

## Risk assets recover on tax reform expectation

US equities ended the week higher on expectations that the US Senate will have enough votes to pass the tax bill (over the weekend). However, it was not entirely a rosy week for the risk assets with political concerns denting appetite on Friday after former Trump white house official Michael Flynn was charged with lying to the FBI, thus paring some of the early-week gains. A rotation out of "growth" sectors - mainly the tech stocks - towards the "cyclical" stocks including financials was also evident, particularly post the strong final US GDP print and increased hopes of tax reform. Emerging market equities underperformed the most as the dollar regained some strength and hopes of US tax cuts spurred a rotation out of the emerging markets. European equities also underperformed mainly on account of the sell-off in tech stocks while pound sterling strength in response to increased prospects of advancement in Brexit talks drove the FTSE 100 lower by 1.5%. The dollar ended the week slightly higher, marking its first gain in almost four weeks. Safe-haven assets came under pressure but renewed political concerns limited their underperformance. In fact, the US treasury yield curve flattened further to its lowest level in almost ten years. Elsewhere, oil prices rose on Friday after the OPEC members and Russia decided to extend the oil production cuts throughout 2018, yet the rally was not significant enough to pare the early week losses.

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## US jobs report and tax reform

After the Senate passed the tax bill over the weekend, market attention will now be on the final steps which will begin this week. The process which includes merging the tax bill with a separate version passed by the House of Representatives earlier, is likely to prove cumbersome for the lawmakers. It will take some time to resolve all differences and before the final bill is signed. In terms of data releases, the upcoming labour market and wage growth data will be closely watched by the market. With no Fed members scheduled to speak during the self-imposed black out period until December 12-13 FOMC meeting, these set of data will be very crucial in forming future rate hike expectations. November release for the non-farm payroll will provide a clearer picture on the wage growth in the US economy, given the previous two months releases were mainly distorted due to hurricane-related recovery. Average weekly earnings, likely to have risen by 0.3% m-o-m, if meets/beats expectations would boost future inflation prospects. As such, US Treasuries which have seen a rather "calm" November, could come under pressure with the upcoming risk events including the FOMC meeting in December.

## Past week global markets' performance

### Index Snapshot (World Indices)

Index	Latest	Weekly Chg %	YTD %
S&P 500	2,642.2	1.5	18.0
Dow Jones	24,231.6	2.9	22.6
Nasdaq	6,847.6	-0.6	27.2
DAX	12,861.5	-1.5	12.0
Nikkei 225	22,819.0	1.2	19.4
FTSE 100	7,300.5	-1.5	2.2
Sensex	32,832.9	-2.5	23.3
Hang Seng	29074.2	-2.7	32.2

### Regional Markets (Sunday to Thursday)

Index	Latest	Weekly Chg %	YTD %
ADX	4283.1	0.0	-5.8
DFM	3421.0	-0.8	-3.1
Tadaw ul	7004.0	1.0	-2.9
DSM	7714.3	-0.6	-26.1
MSM30	5109.62	-0.0	-11.6
BHSE	1283.7	0.5	5.2
KWSE	6196.5	-1.0	7.8

### MSCI

Index	Latest	Weekly Chg %	YTD %
MSCI World	2,069.4	0.5	18.2
MSCI EM	1,115.9	-3.3	29.4

### Global Commodities, Currencies and Rates

Commodity	Latest	Weekly Chg %	YTD %
ICE Brent USD/bbl	63.7	-0.2	12.2
Nymex WTI USD/bbl	58.4	-1.0	8.6
Gold USD/t oz	1280.6	-0.6	11.6
Silver USD/t oz	16.4	-3.6	3.2
Platinum USD/t oz	940.0	-0.2	4.1
Copper USD/MT	6734.0	-3.4	22.4
Alluminium	2059.5	-2.9	21.6

### Currencies

Commodity	Latest	Weekly Chg %	YTD %
EUR USD	1.1896	-0.3	13.1
GBP USD	1.3477	1.0	9.2
USD JPY	112.17	0.6	-4.3
CHF USD	0.9762	-0.3	4.4

### Rates

Commodity	Latest	Weekly Chg %	YTD %
USD Libor 3m	1.4946	1.8	49.8
USD Libor 12m	1.9604	1.3	16.3
UAE Eibor 3m	1.6333	-0.9	10.7
UAE Eibor 12m	2.3840	1.4	13.8
US 3m Bills	1.2585	-0.2	153.0
US 10yr Treasury	2.3615	0.8	-3.4

Please refer to the disclaimer at the end of this publication

## Summary market outlook

Bonds									
<b>Global Yields</b>	US Treasury yields gained over the week but renewed political concerns post former national security advisor Michael Flynn's guilty plea limited the underperformance. In fact, the curve flattened to the lowest level in almost ten years as markets firmed up rate hike expectations for 2018. We expect Treasury yields to remain range bound unless there is a sharp jump in inflation/inflation expectations								
<b>Stress and Risk Indicators</b>	The VIX jumped in reaction to the surge in political concerns. Volatility is unlikely to stay low given the backdrop of ongoing geopolitical risks.								
Equity Markets									
<b>Local Equity Markets</b>	GCC equity markets ended the week on a mixed note ahead of the OPEC's decision of extending the supply cuts till the end of 2018. Overall, 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.								
<b>Global Equity Markets</b>	Risk sentiment returned over the week with the market participants closely tracking the progress on tax reform deliberations. US equities performed the best with the Dow Jones reaching new record high on reports of US Senate securing enough votes for passing the tax reform bill. In contrast, emerging markets were the worst hit with dollar strength gaining traction and rising hopes of US corporate tax cuts. The FTSE 100 also declined over the week as the pound strengthened in response to progress in Brexit talks. Overall, we continue to believe that strong economic fundamentals along with robust corporate earnings growth will support global equities.								
Commodities									
<b>Precious Metals</b>	Gold prices declined over the week with increased expectation of US tax cuts. We stick to our overweight recommendation on gold as a risk hedge against ongoing political and (potential) inflationary risks.								
<b>Energy</b>	Oil prices ended the week in the negative territory but rallied on Friday after the OPEC members along with Russia decided to extend the production cuts throughout 2018. 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.								
<b>Industrial Metals</b>	Industrial metals declined last week tracking the decline in gold prices and relatively stronger dollar. Longer-term we do not recommend industrial metals exposure due to concerns around Chinese growth prospects post the Party Congress.								
Currencies									
<b>EURUSD</b>	The euro slightly depreciated versus the dollar on US tax reform optimism and weaker Euro inflation reading. We expect the euro to remain under pressure as the US dollar regains ground.								
<b>Critical levels</b>	<table border="0"> <tr> <td><b>R2</b></td> <td>1.1904</td> <td><b>R1</b></td> <td>1.1883</td> <td><b>S1</b></td> <td>1.1847</td> <td><b>S2</b></td> <td>1.1831</td> </tr> </table>	<b>R2</b>	1.1904	<b>R1</b>	1.1883	<b>S1</b>	1.1847	<b>S2</b>	1.1831
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<b>GBPUSD</b>	The pound rose against the dollar, on speculation of UK-EU reaching on a Brexit-financial settlement. Yet, we expect sterling to remain under pressure due to political uncertainty, economic weakness and Brexit negotiations.								
<b>Critical levels</b>	<table border="0"> <tr> <td><b>R2</b></td> <td>1.3514</td> <td><b>R1</b></td> <td>1.3480</td> <td><b>S1</b></td> <td>1.3421</td> <td><b>S2</b></td> <td>1.3396</td> </tr> </table>	<b>R2</b>	1.3514	<b>R1</b>	1.3480	<b>S1</b>	1.3421	<b>S2</b>	1.3396
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<b>USDJPY</b>	The yen weakened versus the dollar as the risk-off sentiment faded. We believe there will remain a bias for yen weakness given divergent monetary policies between Japan and the US.								
<b>Critical levels</b>	<table border="0"> <tr> <td><b>R2</b></td> <td>113.29</td> <td><b>R1</b></td> <td>113.06</td> <td><b>S1</b></td> <td>112.52</td> <td><b>S2</b></td> <td>112.21</td> </tr> </table>	<b>R2</b>	113.29	<b>R1</b>	113.06	<b>S1</b>	112.52	<b>S2</b>	112.21
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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
12/04/2017	Factory Orders	Oct	-0.4%	1.4%
12/04/2017	Durable Goods Orders	Oct F	-1.0%	-1.2%
12/05/2017	Trade Balance	Oct	-\$47.4b	-\$43.5b
12/05/2017	Markit US Composite PMI	Nov F	-	54.6
12/08/2017	Change in Nonfarm Payrolls	Nov	199k	261k
12/08/2017	Unemployment Rate	Nov	4.1%	4.1%
12/08/2017	Average Hourly Earnings MoM	Nov	0.3%	0.0%
12/08/2017	Labor Force Participation Rate	Nov	-	62.7%
12/08/2017	Univ. of Mich. Current Conditions	Dec P	114	113.5

Market attention will be on the labour market payroll data.

### Japan

Indicator	Period	Expected	Prior	Comments
12/05/2017	Nikkei Japan PMI Composite	Nov	-	53.4
12/08/2017	BoP Current Account Balance	Oct	¥1730.7b	¥2271.2b
12/08/2017	GDP SA QoQ	3Q F	0.4%	0.3%

Final Q2 GDP growth will be the main data point out of Japan.

### Eurozone

Indicator	Period	Expected	Prior	Comments
12/04/2017	PPI YoY	Oct	2.6%	2.9%
12/05/2017	Markit Eurozone Composite PMI	Nov F	57.5	57.5
12/07/2017	GDP SA QoQ	3Q F	0.6%	0.6%

GDP final print and PMI release will be closely watched.

### United Kingdom

Indicator	Period	Expected	Prior	Comments
12/07/2017	Halifax House Prices MoM	Nov	0.2%	0.3%
12/08/2017	Industrial Production YoY	Oct	3.5%	2.5%

House prices and industrial production are the main releases.

### China and India

Indicator	Period	Expected	Prior	Comments
12/05/2017	Caixin PMI Composite (CH)	Nov	-	51
12/06/2017	RBI MPC Meeting (IN)	6-Dec	No change	
12/07/2017	Foreign Reserves (CH)	Nov	\$3122b	\$3109b
12/08/2017	Exports YoY (CH)	Nov	5.1%	6.9%
12/09/2017	CPI YoY (CH)	Nov	1.8%	1.9%
This week	Aggregate Financing CNY (CH)	Nov	1430.0b	1040.0b
This week	New Yuan Loans CNY (CH)	Nov	825.0b	663.2b
This week	Exports YoY (IN)	Nov	-	7.6%

All eyes will be on China November releases for foreign reserves, exports and inflation. In India, focus will be on the RBI meeting.

## 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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