The Weekly Market View

November 7 2017

Syncronized lowflation global growth story continuing

US labor market data confirmed a message that we have seen for some time now. The US economy continues to expand at a pace that is steady whilst not exciting and at the same time wage pressures remain subdued. So at the same moment that the unemployment rate reached its minimum level in almost 17 years, we still saw the 10 year bond yields coming down, resulting in a further flattening of the US yield curve: the difference between the two year Treasury and the ten year Treasury is now a mere 70 basis points. A flattening of the yield curve is usually a good indicator of cooling growth, an inverted yield curve (a situation by which long-term bonds yield less than short-term notes) being arguably the best indicator for an upcoming recession. Today's low US yields are definitely also caused by subdued global yields, specifically Japanese and German bond yields that are significantly lower still. Since the Japanese and Euro-zone economies are in a strong expansionary mode, but hardly tightening their monetary policies (and thus keeping yields at historically low levels), it is not unreasonable to expect that US yields will also remain anchored without that implying a significant growth slowdown, at least not for the next 12 months.

US monetary policy is unlikely to shock markets, China will be the brake

Little important macro data will be published in the week ahead. Whilst a December Fed rate hike is now firmly priced in, markets are not discounting the Federal Reserve sticking to its own "dot-plot" narrative of 75 more basis points in hikes in 2018 and 50 more in 2019. The nomination of Jay Powell as Fed chairman confirms our scenario that it will not be US monetary policy that will shock the markets, and that policy will remain accommodating. This will probably preserve the upward momentum for global risk assets, in particular equities. Over the next weeks it will be more important to see how China will reduce its economic stimulus and how this will put some brake on global growth. It is likely going to constitute a headwind for emerging markets in particular, although we still see plenty of scope for selectivity with the emerging markets space. It will be important to see how political developments unfold in the GCC region and in the periphery of the Euro-zone (specifically Italy and Spain). However, these political developments are unlikely to alter the general outlook at this stage. That outlook remains one of continuing global growth with China going to exercise somewhat of a brake on that expansionary dynamics.

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Past week global markets' performance

Index Snapshot (World Indices)

Index	Latest	Weekly Chg %	YTD %
S&P 500	2,587.8	0.3	15.6
Dow Jones	23,539.2	0.4	19.1
Nasdaq	6,764.4	0.9	25.7
DAX	13,478.9	2.0	17.4
Nikkei 225	22,539.1	2.4	17.9
FTSE 100	7,560.4	0.7	5.8
Sensex	33,685.6	1.6	26.5
Hang Seng	28603.6	0.6	30.0
Regional Markets (Sunday to Thursday)			
ADX	4465.2	0.1	-1.8
DFM	3622.2	-0.5	2.6
Tadawul	6956.5	0.0	-3.5
DSM	8146.2	0.1	-21.9
MSM30	5040.19	1.5	-12.8
BHSE	1282.9	0.5	5.1
KWSE	6548.4	-0.9	13.9
MSCI			
MSCI World	2,045.5	0.5	16.8
MSCI EM	1,126.2	1.4	30.6

Global Commodities, Currencies and Rates

Commodity	Latest	Weekly Chg %	YTD %
ICE Brent USD/bbl	62.1	2.7	9.2
Nymex WTI USD/bbl	55.6	3.2	3.6
Gold USD/t oz	1269.9	-0.3	10.7
Silver USD/t oz	16.8	-0.1	5.7
Platinum USD/t oz	921.3	0.5	2.0
Copper USD/MT	6914.5	1.2	25.7
Alluminium	2170	0.6	28.1
Currencies			
EUR USD	1.1608	0.0	10.4
GBP USD	1.3077	-0.4	6.0
USD JPY	114.07	0.4	-2.5
CHF USD	1.0007	0.3	1.8
Rates			
USD Libor 3m	1.3919	0.9	39.5
USD Libor 12m	1.8629	0.8	10.5
UAE Eibor 3m	1.5732	0.1	6.6
UAE Eibor 12m	2.2137	0.1	5.7
US 3m Bills	1.1692	7.0	135.1
US 10yr Treasury	2.3325	-3.1	-4.6

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Summary market outlook

Bonds	
Global Yields	US Treasury yields edged lower as previous weeks' selling pressure eased with the appointment of Jerome Powell's as the Fed chairperson. Market participants view Mr Powell as the "continuing candidate", most likely to stick to Fed's gradual approach of hiking rates. We expect Treasury yields to remain range bound unless there is a sharp jump in inflation/inflation expectations. In Europe, the gilt yields also dropped lower as the BoE "once and done" rate hike indicated that the central bank will stay prudent in tightening monetary policy again. We expect gilt yields to remain supportive with the ongoing uncertainty on Brexit negotiations.
Stress and Risk Indicators	The VIX remained near its record lows helped by the equity market rally. Volatility is unlikely to stay this low given the backdrop of ongoing geopolitical risks.
Equity Markets	
Local Equity Markets	GCC equity markets performed well in line with the emerging market rally. Continuous rise in oil prices also provided additional support to 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 ended the week in the positive territory, led by Japanese and European stocks. The S&P 500 ended the week almost flat as investors digested new details of the draft tax plan. Japanese equities outperformed the most, helped by strong offshore demand. European equities also performed well with strong economic data raising earning expectation. Emerging markets recouped earlier losses on expectation of Fed policy continuity after Mr Powell's appointment. Overall, we continue to believe that strong economic fundamentals along with robust corporate earnings growth will support global equities.
Commodities	
Precious Metals	Gold prices were under pressure as December rate hike expectations firmed up post the payroll data. We stick to our overweight recommendation on gold as a risk hedge against ongoing political and (potential) inflationary risks.
Energy	Oil prices reached new record highs since June 2015 on the back of lower US rig count and growing expectation that the OPEC-led supply agreement will be extended beyond March 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.
Industrial Metals	Industrial metals rallied last week, tracking the rise in oil prices and also propelled by the synchronised pick-up in global growth. 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 on muted dollar demand post the Fed chair announcement. We expect the euro to remain under pressure as the US dollar regains some ground.							
Critical levels	R2	1.1648	R1	1.1629	S1	1.1585	S2	1.1561
GBPUSD	The pound weakened against the dollar post the dovish BoE rate hike. We expect sterling to remain under pressure due to political uncertainty, economic weakness and Brexit negotiations.							
Critical levels	R2	1.3251	R1	1.3211	S1	1.3095	S2	1.3019
USDJPY	The yen was mostly flat versus the dollar. We believe there will remain a bias for yen weakness given divergent monetary policies between Japan and the US.							
Critical levels	R2	115.08	R1	114.39	S1	113.36	S2	113.01

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
11/09/2017	Wholesale Inventories MoM	Sep F	0.3%	0.3%	Light week in terms of data releases.
11/10/2017	Univ. of Mich. Sentiment	Nov P	100.6	100.7	

Japan

	Indicator	Period	Expected	Prior	Comments
11/06/2017	Nikkei Japan PMI Composite	Oct	-	51.7	Current account balance data will be important.
11/09/2017	BoP Current Account Balance	Sep	¥2375.4b	¥2380.4b	
11/10/2017	Tertiary Industry Index MoM	Sep	-0.1%	-0.2%	

Eurozone

	Indicator	Period	Expected	Prior	Comments
11/06/2017	Markit Eurozone Composite PMI	Oct F	55.9	55.9	Focus will be on the ECB economic bulletin.
11/06/2017	PPI YoY	Sep	2.7%	2.5%	
11/07/2017	Retail Sales YoY	Sep	2.8%	1.2%	
11/09/2017	ECB publishes economic bulletin				

United Kingdom

	Indicator	Period	Expected	Prior	Comments
11/07/2017	Halifax House Prices MoM	Oct	0.1%	0.8%	Trade balance data will be important.
11/10/2017	Industrial Production YoY	Sep	1.9%	1.6%	
11/10/2017	Trade Balance	Sep	-£4600	-£5626	

China and India

	Indicator	Period	Expected	Prior	Comments
11/07/2017	Foreign Reserves (CH)	Oct	$3107.5b	$3108.5b	All eyes will be on China October releases for foreign reserves, exports and inflation.
11/08/2017	Exports YoY (CH)	Oct	7.0%	8.1%	
11/09/2017	CPI YoY (CH)	Oct	1.7%	1.6%	
11/10/2017	New Yuan Loans CNY (CH)	Oct	775.0b	1270.0b	
11/10/2017	Aggregate Financing CNY (CH)	Oct	1102.5b	1819.9b	

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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