بنك أبوظبي التجاري ADCB

Markets relatively calm during uneventful week

A relatively quiet week which we expect will be followed by a much more eventful week upcoming. Markets moved modestly higher in a shortened trading week in the US due to Thanksgiving holidays. The week gave investors little new insight into the health of the world's largest economy as US macro data came in mixed. Q3 GDP growth was revised up to 2.1% from the originally reported 1.5% while other data such as consumer spending and confidence was more subdued.

A big week to kick off a huge month

The week ahead is loaded with potentially huge events which will likely have a big say in determining the short to medium term direction of financial markets. However, the shortened trading week in the UAE means there will be a lot to digest for local investors when markets re-open on 6 December.

Starting in the Eurozone, the governing council of the ECB are due meet on Thursday December 3. Expectations are that Mario Draghi will announce further monetary easing measures in a bid to prevent inflation expectations from becoming dislodged. Draghi and his team could increase the duration, size and/or composition of the existing asset purchase programme as well as potentially cutting the deposit rate further into negative territory.

If last week's US macro data gave little further indication of what the Federal Reserve might do in the December FOMC meeting, then this week should give markets plenty to ponder. Non-farm payrolls will be released on Friday December 4. Some market participants see this data release as the last opportunity for the Fed to change its mind on its intention to "lift-off" rates this year, with a particularly disappointing number likely to be required in order to postpone the first US rate hike since 2006.

Finally, the IMF is expected to announce that the Yuan will be included in the IMF reserve currency basket on Monday 30 November while OPEC are scheduled to meet in Vienna on December 4 to discuss oil production targets. We do not expect a change in OPEC's production strategy.

Wietse Nijenhuis
Equity Strategist
Tel: +971 (0)2 696 5123
wietse.nijenhuis@adcb.com

Luciano Jannelli, Ph.D., CFA
Head Investment Strategy
Tel: +971 (0)2 696 2340
luciano.jannelli@adcb.com

Rahmatullah Khan
Economist
Tel: +971 (0)2 696 2843
rahmatullah.khan@adcb.com

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Past week global markets' performance

Index Snapshot (World Indices)			
Index	**Latest**	**Weekly Chg %**	**YTD %**
S&P 500	2,090.1	0.0	1.5
Dow Jones	17,798.5	-0.1	-0.1
Nasdaq	5,127.5	0.4	8.3
DAX	11,293.8	1.6	15.2
Nikkei 225	19,883.9	0.0	13.9
FTSE 100	6,375.2	0.6	-2.9
Sensex	26,128.2	1.0	-5.0
Hang Seng	22068.3	-3.0	-6.5
Regional Markets (Sunday to Thursday)			
ADX	4219.9	-0.9	-6.8
DFM	3204.1	-2.1	-15.1
Tadawul	7238.6	2.9	-13.1
DSM	10522.2	-3.1	-14.4
MSM30	5668.4	-2.2	-10.6
BHSE	1232.8	1.1	-13.6
KWSE	5794.6	1.2	-11.3
MSCI			
MSCI World	1,700.3	-0.1	-0.5
MSCI EM	826.4	-2.0	-13.6

Global Commodities, Currencies and Rates			
Commodity	**Latest**	**Weekly Chg %**	**YTD %**
ICE Brent USD/bbl	44.9	0.4	-21.8
Nymex WTI USD/bbl	41.7	3.3	-21.7
OPEC Baskt USD/bbl	39.7	3.3	-23.8
Gold 100 oz USD/t oz	1057.5	-1.9	-10.7
Platinum USD/t oz	835.8	-2.2	-30.8
Copper USD/MT	4636.0	-1.2	-27.1
Alluminium	1457.5	0.8	-20.5
Currencies			
EUR	1.0593	-0.5	-12.4
GBP	1.5036	-1.0	-3.5
JPY	122.80	-0.0	-2.5
CHF	1.0302	1.2	-3.5
Rates			
USD Libor 3m	0.4142	8.4	62.1
USD Libor 12m	0.9739	2.8	54.9
UAE Eibor 3m	0.9197	4.7	35.8
UAE Eibor 12m	1.2929	1.7	27.3
US 3m Bills	0.1678	73.7	372.7
US 10yr Treasury	2.2201	-1.9	2.3

Please refer to the disclaimer at the end of this publication

Markets to remain in wait and see mode until Thursday

Mario Draghi takes centre stage once more

The week's headline event is undoubtedly the ECB's governing council meeting on December 3. Draghi has talked up the prospect of more QE in the Eurozone for the past several weeks and it is therefore reasonable to assume that he will deliver something. Exactly what is unclear, with the consensus also very split on what will be announced. Some are expecting an expansion/alteration/extension of the existing bond buying programme, some believe a further deposit rate cut is most likely and others expect a combination of the above. Whatever medicine the markets end up getting on Thursday, it is fair to say that Draghi's recent rhetoric has made his job more challenging, not less in the sense that it will be increasingly difficult for him to positively surprise market expectations. In this context we believe that it is unlikely that we will see a risk rally going into the event.

It is worth asking the question why Draghi now appears so eager to add additional stimulus. We believe the answer to this is that it could be his best (and last) opportunity to ease significantly further. Why? Draghi is clearly concerned about the market's unwillingness to believe his "close to but below 2%" inflation target will be met in the medium-term as reflected in dwindling inflation expectations. In addition, given that the ECB's extraordinary measures are not equally popular among member countries (Germany in particular) Draghi needs to find the right moment to convince detractors to enhance the QE programme. Given that inflation should already tick up merely as the result of base effects in relation to oil prices it will help his case to expand the programme before this happens. Equally, when inflation does rise he can point to the success of the QE programme as a major factor.

Last chance saloon?

Closely following behind the ECB's meeting in terms of market importance is Friday's non-farm payrolls for the month of November. There are other important data releases out this week, not least PMI data from across the globe (investors will likely single out the China number), ISM Manufacturing in the US, inflation in the Eurozone and retail sales in Japan. However, no data release will receive more attention than US November non-farm payrolls. The October number was surprisingly strong (+271k) and the consensus currently expects the November number to come in at +200k. We believe that it would require a particularly disappointing number to change expectations of the December rate hike in the US.

As an aside, preliminary data from Black Friday, the biggest shopping event of the year in the US suggests that shoppers are in decent health, spending $2.7bn online on Thanksgiving day alone, a 14.3% increase from last year.

EURUSD overshoot possible, but likely to be temporary

In our last weekly note we made the point that if the Fed is able to lift rates and accompany this move with dovish rhetoric than it would be reasonable to assume that US dollar strength will peter out at some point. We maintain this view and believe that a less strong (different from a weak) US dollar is important for global risk appetite in the coming 12 months. A less strong US dollar will likely mean that the Fed is succeeding in convincing the market that monetary tightening will be extremely gradual. It will also mean that pressure is able to come off Emerging Markets and to an extent, commodity prices. This is our base case for 2016 and one which is conducive to an environment which is more favourable for financial markets than what was the case in 2015.

Having said this, if there is to be an overshoot, i.e. the US dollar does strengthen further against other major currencies (EUR, JPY) then it will likely come in December with the an especially dovish announcement from the ECB the most likely catalyst. Our recommendation is therefore to hold hedged EURUSD positions in the near-term with a view to removing the hedge once any potential "shock and awe" impact on the EURUSD exchange rate comes out of the price.

Update on our key equity calls – Germany and China

We finish this week with an update on our long DAX and long China H-shares equity recommendations. The two calls have had very diverging performance over the past month, the DAX rising 4.6% and the HSCEI index falling 5.6% (both in local currency terms).

Almost half of the poor performance in Chinese equities came last Friday (-2.5%) following news that the country's securities regulator was stepping up its probe into violation of securities rules. This is nothing new, nevertheless with more brokers getting investigated it is currently a case of regulation risk dominating the potentially supportive top-down environment for Chinese equities. Monday 30 November will likely also see the IMF announcing the approval of China's Yuan in its basket of currencies known as Special Drawing Rights. It is not certain what the market reaction to this will be, if any. However, it will be seen by China as an important diplomatic success.

Our German equities call is faring better. The market is up nearly 20% in local currency terms since the end of September bottom. We continue to believe that there is further upside in Eurozone equity markets, especially if Mario Draghi and team are able to positively surprise market expectations later this week and Eurozone macro data continues improving.

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Summary market outlook

Global Yields	US Treasury yields came down slightly, dropping to 2.22% on the 10-year from 2.26% a week earlier. The Federal Reserve will be encouraged that long yields have (so far) not spiked in the run up to its mid-December FOMC meeting. European sovereign bond yields are likely to be range bound until the ECB meeting on Thursday.
Stress and Risk Indicators	The VIX index trended lower in a shortened and uneventful trading week in the US due to Thanksgiving holidays.
Precious Metals	Gold tumbled a further 2% during the week to $1,057/oz, dropping to a new 6-year low. We remain cautious on the precious metal price.
Local Equity Markets	Mixed performance in GCC equity markets with Saudi the standout performer rising 2.9% last week. UAE equity markets fared much worse, the ADX dropping 0.9% and the DFM shedding 2.1%. We remain cautious in the near term given the high volatility in global oil prices.
Global Equity Markets	Global equity markets were modestly higher after a very strong week the previous week. The standout performer was the DAX which managed to gain 1.6%. We expect Eurozone equity performance to remain strong but believe a significant risk rally in the lead up to the ECB meeting is unlikely.
Energy	Despite relative stability in the oil price last week, the volatility outlook remains high. Therefore, we caution investors to take any position in the market. A less strong dollar in the medium term will help remove the downward pressure off energy prices.
Industrial Metals	Industrial metal prices continue to come down and lack an identifiable catalyst.

Currencies	**Commentary**	**Critical levels**
EURUSD	The euro remained under pressure on talk of expanded QE from the ECB, and more lift-off talk. We expect that the bulk of EUR weakness is now behind us but do not rule out an overshoot on the back of ECB intervention.	R2 - 1.0843 R1 - 1.0744 S1 - 1.0582 S2 - 1.0519
GBPUSD	The pound weakened 1% during the week. We expect that the currency could come under mild depreciating pressure as the Fed is more likely to hike before the BOE. In addition, the UK's weakening external position also adds to moderate downward pressure against the greenback.	R2 - 1.5408 R1 - 1.5300 S1 - 1.5119 S2 - 1.5046
USDJPY	The Yen was flat over the course the week. This reflects that the currency is unlikely to move significantly in either direction from the current level/range.	R2 – 124.46 R1 – 123.64 S1 – 122.11 S2 – 121.40

Forthcoming important economic data

United States

	Indicator	Period	Expected	Prior	Comments
11/30/2015	Pending Home Sales MoM	Oct	1.00%	-2.30%	
11/30/2015	Pending Home Sales NSA YoY	Oct	4.50%	2.50%	
12/1/2015	Markit US Manufacturing PMI	Nov F	52.6	52.6	
11/30/2015	Pending Home Sales MoM	Oct	1.00%	-2.30%	
12/1/2015	ISM Manufacturing	Nov	50.5	50.1	A deluge of economic data to be released, none more important than non-farm payrolls on Friday.
12/3/2015	ISM Non-Manf. Composite	Nov	58.0	59.1	
12/3/2015	Factory Orders	Oct	1.40%	-1.00%	
12/3/2015	Durable Goods Orders	Oct F	--	3.00%	
12/4/2015	Change in Nonfarm Payrolls	Nov	200k	271k	
12/4/2015	Unemployment Rate	Nov	5.00%	5.00%	
12/4/2015	Average Hourly Earnings YoY	Nov	2.30%	2.50%	

Japan

	Indicator	Period	Expected	Prior	Comments
11/30/2015	Industrial Production MoM	Oct P	1.80%	1.10%	
11/30/2015	Industrial Production YoY	Oct P	-0.90%	-0.80%	Retail sales expected to drop further.
11/30/2015	Retail Sales MoM	Oct	0.30%	0.70%	
12/4/2015	Consumer Confidence Index	Nov	41.7	41.5	

Eurozone

	Indicator	Period	Expected	Prior	Comments
11/30/2015	Retail Sales MoM (GE)	Oct	0.40%	0.00%	
11/30/2015	Retail Sales YoY (GE)	Oct	2.90%	3.40%	
12/1/2015	Markit Eurozone Manufact. PMI	Nov F	52.8	52.8	
12/3/2015	Markit Eurozone Services PMI	Nov F	54.6	54.6	A fully loaded data release schedule, but markets will focus on the ECB governing council meeting on Thursday in which the ECB deposit facility rate might get cut further among other measures.
12/2/2015	CPI Estimate YoY	Nov	0.20%	0.10%	
12/2/2015	CPI Core YoY	Nov A	1.10%	1.10%	
12/3/2015	Retail Sales MoM	Oct	0.20%	-0.10%	
12/3/2015	Retail Sales YoY	Oct	2.60%	2.90%	
12/3/2015	ECB Deposit Facility Rate	3-Dec	-0.30%	-0.20%	

China and India

	Indicators	Period	Expected	Prior	Comments
12/1/2015	Manufacturing PMI (China)	Nov	49.9	49.8	
12/1/2015	Caixin China PMI Mfg (China)	Nov	48.3	48.3	China PMI will be closely watched as it always is, while the policy meeting in India is not expected to lead to a change in interest rates.
12/1/2015	Caixin China PMI Services (China)	Nov	--	52	
12/1/2015	RBI Repurchase Rate (India)	1-Dec	6.75%	6.75%	
12/1/2015	RBI Reverse Repo Rate (India)	1-Dec	5.75%	5.75%	

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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