بنك أبوظبي التجاري ADCB

Global equity markets touch new records after two week stall

With the exception of the GCC markets, global equity markets resumed their upward trend. US equity markets and the broad global MSCI Index touched new record highs. The pick-up in equity fortunes coincided with the most significant flattening of the yield curve since 2008 and with renewed downward pressure on the US dollar. Both phenomena can be attributed to market doubts about the Fed pursuing further hikes after it now virtually certain upcoming hike in December. In fact the flattening of the yield curve is due to the long-term yields barely budging whilst short term rates are going up. The weaker greenback is the inevitable conclusion. Market doubts stemmed from the November FOMC meeting minutes in which it appeared that many policymakers are concerned about the opportunity to stick to the signalled hike path at a time that inflation is hardly moving. The weakness of the US dollar benefitted commodity and oil markets, but precious metals receded mildly. Judging from German confidence indicators and the euro, markets are not particularly worried about the German government negotiations stalemate. We agree, Germany should get a government without new elections, and that government will also increase fiscal stimulus, contributing to some rebalancing within the Euro-zone.

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Fed policy, China growth and Oil price to be the markets' focus

US inflation data together with Mrs. Yellen's semi-annual Congress hearings and Mr. Powell's Senate confirmation hearings are likely to draw attention to US monetary policy in 2018. So far markets are expecting only one rate hike in March, whereas policymakers are signalling 3 hikes for the year. Dovish indications are likely to push markets higher, given also continuing growth in the US and its main trading partners. China officials are giving increasing signs that they want to reign in debt. As such, it will be interesting to see what the country's PMI indicators will say for November, the first period of measurement after the 19th National Party Congress last month. We do not expect major shock waves, China will reign in growth but it will do so moderately. For now, the lack of significant US dollar strength makes it easier for the Chinese to tighten stimulus in a gradual manner. With the oil price reaching new highs, speculation is rife that more upside is in the coming. Whilst the oil price can be very volatile, and temporary swings cannot be excluded, we would like to strike a note of caution and observe that inflation expectations (as measured by the break-even levels of inflation-indexed bonds) do not reflect a further significant rise in oil prices. Critically, oil inventories have come down and US spare capacity has increased, such that a further jump in prices would easily invite US shale producers to ramp up output. Also, we believe the situation in the Middle East to be more stable than many argue. In such circumstances it makes more sense to argue for a stable oil price, than for a continuing surge.

Past week global markets' performance

Index Snapshot (World Indices)

Index	Latest	Weekly Chg %	YTD %
S&P 500	2,602.4	0.9	16.2
Dow Jones	23,558.0	0.9	19.2
Nasdaq	6,889.2	1.6	28.0
DAX	13,059.8	0.5	13.8
Nikkei 225	22,550.9	0.7	18.0
FTSE 100	7,409.6	0.4	3.7
Sensex	33,679.2	1.0	26.5
Hang Seng	29866.3	2.3	35.8
Regional Markets (Sunday to Thursday)			
ADX	4287.1	-0.9	-5.7
DFM	3460.9	0.0	-2.0
Tadawul	6878.2	-0.5	-4.6
DSM	7742.5	-1.1	-25.8
MSM30	5086.35	-0.4	-12.0
BHSE	1276.6	0.5	4.6
KWSE	6239.4	-1.1	8.5
MSCI			
MSCI World	2,059.5	1.3	17.6
MSCI EM	1,154.3	1.6	33.9

Global Commodities, Currencies and Rates

Commodity	Latest	Weekly Chg %	YTD %
ICE Brent USD/bbl	63.9	1.8	12.4
Nymex WTI USD/bbl	59.0	4.2	9.7
Gold USD/t oz	1288.4	-0.3	12.3
Silver USD/t oz	17.1	-1.5	7.1
Platinum USD/t oz	942.0	-1.0	4.3
Copper USD/MT	6967.5	3.6	26.7
Alluminium	2120.75	1.4	25.2
Currencies			
EUR USD	1.1933	1.2	13.5
GBP USD	1.3337	0.9	8.1
USD JPY	111.53	-0.5	-4.9
CHF USD	0.9795	-1.0	4.0
Rates			
USD Libor 3m	1.4676	1.9	47.1
USD Libor 12m	1.9361	1.6	14.9
UAE Eibor 3m	1.6440	2.7	11.4
UAE Eibor 12m	2.3383	2.6	11.6
US 3m Bills	1.2610	0.2	153.5
US 10yr Treasury	2.3418	-0.1	-4.2

Please refer to the disclaimer at the end of this publication

Summary market outlook

Bonds	
Global Yields	US Treasury yields remained stable with the short-dated bond underperforming in anticipation of December rate hike expectations. The yield curve continued to flatten for most of the week. We expect Treasury yields to remain range bound unless there is a sharp jump in inflation expectations, something we do not see for the moment.
Stress and Risk Indicators	The VIX receded again and remains astonishing low, as the markets continues to shrug off all risks. It might well stay at these levels for longer, with an occasional jump up.
Equity Markets	
Local Equity Markets	GCC equity markets remained volatile and under downward pressure as the market is still searching for an end to uncertainty and some sort of clarity on the long-term course, in particular with regard to Saudi Arabia. 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 into the MSCI watch list for potential promotion into the MSCI Emerging Markets index. We do recognize that the upward trend will be volatile.
Global Equity Markets	Global equities moved upward as global PMI indicators did well, and Fed FOMC minutes indicated in 2018 that the Fed might turn less hawkish than expected in 2018. Technology stocks did best, as their performance is less likely to be affected by stimulus policy measures. Overall, we continue to believe that strong economic fundamentals along with robust corporate earnings growth will support global equities.
Commodities	
Precious Metals	Gold prices gave back some of their gains from the earlier weeks. We stick to our overweight recommendation on gold as a risk hedge against ongoing political and (potential) inflationary risks.
Energy	Oil prices recouped their losses of the last weeks and are again at their three year record highs. The weakening of the US dollar was helpful in that regard. 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 also regained territory with the weaker dollar and the improved global growth outlook. Longer-term we do not recommend industrial metals exposure due to concerns around Chinese growth prospects post the Party Congress.
Currencies	
EURUSD	The euro appreciated versus the dollar as the FOMC meeting minutes confirmed that some of its members were concerned about the lack of inflation. Strong Euro-zone PMI figures weighed more than the collapse of the German coalition talks. We expect the currency pair to move sideward over the next months.
Critical levels	R2 1.2094 · R1 1.2014 · S1 1.1783 · S2 1.1632
GBPUSD	The pound's rise is most likely linked to FOMC meetings minutes as well as its partial correlation to the euro. We expect the pair to move sideward over the next months with some weakening bias for the pound.
Critical levels	R2 1.3468 · R1 1.3403 · S1 1.3229 · S2 1.3120
USDJPY	The yen strengthened versus the dollar in a healthy way, i.e. not as a result of increased global risks, but because of general dollar weakness and good domestic data. We believe there will remain a bias for yen weakness given divergent monetary policies between Japan and the US.
Critical levels	R2 113.42 · R1 112.48 · S1 110.83 · S2 110.12

Note: R2, R1, S2 and S1 refer to Bloomberg calculated weekly technical resistance and support levels

Forthcoming important economic data: US inflation and China PMI the most important

United States

	Indicator	Period	Expected	Prior	Comments
11/27/2017	New Home Sales	Oct	625k	667k	Core PCE and ISM data will be the markets' focus.
11/28/2017	Wholesale Inventories MoM	Oct	0.4%	0.3%	
11/28/2017	Conf. Board Consumer Confidence	Nov	124.0	125.9	
11/29/2017	GDP Annualized QoQ	3Q S	3.2%	3%	
11/29/2017	Core PCE QoQ	3Q S	--	1.3%	
11/30/2017	Personal Spending	October	0.3%	1.0%	
12/01/2017	ISM Manufacturing	Nov	58.3	58.7	
12/01/2017	Construction Spending MoM	Oct	0.5%	0.3%	

Japan

	Indicator	Period	Expected	Prior	Comments
11/30/2017	Industrial Production MoM	Oct P	1.8%	-1.0%	Manufacturing PMI and capital spending key
12/01/2017	National CPI YoY	Oct	0.2%	0.7%	
12/01/2017	National CPI ex Food and Energy YoY	Oct	0.8%	0.7%	
12/01/2017	Capital Spending YoY	3Q	3.2%	1.5%	
12/01/2017	Nikkei Japan PMI Mfg	Nov F	--	53.8	

Eurozone

	Indicator	Period	Expected	Prior	Comments
11/29/2017	Consumer Confidence	Nov F	0.1	0.1	CPI and PMI data in the spotlight
11/30/2017	CPI Estimate YoY	Nov	1.6%	1.4%	
11/30/2017	CPI Core YoY	Nov A	1.0%	0.9%	
12/01/2017	Markit Eurozone Manufacturing	Nov F	60.0	60.0	

United Kingdom

	Indicator	Period	Expected	Prior	Comments
12/01/2017	Markit PMI Manufacturing	Nov	56.5	56.3	PMI data key

China and India

	Indicator	Period	Expected	Prior	Comments
11/30/2017	Manufacturing PMI (CH)	Nov	51.5	51.6	PMI data key
12/01/2017	Caixin China PMI Mfg (CH)	Nov	51.0	51.0	
12/01/2017	Nikkei India PMI MfG (IN)	Nov	--	50.3	

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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