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Positive mood continues as PMIs confirm growth uptick

For the third week since Mr. Trump conquered the presidency have equity markets moved up with bond yields. The US dollar also moved once more up, although there were some tentative signs of stabilization against the euro. Part of this positive momentum can be explained by relatively resilient economic data, in particular good leading manufacturing indicators from the US and the EU, as well as solid US housing- and durable goods data. The pick-up in the University of Michigan's consumer confidence indicator tells us that the mere "feel good" factor of more pro-active fiscal policy, in and by itself can have a positive impact on consumer spending. The key question remains of course the reaction of the Federal Reserve and the strength of the US dollar. Higher rates and a stronger US dollar might not necessarily derail US growth, but they could halt the rise of equities and yields.

Less good US labour data would be good for markets

At this stage the prospect of potentially two more rate hikes in 2017 (beyond the December rate hike which is fully priced in) seems an acceptable cost in the context of a scenario where public spending will lift US growth. Of course, it needs to be seen whether growth will be that strong in 2017, and whether public spending will not further fuel inflation such that the Fed will be forced to do more than the two hikes which the FOMC is now expecting. As we have discussed before, however, what matters is that for now markets are buying the story of more growth with only moderate rate hikes. Thus, whilst a technical correction from the recent surge in equity prices and bond yields is quite likely, it will not be a major event and it should not invert the upward trend that started following the election of Mr Trump. Paradoxically, in this context not so good US economic data, specifically this week's labour market data, should be good for equities, as it would confirm a scenario of expansionary fiscal policy with a continuously accommodating Fed.

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Past week global markets' performance

Index Snapshot (World Indices)

Index	Latest	Weekly Chg %	YTD %
S&P 500	2,213.4	1.4	8.3
Dow Jones	19,152.1	1.5	9.9
Nasdaq	5,398.9	1.5	7.8
DAX	10,699.3	0.3	-0.4
Nikkei 225	18,381.2	2.3	-3.4
FTSE 100	6,840.8	1.0	9.6
Sensex	26,316.3	0.6	0.8
Hang Seng	22723.5	1.7	3.7
Regional Markets (Sunday to Thursday)			
ADX	4273.0	-0.4	-0.8
DFM	3324.1	0.4	5.5
Tadawul	6796.8	2.5	-1.7
DSM	9714.9	-0.6	-6.9
MSM30	5521.29	0.5	2.1
BHSE	1186.2	0.5	-2.4
KWSE	5517.4	0.1	-1.7
MSCI			
MSCI World	1,720.8	1.4	3.5
MSCI EM	855.8	1.3	7.8

Global Commodities, Currencies and Rates

Commodity	Latest	Weekly Chg %	YTD %
ICE Brent USD/bbl	47.2	0.8	26.7
Nymex WTI USD/bbl	46.1	0.8	24.4
OPEC Baskt* USD/bbl	45.2	6.8	44.6
Gold 100 oz USD/t oz	1183.6	-2.0	11.5
Platinum USD/t oz	908.3	-1.5	1.9
Copper USD/MT	5822.5	6.9	23.8
Alluminium	1758.75	3.6	16.8
Currencies			
EUR	1.0589	0.0	-2.5
GBP	1.2477	1.1	-15.3
JPY	113.22	2.1	6.2
CHF	1.0141	0.4	-1.2
Rates			
USD Libor 3m	0.9373	2.3	53.0
USD Libor 12m	1.6451	1.5	39.7
UAE Eibor 3m	1.4049	0.1	33.2
UAE Eibor 12m	2.0357	1.8	38.1
US 3m Bills	0.4923	14.1	202.6
US 10yr Treasury	2.3572	0.1	3.9

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Central banks for now unlikely to perturb markets, Italy referendum risk probably overstated

Technical corrections likely to be minor

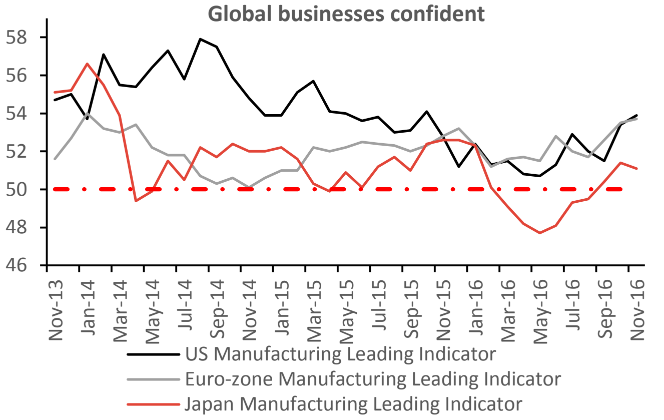
The real Donald Trump will only stand up after the 20th of January when he will be inaugurated as the 45th President of the United States. To be precise, even by that date some time will pass before we see how he will effectively use his executive powers, which are particularly strong in the areas of trade and immigration. It would be good if he uses those powers reluctantly and with a healthy dose of circumspection. In the area where he has less discretion to act, fiscal policy, it would be very good if he would use all the goodwill he currently possesses to persuade the US Congress to prioritize effective infrastructure spending over tax cuts. This will not be easy of course. However, whilst a compromise is inevitable, markets are likely to continue to bet on a reasonably good fiscal policy mix. We believe that such bet is not without reason. Thus, whilst the now three week run is likely to see some technical correction, we would not bet on a major one. More importantly we would for the coming months not bet on an inversion of the current trend.

Good labour market data could stress the need for more aggressive rate hikes

The Federal Reserve is not in a hurry to accelerate the path of rate hikes, which they currently estimate at two in 2017 (beyond the December 2016 hike which is all but assured). For one thing, the stronger US dollar and higher yields are already effectively making financial conditions harsher. Also, the Fed would herself want to get more clarity as to the effective impact of a Trump presidency on the US economy. Short, it would rather risk a mild overshoot on the inflation front, rather than a recessionary development. Having said so, if markets want to correct any excuse is good. Thus the confirmation of a growing labour market and, critically, with it wage inflation, is likely to boost rate hike expectations. As such it could be a good excuse for market participants to take some profit on their US equity holdings. It would also allow them to buy into the cheaper bonds, although here too, we do not see a significant trend inversion. The much less likely outcome of not so good labour market data for the month of November, would on the other hand have the opposite effect of immediately reinforcing the current upward trend in equity prices and bond yields.

Leading manufacturing data comforting, especially for Japanese equities

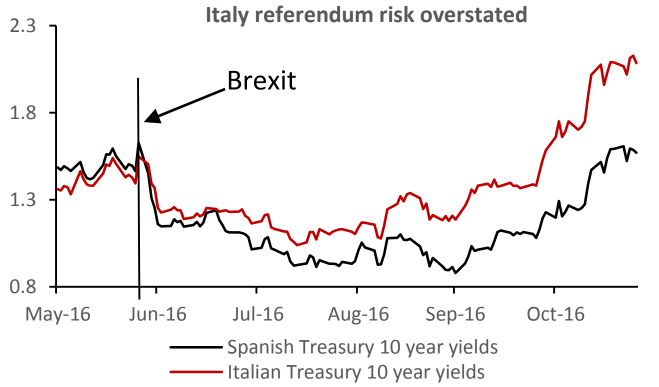
Looking beyond possible short-term volatility, over the coming months we see markets still boosted by an upcoming US presidency that through the first half of 2017 is being granted the benefit of the doubt. The fact that global growth appears a little bit more resilient, especially in other advanced economies, such as the Euro-zone and Japan, that benefit from a stronger US dollar is also helpful in this regard. The manufacturing leading indicators of the United States and the Euro-zone are still rising, as can be seen on the below chart. Paradoxically, the November slide of the Japanese index should not be worrying for Japanese equities. On the contrary, the weaker Japanese economy will force the BoJ to persist on its current extremely accommodating policy. Together with reflation in the US, this will continue to benefit Japanese equities through a weaker yen.



Source: Bloomberg

December 4th Italy referendum risk likely overstated

Italians will either reject or approve constitutional reforms promoted by the government, and designed to make the governing process of the country more efficient. The electorate will reject the reforms based on the argument that they are in fact ill designed and risk upsetting a balance that has ensured democracy since 1947. A victory of the "no" vote, however, does not entail the same political risk that has lately affected the UK and the US. For one thing, a "no" means that nothing changes (not exactly the same can be said for Brexit and Trump). More importantly, a "no" vote is unlikely to trigger new elections, more likely a new government that would still be supportive of further reform. There is even a chance that new, potentially better, constitutional reforms – as well as a solution of the banking issues - are pushed through before elections scheduled early 2018. At any rate, a populist government that triggers an "Italexit" referendum is not on the horizon.



Source: Bloomberg

Summary market outlook

Bonds	
Global Yields	Yields rose again as the prospects of an expansionary fiscal policy continued to rise. Whilst it is likely that they will remain in a higher range, for now we think that lower foreign yields and US dollar appreciation should prevent them from shooting massively above 2.5%.
Stress and Risk Indicators	The VIX index remained low as the likely fiscal boost is now expected to be positive for growth, and thus equities. This sentiment might also well last for the next months.
Equity Markets	
Local Equity Markets	GCC equity markets but Saudi market were largely flat over the last week. Strong dollar weighed on Dubai companies while ease of liquidity drove the Saudi market. We expect sideways movement with downward bias in the regional equities as the oil price remains volatile.
Global Equity Markets	The positive momentum for advanced equities might continue for some months to come as markets continue to speculate about a more expansionary US fiscal policy. Limits to this story would be high valuation and rate hikes for US equities, increased political risks for European equities, strong dollar and increased financial risks for emerging markets. UK and Japanese equities could do relatively well as their monetary policy framework remains more accommodating and their currencies have further depreciation potential.

Commodities	
Precious Metals	Precious metals prices are once more under pressure. However, geopolitical risks and economic risks are here to stay, we therefore stick to our gold call.
Energy	Energy prices remained resilient in spite of the strong US dollar. This resilience is probably supply side driven as markets continue to speculate on some sort of production cut agreement across oil producing countries, and the impact of reduced capital spending should also at some point bear fruit.
Industrial Metals	Industrial metals performed strongly last week, recovering the losses of the prior week. We have strong doubts about the resilience of industrial metals since most of the demand comes from China and not the United States.

Currencies								
EURUSD	The euro managed to recover its losses after touching a record low against the greenback. Expected more expansionary fiscal policy – combined with Fed hikes – will keep the dollar strong.							
Critical levels	R2	1.0728	R1	1.0659	S1	1.0519	S2	1.0448
GBPUSD	The pound sterling was the only major currency to gain against the dollar. However, we expect further downward movement in the currency in the near term.							
Critical levels	R2	1.2634	R1	1.2556	S1	1.2356	S2	1.2234
USDJPY	The yen continued its sharp depreciating trend. US dollar strength could persist, not only because of the change in US policies, but also because the BoJ has clearly committed to keeping the 10 year yield at 0%. Only a major global risk off episode could reignite yen appreciation in our view.							
Critical levels	R2	116.09	R1	114.66	S1	111.03	S2	108.83

Forthcoming important economic data

United States

	Indicator	Period	Expected	Prior	Comments
11/29/2016	GDP Annualized QoQ	3Q S	3.0%	2.9%	Important data week as job and ISM figures will be important for the market.
11/30/2016	Personal Spending	Oct	0.5%	0.5%	
11/30/2016	PCE Core YoY	Oct	1.7%	1.7%	
12/01/2016	ISM Mfg	Nov	52.2	51.9	
12/02/2016	Change in Nonfarm Payrolls	Nov	175k	161k	
12/02/2016	Unemployment Rate	Nov	4.9%	4.9%	
12/02/2016	Average Hourly Earnings YoY	Nov	2.8%	2.8%	

Japan

	Indicator	Period	Expected	Prior	Comments
11/29/2016	Jobless Rate	Oct	3.0%	3.0%	Job market and industrial production data will be focus of the market.
11/30/2016	Industrial Production MoM	Oct P	0.1%	0.6%	
12/01/2016	Capital Spending YoY	3Q	-0.5%	3.1%	

Eurozone

	Indicator	Period	Expected	Prior	Comments
11/28/2016	M3 Money Supply YoY	Oct	5.0%	5.0%	Markets to closely watch the PMI and IFO
11/29/2016	CPI Estimate YoY	Nov	0.6%	0.5%	
12/01/2016	Markit Mfg PMI	Nov F	53.7	53.7	

United Kingdom

	Indicator	Period	Expected	Prior	Comments
12/01/2016	Nationwide House Price YoY	Nov	4.7%	4.6%	GDP and foreign trade data are important for the market.
12/01/2016	Markit Mfg PMI	Nov	54.3	54.3	

China and India

	Indicator	Period	Expected	Prior	Comments
12/01/2016	Manufacturing PMI (CH)	Nov	51	51.2	PMIs will be in focus for these EMs.
12/01/2016	Non-mfg PMI (CH)	Nov	--	54.0	
12/01/2016	Caixin China Mfg PMI (CH)	Nov	50.8	51.2	
11/30/2016	GDP YoY (IN)	3Q	7.5%	7.1%	
12/01/2016	Nikkei Mfg PMI (IN)	Nov	--	54.4	

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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