.
Critical levels	R2 1.2366 · R1 1.2336 · S1 1.2275 · S2 1.2244
GBPUSD	The pound was mostly unchanged versus the dollar. We expect sterling to remain under pressure due to political uncertainty, economic weakness and Brexit negotiations.
Critical levels	R2 1.3948 · R1 1.3899 · S1 1.3791 · S2 1.3733
USDJPY	The yen ended flat versus the dollar after BoJ pointed to a possibility of QE exit only if inflation targets are met. We believe there will remain a bias for yen weakness given divergent monetary policies between Japan and the US.
Critical levels	R2 107.60 · R1 107.21 · S1 106.27 · S2 105.72

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
03/13/2018	CPI Ex Food and Energy YoY	Feb	1.80%	1.80%	All eyes will be on US CPI and retail sales.
03/13/2018	CPI YoY	Feb	2.20%	2.10%	
03/14/2018	Retail Sales Advance MoM	Feb	0.30%	-0.30%	
03/15/2018	Initial Jobless Claims	10-Mar	225K	231K	
03/15/2018	NAHB Housing Market Index	Mar	72	72	
03/16/2018	Housing Starts	Feb	1288k	1326k	
03/16/2018	Housing Starts MoM	Feb	-2.90%	9.70%	
03/16/2018	Industrial Production MoM	Feb	0.30%	-0.10%	
03/16/2018	Capacity Utilization	Feb	77.70%	77.50%	
03/16/2018	Univ. of Mich. Sentiment	Mar p	99	99.7	

Japan

	Indicator	Period	Expected	Prior	Comments
03/12/2018	Machine Tool Orders YoY	Feb P	--	48.80%	All focus will be on Japan PPI.
03/13/2018	PPI YoY	Feb	2.50%	2.70%	
03/13/2018	Tertiary Industry Index MoM	Jan	-0.30%	-0.20%	
03/16/2018	Industrial Production MoM	Feb F	--	-6.60%	

Eurozone

	Indicator	Period	Expected	Prior	Comments
03/14/2018	Retail Sales YoY	Jan	--	-0.10%	CPI and CPI core will be the main focus.
03/14/2018	Trade Balance	Jan	13.9b	13.7b	
03/16/2018	CPI Core YoY	Feb F	1.00%	1.00%	
03/16/2018	CPI YoY	Feb F	1.20%	1.30%	

United Kingdom

	Indicator	Period	Expected	Prior	Comments
-	-	-	-	-	No major releases scheduled for the week.

China and India

	Indicator	Period	Expected	Prior	Comments
03/12/2018	CPI YoY (IN)	Feb	4.74%	5.07%	In India, CPI and WPI will be important.
03/12/2018	Industrial Production YoY (IN)	Jan	6.40%	7.10%	
03/14/2018	Fixed Assets Ex Rural YTD YoY (CH)	Feb	7.00%	7.20	
03/14/2018	WPI YoY (IN)	Feb	2.54%	2.84%	
03/15/2018	Exports YoY (IN)	Feb	--	9.10%	
03/15/2018	BoP Current Account Balance (IN)	Feb	--	-$7.20b	

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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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