Tax reform uncertainty weighs on sentiment

The rally in global equities softened with tax reform concerns and end of earning season sluggishness, weighing on the market sentiment. US equities fell over the week on reports of a possible delay in tax cuts till 2019. European equities suffered the most on account of subdued earning announcements. Japanese equities were the top performers for another week, supported by the strong offshore appetite. Emerging markets were mixed, however the GCC equities fared badly with rising local tensions impacting investor sentiment. These tensions in the Middle East, particularly from Saudi which contributes to more than 10% of the world's oil production per day, pushed the Brent crude prices to touch three-year record highs last week. US Treasuries witnessed selling pressure, particularly in the long-end and mainly spilling over from Europe. This put an end to the ten consecutive days of flattening trend which had pushed the difference between the 10-year and 2-year to the lowest level since 2007. Gold prices recovered for the first time over a month on the back of US tax reform uncertainty

Upcoming US inflation will confirm if Fed will hike in December or not

The main focus this week will be on the US CPI and core CPI release due on 15th November. This will the final inflation reading before next month's FOMC meeting and will be crucial in not only confirming a December hike but also in firming up rate hike expectations for 2018. The market is currently pricing more than a 90% probability of a December hike. If inflation surprises significantly on the downside, then this should pare a December hike, subsequently leading to a downward adjustment in short-end bond yields and thus steepening the yield curve. On the other hand, a higher-than expected inflation print should mostly confirm a rate hike to materialise before the year-end. In this case, the long-dated bond yields will come under more pressure, thus bear-steepening the yield curve. However, we do not expect inflation to surprise, but for it to remain stable at the same level. This means that the current flattening bias is likely to sustain in the near term. Elsewhere, attention will also be on China October releases for retail sales, industrial production and fixed assets investments, as well as monetary base growth. Markets will be closely looking out for any weakness in these numbers post the soft manufacturing PMI release reported earlier this month.

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Past week global markets' performance

Index Snapshot (World Indices)

Index	Latest	Weekly Chg %	YTD %
S&P 500	2,582.3	-0.2	15.3
Dow Jones	23,422.2	-0.5	18.5
Nasdaq	6,750.9	-0.2	25.4
DAX	13,127.5	-2.6	14.3
Nikkei 225	22,681.4	0.6	18.7
FTSE 100	7,433.0	-1.7	4.1
Sensex	33,314.6	-1.1	25.1
Hang Seng	29120.9	1.8	32.4
Regional Markets (Sunday to Thursday)			
ADX	4376.2	-1.7	-3.7
DFM	3449.8	-3.8	-2.3
Tadawul	6954.4	-0.3	-3.6
DSM	7885.5	-3.0	-24.4
MSM30	5055.24	-0.0	-12.6
BHSE	1267.6	-0.8	3.9
KWSE	6258.5	-3.2	8.9
MSCI			
MSCI World	2,040.3	-0.3	16.5
MSCI EM	1,128.5	0.2	30.9

Global Commodities, Currencies and Rates

Commodity	Latest	Weekly Chg %	YTD %
ICE Brent USD/bbl	63.5	2.3	11.8
Nymex WTI USD/bbl	56.7	2.0	5.6
Gold USD/t oz	1275.1	0.4	11.1
Silver USD/t oz	16.9	0.2	6.0
Platinum USD/t oz	929.5	0.9	2.9
Copper USD/MT	6797.0	-1.7	23.6
Alluminium	2085	-3.9	23.1
Currencies			
EUR USD	1.1665	0.5	10.9
GBP USD	1.3196	0.9	6.9
USD JPY	113.53	-0.5	-3.0
CHF USD	0.9961	-0.5	2.3
Rates			
USD Libor 3m	1.4129	1.5	41.6
USD Libor 12m	1.8815	1.0	11.6
UAE Eibor 3m	1.6003	1.3	8.4
UAE Eibor 12m	2.2320	0.4	6.5
US 3m Bills	1.2202	4.4	145.3
US 10yr Treasury	2.3984	2.8	-1.9

Please refer to the disclaimer at the end of this publication

Summary market outlook

Bonds	
Global Yields	US Treasury yields came under pressure with the short-dated bond underperforming in anticipation of December rate hike expectations. The curve flattened for most of the week, but steepening pressures started building up towards end of the week, mostly spilling over from bond sell-off in Europe. We expect Treasury yields to remain range bound unless there is a sharp jump in inflation/inflation expectations
Stress and Risk Indicators	The VIX jumped to the highest level in almost 15 days in line with sell-off in equity markets. Volatility is unlikely to stay low given the backdrop of ongoing geopolitical risks.
Equity Markets	
Local Equity Markets	GCC equity markets ended the week in the negative territory on account of rising tensions in the middle east. Continuous rise in oil prices failed to help the investor sentiment. 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.
Global Equity Markets	Global equities declined over the week as reports of possible delay in US tax reform rattled investor sentiment. The S&P 500 fell by 0.2% on doubts that the tax reform policy will be implemented before 2019. European equities underperformed the most on disappointing earnings results and stronger euro. Japanese equities, on the other hand, was the best performer for another week, again helped by strong offshore demand. Overall, we continue to believe that strong economic fundamentals along with robust corporate earnings growth will support global equities.
Commodities	
Precious Metals	Gold prices rose for the first time over the month, helped by tax reform uncertainty. We stick to our overweight recommendation on gold as a risk hedge against ongoing political and (potential) inflationary risks.
Energy	Oil prices reached a three year record high on the back of rising tensions in Saudi. 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 declined last week on account of softness in China data. 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 appreciated versus the dollar as tax reform concerns weighed on the dollar. We expect the euro to remain under pressure as the US dollar regains some ground.
Critical levels	R2 1.1680 · R1 1.1669 · S1 1.1651 · S2 1.1643
GBPUSD	The pound rose against the dollar, boosted by the strong manufacturing data. We expect sterling to remain under pressure due to political uncertainty, economic weakness and Brexit negotiations.
Critical levels	R2 1.3218 · R1 1.3191 · S1 1.3149 · S2 1.3135
USDJPY	The yen strengthened versus the dollar helped by safe haven appetite. We believe there will remain a bias for yen weakness given divergent monetary policies between Japan and the US.
Critical levels	R2 113.64 · R1 113.57 · S1 113.44 · S2 113.37

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
11/15/2017	CPI YoY	Oct	2.0%	2.2%	Focus will be on the inflation and retail sales numbers.
11/15/2017	CPI Core YoY	Oct	1.7%	1.7%	
11/15/2017	Retail Sales Advance MoM	Oct	0.0%	1.6%	
11/16/2017	Capacity Utilization	Oct	76.3%	76.0%	
11/16/2017	NAHB Housing Market Index	Nov	67	68	
11/17/2017	Housing Starts MoM	Oct	5.6%	-4.7%	

Japan

	Indicator	Period	Expected	Prior	Comments
11/15/2017	GDP SA QoQ	3Q P	0.4%	0.6%	GDP release will be important.
11/15/2017	Industrial Production MoM	Sep F	-	1.1%	
11/16/2017	Machine Tool Orders YoY	Oct F	-	-	

Eurozone

	Indicator	Period	Expected	Prior	Comments
11/14/2017	GDP SA QoQ	3Q P	0.6%	0.6%	GDP and inflation release will be closely watched.
11/16/2017	CPI YoY	Oct F	1.4%	1.5%	
11/16/2017	CPI Core YoY	Oct F	0.9%	0.9%	
11/17/2017	ECB Current Account SA	Sep	-	33.3bn	

United Kingdom

	Indicator	Period	Expected	Prior	Comments
11/13/2017	Rightmove House Prices YoY	Nov	-	1.4%	CPI and retail sales will be important.
11/14/2017	CPI YoY	Oct	3.1%	3.0%	
11/14/2017	CPI Core YoY	Sep	2.8%	2.7%	
11/16/2017	Retail Sales Inc Auto Fuel MoM	Oct	0.2%	-0.8%	

China and India

	Indicator	Period	Expected	Prior	Comments
11/14/2017	Retail Sales YoY (CH)	Oct	10.5%	10.3%	All eyes will be on China October releases for retail sales, new yuan loans and India CPI and WPI release
11/14/2017	Fixed Assets Ex Rural YTD YoY (CH)	Oct	7.3%	7.5%	
11/13/2017	CPI YoY (IN)	Oct	3.45%	3.28%	
11/14/2017	Wholesale Prices YoY (IN)	Oct	3.04%	2.60%	
This week	Exports (IN)	Oct	-	25.7%	
This week	New Yuan Loans CNY (CH)	Oct	783.0bn	1270bn	

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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