# The Weekly Market View

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**Wietse Nijenhuis**
Equity Strategist
Tel: +971 (0)2 205 4923
wietse.nijenhuis@adcb.com

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

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

**Prerana Seth**
Fixed Income Strategist
Tel: +971 (0)2 696 2878
prerana.seth@adcb.com

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## FBI, UK Court and OPEC upset markets

*Some tightening of the polls was likely as election-day approached, but the FBI's decision to reopen the investigation into Hillary Clinton's email affair, likely exacerbated the inevitable. The impact on financial markets has been significant as risk assets tumbled with the US dollar, whilst the VIX, a measure of expected volatility in US equities, drifted higher through the week. The decision by the UK's High Court to force the government to ask parliament's authorisation for proceeding with Brexit, paradoxically made things worse for UK equities. Indeed if the pound sterling appreciates, UK equities – in particular blue chips – stand to lose. OPEC not moving to effective implementation of the earlier announced cuts in crude production was the main driver of the sharp oil price correction. The global risk-off mood obviously did not help in containing it.*

## FBI "turnaround" does not alter asymmetric risk-reward pay-off

*The FBI's confirmation – only 10 days after it has surprisingly reopened the case – that Mrs. Clinton will in fact not be placed under criminal investigation, has determined a sudden reversal of the markets' risk-off mood. We would like to stress that some speculation of a market friendly election outcome – i.e. a Clinton win – was anyway in the cards. It is now merely being amplified. More importantly, it is still too close to call off a Trump win, whilst – at the same time – the risk-reward pay-off for any election outcome is not favourable to risk assets. This is so because the market is still not pricing a Trump win. Thus if he wins, risk assets would correct much more than they would gain in case Mrs. Clinton carries the presidency. The resilience of emerging markets currencies and yields confirms that markets are still betting on Mrs. Clinton.*

## Past week global markets' performance

### Index Snapshot (World Indices)

| Index | Latest | Weekly Chg % | YTD % |
|---|---|---|---|
| S&P 500 | 2,085.2 | -1.9 | 2.0 |
| Dow Jones | 17,888.3 | -1.5 | 2.7 |
| Nasdaq | 5,046.4 | -2.8 | 0.8 |
| DAX | 10,259.1 | -4.1 | -4.5 |
| Nikkei 225 | 16,905.4 | -3.1 | -11.2 |
| FTSE 100 | 6,693.3 | -4.3 | 7.2 |
| Sensex | 27,274.2 | -2.3 | 4.4 |
| Hang Seng | 22642.6 | -1.4 | 3.3 |
| **Regional Markets (Sunday to Thursday)** | | | |
| ADX | 4281.6 | -0.3 | -0.6 |
| DFM | 3298.4 | -0.6 | 4.7 |
| Tadawul | 6060.5 | 2.1 | -12.3 |
| DSM | 9956.0 | -4.0 | -4.5 |
| MSM30 | 5462.14 | -0.6 | 1.0 |
| BHSE | 1144.4 | -0.3 | -5.9 |
| KWSE | 5409.4 | 0.2 | -3.7 |
| **MSCI** | | | |
| MSCI World | 1,660.1 | -1.8 | -0.2 |
| MSCI EM | 880.1 | -2.6 | 10.8 |

### Global Commodities, Currencies and Rates

| Commodity | Latest | Weekly Chg % | YTD % |
|---|---|---|---|
| ICE Brent USD/bbl | 45.6 | -8.3 | 22.3 |
| Nymex WTI USD/bbl | 44.1 | -9.5 | 19.0 |
| OPEC Baskt* USD/bbl | 42.7 | -9.3 | 36.4 |
| Gold 100 oz USD/t oz | 1305.1 | 2.3 | 23.0 |
| Platinum USD/t oz | 998.7 | 1.8 | 12.0 |
| Copper USD/MT | 4943.0 | 3.3 | 5.1 |
| Alluminium | 1717.25 | -0.1 | 14.1 |
| **Currencies** | | | |
| EUR | 1.1141 | 1.4 | 2.6 |
| GBP | 1.2517 | 2.7 | -15.1 |
| JPY | 103.12 | -1.5 | 16.6 |
| CHF | 0.9684 | -2.0 | 3.5 |
| **Rates** | | | |
| USD Libor 3m | 0.8826 | -0.4 | 44.1 |
| USD Libor 12m | 1.5590 | -1.5 | 32.3 |
| UAE Eibor 3m | 1.3206 | 0.5 | 25.2 |
| UAE Eibor 12m | 1.9210 | 0.8 | 30.3 |
| US 3m Bills | 0.3663 | 31.3 | 125.1 |
| US 10yr Treasury | 1.7762 | -3.8 | -21.7 |

*Please refer to the disclaimer at the end of this publication*

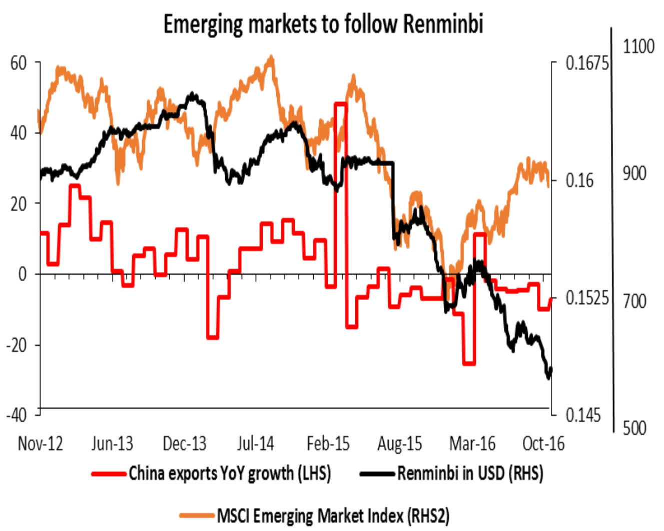
# Risk-reward pay-off for any outcome of the US election is not favourable for risk assets

## Beyond the elections, there are the fundamentals

As we had pointed out last week, sound economic fundamentals do not necessarily warrant a rise in equity valuations. Indeed, last summer's equity rally was to a large extent induced by worse economic data, allowing central banks to be more expansionary (the Brexit vote was probably the trigger for the summer rally). Whilst we have some doubts about the resilience of economic growth in the United States, it looks increasingly likely that the Federal Reserve will hike its reference rate in December. In general, with the ECB and BoJ at some point in time running out of assets to buy, the environment of abundant global liquidity that has prevailed since 2008 may come to an end. Add to that US equity valuations that are anything but cheap, and it becomes clear that - come what may on Tuesday night - beyond a long and exhausting US election campaign, markets will rapidly focus again on the not-so-promising fundamentals.

## China data for the moment off the radar screen

For the moment, as markets all hang on the lips of Mr. Trump's tweets, and CNN's "breaking news on the last election poll", they tend to ignore other news. Not surprisingly, China's trade data, published today, is receiving little scrutiny. Foreign reserves held up neatly, confirming that the People's Bank of China prefers the renminbi to devalue against the US dollar and not spend too much of its reserves. Nonetheless, the persistent fall in exports should at some point lead to a correction of emerging market equities, since China is a crucial client of major markets such as Indonesia, Brazil and Russia. This is why in September we called off our tactical overweight on emerging market equities. A Trump win ***after*** today's bad export figure, would definitely send the emerging markets index sharply lower.




## Asymmetric payoffs warrant our tactical asset allocation

To the extent that we cannot exclude a Trump win, our global equity underweight makes sense. Paradoxically, also our overweight in US equities makes sense in that in a risk-off context, US equities tend to do better than global equities since they are perceived as a relative safe haven. We believe that this is true even if the risk would emanate from the US, as is the case we are here contemplating. Indeed, given the globally hegemonic role of the US, instability in the US inevitably leads to global instability. For the upside scenario we have taken a bet on Mexican equities, which – given the size of that market – is necessarily a limited bet.

## UK court ruling does not alter our pound sterling outlook

The decision by the UK's High Court to force a parliamentary passage in order for the government to proceed with Brexit will not lead to a significant strengthening of the pound sterling. For one thing, the government's appeal will be heard only in December. In the case that the Supreme Court would uphold the decision, we still see little chance that parliament can seriously thwart the government's Brexit efforts, since the latter always has the option of a snap election. Anti-Brexit conservative MPs would think twice to stand a new election where they would stand accused of betraying the referendum outcome. A hard Brexit is thus still the most likely outcome. That means continued expansionary fiscal and monetary policies combined with huge fiscal and commercial deficits, in other words more scope for pound sterling weakness, at least versus the euro. A Trump win might of course, temporarily at least, trigger US dollar weakness, also vis-à-vis the pound sterling. That could then compromise our currency-hedged large cap UK equity call. Thus, following the court ruling, we would wait to re-enter this call, until the US elections are over.

## Clinton "clean sweep" to trigger asset allocation rethink?

There is a minor chance that Mrs. Clinton carries the presidency ***and*** the Democratic Party regains full control of the US Congress. We might then see a significant policy change with the fiscal stance becoming more expansionary and the Federal Reserve becoming more hawkish. This could put some upward pressure on the US dollar, and put additional pressure on emerging markets. It could also increase US Treasury yields. Thus, and provided such policies would effectively manage to boost growth, it should be better for European and Japanese equities, as well as selective emerging markets.

## Summary market outlook

| Bonds | |
|---|---|
| **Global Yields** | Yields have backed down a little with the reopening of the Clinton email saga. With little US economic data on the horizon, only the US election will be the driver of yields this week. If Mr. Trump wins, expect them to tumble. A Clinton victory would determine some further upside pressure, especially if the whole US Congress turns under Democratic control. |
| **Stress and Risk Indicators** | The VIX index is expected to fall with a Clinton win, but not dramatically and probably gradually. A Trump win would definitely lead to a more significant spike as policy making would enter unchartered waters, and thus increased uncertainty would inevitably lead to more volatility. |

| Equity Markets | |
|---|---|
| **Local Equity Markets** | GCC equity markets remained resilient last week in spite of correction in the oil price. This is mainly due to positive sentiment created by the Saudi government bond issuance. However, disappointing earnings will keep a cap on regional markets in the near term, whilst increased global uncertainty would put more downward pressure. |
| **Global Equity Markets** | The week is starting with a speculative relief rally following the FBI discharging Mrs. Clinton from any criminal wrongdoing related to her private email server. This might continue moderately if she wins on Tuesday. A Trump win would trigger a significantly bigger sell-off, making the risk-reward payoff of the election asymmetric. |

| Commodities | |
|---|---|
| **Precious Metals** | Precious metals prices will continue to benefit significantly whenever the risk-off mood re-emerges. This means more downward pressure if Clinton wins, but significant upside if Trump wins. |
| **Energy** | Energy prices corrected due to reports that OPEC members were finding it difficult to arrive at a plan for the proposed freeze/cut during the organization’s meeting in November. A global risk-off mood would for now determine further downward pressure, whilst a Clinton win might somehow halt the downward slide. |
| **Industrial Metals** | Industrial metals performed strongly last week on relatively better economic data from China earlier. However, long term prospects remain negative with China pushing in the direction of less rather than more consumption of industrial metals. |

| Currencies | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **EURUSD** | The US dollar has strengthened a bit as the FBI decided to discharge Mrs. Clinton from any criminal wrongdoing. If she wins the election we could see a bit more US dollar strengthening, especially if the Democratic Party regains full control of the US Congress. Expect a more significant correction if Mr. Trump carries the presidency. | | | | | | | |
| **Critical levels** | R2 | 1.1186 | R1 | 1.1127 | S1 | 1.1026 | S2 | 1.0984 |
| **GBPUSD** | The High Court’s decision to force parliamentary passage for Brexit, together with BoE’s decision not to cut rates, has determined a significant appreciation of the pound sterling. This could go further, especially in case of a Trump win. Beyond that, the country’s twin deficit and persistent pursuit of hard Brexit will lead to more expansionary monetary and fiscal policies, thus downside for the pound sterling. | | | | | | | |
| **Critical levels** | R2 | 1.2583 | R1 | 1.2506 | S1 | 1.2387 | S2 | 1.2345 |
| **USDJPY** | The US dollar has regained territory lost with the last Clinton email saga. This could persist if Mrs. Clinton wins the election, especially if the US Congress turns again in Democratic hands. The greenback is likely to correct significantly if Mr. Trump wins. | | | | | | | |
| **Critical levels** | R2 | 105.50 | R1 | 104.97 | S1 | 103.52 | S2 | 102.60 |

## Forthcoming important economic data

### United States

| | Indicator | Period | Expected | Prior | Comments |
|---|---|---|---|---|---|
| 11/08/2016 | US General Elections | - | - | - | Markets will almost exclusively focus on the US general elections this week |
| 11/09/2016 | Wholesale Inventories MoM | Sep F | 0.2% | 0.2% | |
| 11/10/2016 | Initial Jobless Claims | Nov-5 | 260k | 265k | |
| 11/11/2016 | Univ of Mich.Sentiment | Nov P | 87.9 | 87.2 | |

### Japan

| | Indicator | Period | Expected | Prior | Comments |
|---|---|---|---|---|---|
| 11/07/2016 | Labour Cash Earnings YoY | Sep | 0.2% | 0.0% | Market will focus on labour earnings and tertiary index |
| 11/09/2016 | Eco Watchers Survey Current | Oct | 44.3 | 44.8 | |
| 11/09/2016 | Eco Watchers Survey Outlook | Oct | 47.5 | 48.5 | |
| 11/10/2016 | Machine Orders MoM | Sep | -1.8% | -2.2% | |
| 11/11/2016 | Tertiary Industry Index MoM | Sep | -0.2% | 0.0% | |

### Eurozone

| | Indicator | Period | Expected | Prior | Comments |
|---|---|---|---|---|---|
| 11/07/2016 | Markit Eurozone Retail PMI | Oct | - | 49.6 | Retail PMI will be the main focus this week |
| 11/07/2016 | Retail Sales MoM | Sep | -0.3% | -0.1% | |
| 11/08/2016 | Industrial Production SA MoM (GE) | Sep | -0.5% | 2.5% | |

### United Kingdom

| | Indicator | Period | Expected | Prior | Comments |
|---|---|---|---|---|---|
| 11/07/2016 | Halifax House Prices MoM | Oct | 0.2% | 0.1% | Industrial production and house prices, both key growth indicators, are important |
| 11/08/2016 | Industrial Production MoM | Sep | 0.0% | -0.4% | |
| 11/11/2016 | Construction Output SA MoM | Sep | 0.0% | -1.5% | |

### China and India

| | Indicator | Period | Expected | Prior | Comments |
|---|---|---|---|---|---|
| 11/07/2016 | Foreign Reserves (CH) | Oct | $3132b | $3166b | China export data will be the key focus |
| 11/08/2016 | Exports YoY (CH) | Oct | -6% | -10% | |
| 11/08/2016 | Imports YoY (CH) | Oct | -1.1% | -1.9% | |
| 11/09/2016 | CPI YoY (CH) | Oct | 2.1% | 1.9% | |
| 11/10- 11/15 | Exports YoY (IN) | Oct | - | 4.6% | |
| 11/11/2016 | Industrial Production YoY | Sep | 0.6% | -0.7% | |

## 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

## Disclaimer