بنك أبوظبي التجاري ADCB

Fed decision does not remove market uncertainty

Last week's "lift-off" of the Fed's policy rate from a record period of near zero rates has been acclaimed as "successful" by most market observers. Indeed, in the immediate aftermath of the announcement of the new policy rate equity markets rallied and long-term yields rose only marginally. In our view the "success" of the recent rate hike – indeed of the Fed's overall monetary policy – can only be judged by its impact on US economic growth. Whilst a moderate increase in the policy rate alone might hardly change the overall financial conditions for US corporates and households, the expectation of more rate hikes has the potential of inflicting more harm. Over the latter days, equity markets have lost most of the gains created in the run-up and immediate aftermath of the rate hike. Long-term yields are lower. Clearly, markets are not yet convinced that the US economy can continue to grow at its current pace and simultaneously sustain continuing rate hikes.

Next week mostly US data, volumes expected to be low

Next week we will see mostly data coming out of the United States. US Gross Domestic Product for the third quarter is expected to be slightly revised down to an annualized 1.9%. Whilst that figure is reflective of an economy that – in spite of significant job creation – is still unable to achieve so-called "escape velocity", it is by now an old number. More important will be the November data on existing home sales, personal income and spending, as well as durable goods orders and the University of Michigan Consumer Confidence Index. We do not expect significant shocks coming out of these data. More importantly, volumes will be relatively low this week and will remain so well beyond the traditional holiday season, i.e. until January 11th. Overall markets will remain concerned about weak growth in the United States, and globally.

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Past week global markets' performance

Index Snapshot (World Indices)			
Index	Latest	Weekly Chg %	YTD %
S&P 500	2,005.6	-0.3	-2.6
Dow Jones	17,128.6	-0.8	-3.9
Nasdaq	4,923.1	-0.2	3.9
DAX	10,608.2	2.6	8.2
Nikkei 225	18,986.8	-1.3	8.8
FTSE 100	6,052.4	1.7	-7.8
Sensex	25,519.2	1.9	-7.2
Hang Seng	21755.6	1.4	-7.8
Regional Markets (Sunday to Thursday)			
ADX	4148.3	1.5	-8.4
DFM	3073.1	4.4	-18.6
Tadawul	7045.7	1.4	-15.5
DSM	9912.9	-1.0	-19.3
MSM30	5359.3	-1.7	-15.5
BHSE	1197.1	-1.4	-16.1
KWSE	5623.7	-1.1	-14.0
MSCI			
MSCI World	1,633.8	-0.2	-4.4
MSCI EM	789.7	2.1	-17.4

Global Commodities, Currencies and Rates			
Commodity	Latest	Weekly Chg %	YTD %
ICE Brent USD/bbl	36.9	-2.8	-35.7
Nymex WTI USD/bbl	34.7	-2.5	-34.8
OPEC Baskt USD/bbl	31.5	-6.6	-39.4
Gold 100 oz USD/t oz	1066.3	-0.8	-10.0
Platinum USD/t oz	859.3	2.3	-28.9
Copper USD/MT	4650.0	-0.4	-26.9
Alluminium	1502.5	1.1	-18.1
Currencies			
EUR	1.0868	-1.1	-10.2
GBP	1.4895	-2.1	-4.4
JPY	121.16	0.1	-1.1
CHF	0.9922	1.0	0.2
Rates			
USD Libor 3m	0.5855	14.4	129.1
USD Libor 12m	1.1143	4.5	77.2
UAE Eibor 3m	0.9920	2.4	46.5
UAE Eibor 12m	1.3586	0.6	33.8
US 3m Bills	0.1729	-20.9	387.0
US 10yr Treasury	2.2040	3.6	1.5

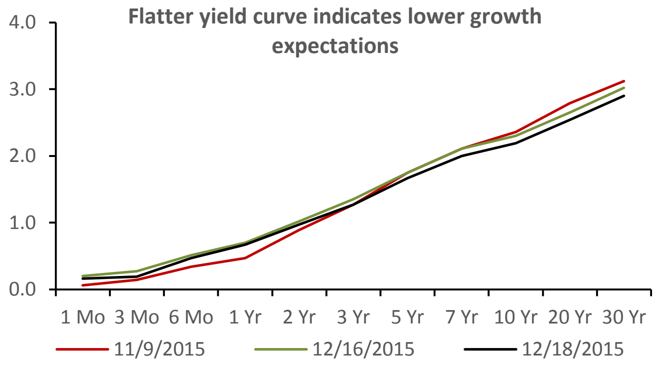
Please refer to the disclaimer at the end of this publication

ADCB بنك أبوظبي التجاري

Fed hike "successful", and what now?

Fed hike is not providing desired return of certainty

Many market observers have received the news of the Fed hike with relief, if not joy and happiness. Whilst we share the majority's sense of relief (a non-hike would have caused considerable confusion, damaged the Fed's credibility, and almost certainly triggered a significant sell-off), we don't see that many motives for joy or happiness. Specifically we are a bit puzzled by the assumption that, following the first rate hike, there is now more certainty as to the Fed's policy and thus about the market scenario as we move into 2016. In fact, we are simply replacing one doubt with a very similar one. Instead of asking ourselves whether the Fed will hike rates from zero to 25 basis points, the question is now if and when they will raise rates by an *additional* 25 basis points. The very fact that markets will remain trapped in the same continuing interest rate anxiety reflects a more profound uncertainty that is likely to drag on through 2016: is the United States able to cope with continuing rate hikes without its economy tipping into recession? For one thing, recent data suggests that markets expect weaker rather than stronger growth as long-term rates have come marginally down, in spite of higher (policy induced) short-term rates.

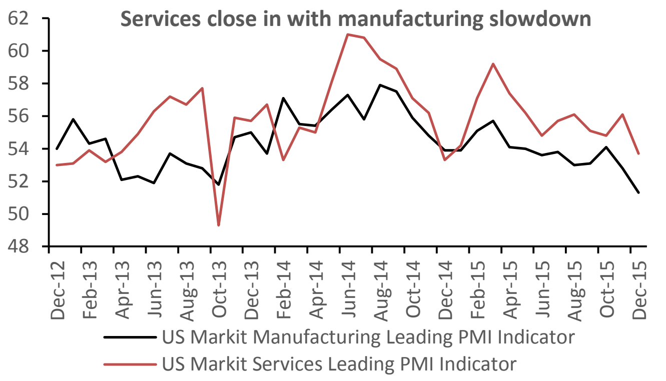


Source: US Treasury

Of course, as long as the yield curve is upward sloping, growth should still be positive. Moreover, a large part of the Fed's "success" lies exactly in keeping long-term yields at bay so as not to compromise the housing market and business investments. We believe that significantly more hikes in 2016 would determine too much upward pressure on the US dollar, compromise domestic lending and put downward pressure on low quality paper as well as equities. In that case long term Treasury yields would come further down, but for the wrong reasons!

Growth concerns still there

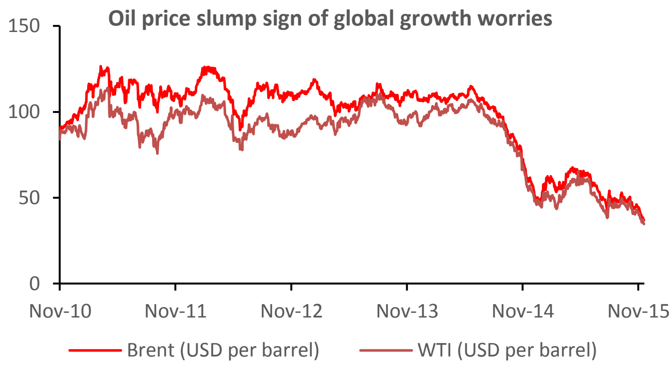
Leaving aside the continuing concerns for emerging markets, it is worthwhile to observe that there are good reasons to assume that growth in the United States will remain lacklustre. For one thing, it is likely that the labour market has reached some "natural" limit such that it is unlikely to continue to add jobs at the current pace of more than 200k per month. With wage growth also likely to remain subdued, it is not clear to what extent real estate investment and business investment will be able to compensate for continuing subdued traction from the consumption side of the economy. Less solid US growth prospects have now been confirmed by the preliminary December Markit leading indicators for purchasing managers (with the service indicator now closing in on the manufacturing indicator).



Source: Bloomberg

Oil slump confirms global growth concerns

The prospect of a continuing rise of the US dollar, against emerging market currencies, if not against the likes of the euro and the yen, carries the high risk of destabilizing emerging markets' growth as the benefits of improved competitiveness are outweighed by the increase in the domestic value of their US dollar denominated debt. Reduced emerging market growth prospects are perhaps best reflected by the continuing slump in the oil price, in spite of persistent talk about a 2016 reduction in crude production.



Source: Bloomberg

Fed will acknowledge concerns and limit hikes

The Federal Reserve will acknowledge US and global growth concerns and is likely to be content with only a few more hikes in 2016. It will not remove the uncertainty, however, unless major market turmoil forces it do so. As such, it will keep an important lid on US and global equity markets.

Summary market outlook

Global Yields	Despite the Fed rate hike last week, US Treasury 10yr yield remained contained and barely moved on a weekly basis. We maintain our view that yields will not move significantly in the near term. Sovereign yields in Europe moved also downward, which is likely to continue in the near term.
Stress and Risk Indicators	The VIX index eased a bit as market took the US Fed rate hike largely positively. However, it moved up again towards the end of last week. In the absence of any major trigger it is not expected to move significantly in either direction. Sovereign CDS spreads (especially for EM Asia) eased a bit.
Precious Metals	Gold prices continued to move downward with the Fed hiking rates and no signs of inflationary trends emerging in any major economy. We remain cautious on the precious metal.
Local Equity Markets	GCC equity markets bounced back despite the oil price remaining under pressure as broader EMs rallied. However, we believe that the markets have not attained stability as oil price remain volatile with a downward bias in the near term.
Global Equity Markets	Global markets rallied in the days leading up to the Fed rate hike on 17th Dec and continued in the immediate aftermath of the decision. However, they gave up some of their gains towards end of the week. They are likely to move sideways in the absence of any major catalysts and thinner trading volume during the festive season.
Energy	No respite for the energy prices, both Brent and WTI oil prices continued to slide last week. With extremely negative sentiment in the oil market, we remain cautious.
Industrial Metals	Industrial metals prices were relatively stable during the week but continue to lack an identifiable catalyst in our view.

Currencies	**Commentary**	**Critical levels**
EURUSD	As expected the euro came down after the Fed hike and the markets moved away from the global risk-off mood. It could continue to ease further with a slow pace towards 1.06-1.05 levels before it will find some support.	R2 - 1.1167 R1 - 1.1018 S1 - 1.0761 S2 - 1.0653
GBPUSD	The British pound lost ground after the Fed rate hike. We had been highlighting that the rate hike would be the main factor in the final breakout. With a dovish BoE and the US rate hike guidance, we could see some further downward movement.	R2 - 1.5378 R1 - 1.5136 S1 - 1.4759 S2 - 1.4624
USDJPY	The Japanese yen remained largely flat last week and remained within the range it has been trading for some time now. It is likely to remain within that range in the near term.	R2 – 124.90 R1 – 123.03 S1 – 119.82 S2 – 118.48

Forthcoming important economic data

United States

	Indicator	Period	Expected	Prior	Comments
12/22/2015	GDP Annualized QoQ	3Q T	1.9%	2.1%	Market will focus on the on the income and spending data to see if consumption growth is on track.
12/22/2015	Existing Home Sales	Nov	5.34M	5.36M	
12/23/2015	Personal Income	Nov	0.2%	0.4%	
12/23/2015	Personal Spending	Nov	0.3%	0.1%	
12/23/2015	PCE Core YoY	Nov	1.3%	1.3%	
12/23/2015	Durable Goods Orders	Nov P	-0.7%	2.9%	
12/23/2015	New Homes Sales	Nov	505k	495k	
12/23/2015	Univ. of Mich. Sentiment	Dec F	92.0	91.8	

Japan

	Indicator	Period	Expected	Prior	Comments
12/21/2015	All Industry Activity Index	Oct	0.9%	-0.2%	Economic indicators are expected to show some improvement in the economic activities in the fourth quarter.
12/25/2015	Jobless Rate	Nov	3.2%	3.1%	
12/25/2015	Job-To-Applicant Ratio	Nov	1.24	1.24	
12/25/2015	CPI Ex-Fresh Food YoY	Nov	0.8%	0.7%	

Eurozone

	Indicator	Period	Expected	Prior	Comments
12/21/2015	Consumer Confidence	Dec A	-5.9	-5.9	Not many economic indicators are scheduled to be released this week.
12/22/2015	GfK Consumer Confidence (GE)	Jan	9.3	9.3	
12/27/2015	Retail Sales MoM (GE)	Nov	0.5%	-0.1%	

China and India

	Indicators	Period	Expected	Prior	Comments
This week	BoP Current Account Balance (IN)	3Q	-$7.80b	-$6.20b	Not many economic indicators are scheduled to be released this week.
12/23/2015	Infrastructure Industry growth (IN)	Nov	--	3.2%	

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

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