بنك أبوظبي التجاري ADCB

As the dollar strenghtenes, equity markets get nervous

The US dollar strengthened as markets are probably starting to look beyond a US presidential election the outcome of which seems to grow increasingly clear. And the market's next hurdle beyond what should be a Clinton victory, is inevitably the FOMC December meeting. The rate concern had been lingering for some time now, as economic data had also been relatively benign. But the wake-up call was probably the hawkish minutes of the last FOMC meeting. As we stressed again in our latest ***Quarterly Investment View****, US dollar strength is probably the greatest menace to global capital markets stability, particularly China and emerging markets. It was therefore rather unfortunate that on Wednesday we got weak China trade data, further contributing to concerns about the resilience of emerging markets and commodities. Thursday's better-than-expected improvement in China's inflation dynamics managed however to stabilize markets. Friday's not-so-good Michigan Consumer Confidence indicator, and the inflation expectations that come with it, were shrugged under the carpet as markets managed to stage a come-back at the end of the week.*

China and the US dollar likely to steal the show again

As China will publish important data this week, it will very important to watch further US dollar movements, especially if the data would be not so good. Whilst we continue to have issues with the reliability of Chinese data, it should be pointed out that the expectations are good, i.e. real output data are expected to improve across the board, whilst monetary and credit data are likely to indicate continuing stimulus. Thus, all other things equal, surprises are more likely to be on the downside, rather than the upside. As for the US dollar, the ECB is likely not to do anything on Thursday's meeting of its Executive Council, while US data is likely to remain resilient. As such, and barring an unlikely major spike in Eurozone inflation, one should expect some further US dollar strength. All in all, it would thus be reasonable to still see some pressure on global equity markets, specifically emerging equity markets.

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

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

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

Visit Investment Strategy Webpage to read our other reports.

Past week global markets' performance

Index Snapshot (World Indices)

Index	Latest	Weekly Chg %	YTD %
S&P 500	2,133.0	-1.0	4.4
Dow Jones	18,138.4	-0.6	4.1
Nasdaq	5,214.2	-1.5	4.1
DAX	10,580.4	0.9	-1.5
Nikkei 225	16,856.4	-0.0	-11.4
FTSE 100	7,013.6	-0.4	12.4
Sensex	27,673.6	-1.4	6.0
Hang Seng	23233.3	-2.6	6.0
Regional Markets (Sunday to Thursday)			
ADX	4347.2	-1.0	0.9
DFM	3334.9	-0.6	5.8
Tadawul	5694.0	1.1	-17.6
DSM	10390.0	0.3	-0.4
MSM30	5660.22	0.9	4.7
BHSE	1144.6	0.7	-5.9
KWSE	5328.0	0.1	-5.1
MSCI			
MSCI World	1,693.7	-1.1	1.9
MSCI EM	897.0	-1.9	13.0

Global Commodities, Currencies and Rates

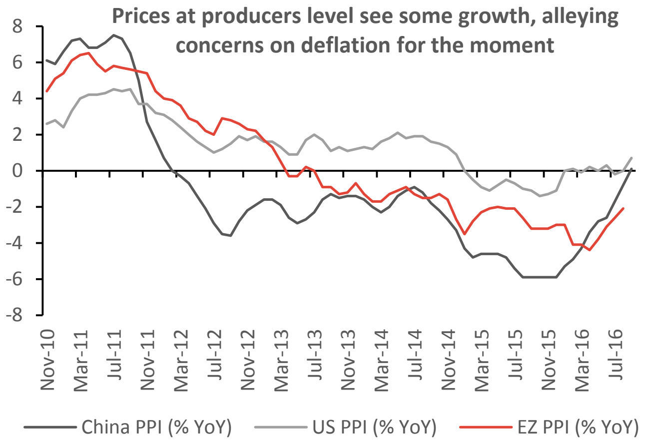
Commodity	Latest	Weekly Chg %	YTD %
ICE Brent USD/bbl	52.0	0.0	39.4
Nymex WTI USD/bbl	50.4	1.1	35.9
OPEC Baskt* USD/bbl	48.1	-1.1	53.7
Gold 100 oz USD/t oz	1251.0	-0.5	17.9
Platinum USD/t oz	935.7	-3.3	5.0
Copper USD/MT	4672.5	-1.5	-0.6
Alluminium	1671	0.2	11.0
Currencies			
EUR	1.0972	-2.0	1.0
GBP	1.2191	-2.0	-17.3
JPY	104.18	1.2	15.4
CHF	0.9903	1.3	1.2
Rates			
USD Libor 3m	0.8817	0.6	43.9
USD Libor 12m	1.5857	-0.1	34.6
UAE Eibor 3m	1.2647	-0.6	19.9
UAE Eibor 12m	1.8267	0.6	23.9
US 3m Bills	0.2892	-8.3	77.8
US 10yr Treasury	1.7977	4.6	-20.8

Please refer to the disclaimer at the end of this publication

Focus on the US dollar, Mexican equities might profit regardless

Deflation concerns come down in China

The small gain in the producers' prices in China was cheered with relief by the global financial markets, after that just a day earlier China's trade data (and in particular export data) had seriously dented confidence in the country's growth prospects. To be fair, even if the Producer Price Index (PPI) barely managed to muster a year-over year growth of 0.1%, that was still up from the -0.8% a month earlier, and significantly better than the expected -0.3%. Moreover, for the first time since early 2012, the dynamics moved into positive territory. Then again, some increase of inflation was in the cards as global and energy prices are finally stabilizing. It is less clear if that can lead to the positive price dynamics that can increase to the growth in investment returns that China's companies desperately need. Also, the devaluation of the Renminbi must at least partly be considered as a factor contributing to inflation. As such, it inevitably leads to deflation elsewhere, hardly a recipe for a sustained global growth pick-up. Having said so, there are signs that the deflationary producer price dynamics is bottoming at a global level, and last week's China figure was unequivocally positive in that it confirms that the world economy is for the moment still steering clear from a massive deflationary contraction.



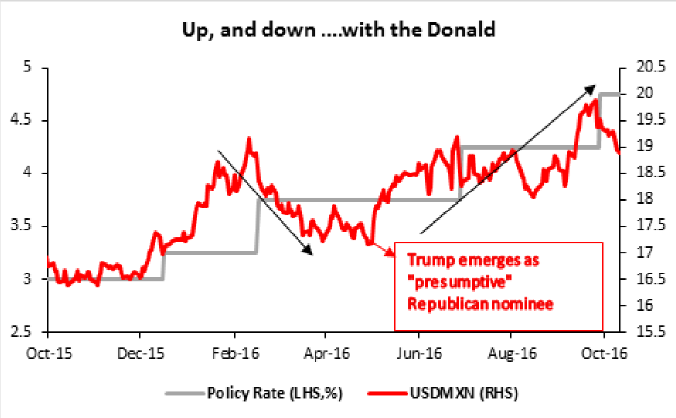
Source: Bloomberg

ECB is likely to maintain *status quo*

At some point the ECB will have to clarify its stance on continuing QE purchases as the formal deadline of the program, March 2017, approaches. Whilst any doubt about a commitment to continue "business as usual", should trigger some upside for the euro against the US dollar, we don't believe it will be this week. In fact, inflation still being close to zero, any uptick in the external value of the euro would needlessly risk reverting the upward trend in the domestic prices. Thus the ECB would rather sit it out for some more time, and profit from the current momentum in US dollar strength. Euro strengthening remains, however, a risk (although not so much a negative one for the global economy, and very likely not for capital markets with the exception of Europe's) as inflation is likely to improve somewhat more on the back of stable commodity and energy prices. If this trend continues, it will inevitably lead to serious political discussions as to the opportunity of continuing QE infinitely. That would lead to euro strength.

Mexican equities to profit from fading chances of Trump presidency

This year the peso has depreciated in spite of an improving fiscal deficit combined with increased monetary tightening. It seems reasonable to attribute this depreciation to concerns about a Trump presidency. In fact, renewed downward pressure on the peso emerged when Mr. Trump emerged as the "presumptive" nominee for the Republican Party.



Now that the likelihood of a Trump presidency is fading, the peso should strengthen as inflation is stabilizing and the government is successfully bringing the fiscal deficit under control. Needless to say, the trade balance remains troublesome as a result of the receding oil price and slow growth in the United States. Also, the public debt situation remains critical. Regardless, we are now likely to see a further short term stabilization of the current account, as people will no longer expect the worst in terms of reduced trade and (critically) Mexican immigrants' remittances. As such the exaggerated correction of the peso will be undone, Mexico's relatively high real bond yields will come down, and equities should profit.

Mexican equities are, within the emerging space, defensive (compared to for instance Brazil or Russia). A lot of that defensiveness has to do with relative political stability, as well as less exposure to China. Thus if global equity markets would correct, something that we expect at some point in time to happen, they should correct less than other emerging markets. Needless to say, we would hope this to happen after we have positively cashed in on this call.

Summary market outlook

Bonds	
Global Yields	A relatively hawkish FOMC meeting minutes and slightly better than expected retail sales data kept upward pressure on US yields. Any positive surprise in economic data, particularly in inflation could push the yield slightly further up. However, we believe that the upside is limited as growth concerns will weigh on sentiment sooner than later.
Stress and Risk Indicators	The VIX index moved up as US equities declined on disappointing results from some large companies and rising market probability of rate hike by the Fed in December. We see the index potentially rising further if economic data surprise positively and earnings disappoint. Sovereign CDS spreads in EM saw a small rise which could continue amid strengthening dollar. However, we see a limited rise in the dollar.

Equity Markets	
Local Equity Markets	GCC equity markets were mixed, largely influenced by third quarter earnings. Regional markets will continue to be strongly influenced by earnings news in the next couple of weeks.
Global Equity Markets	Global equity markets refocused on China's growth concerns which are likely to continue this week as the country publishes its third quarter GDP growth this week. They also got affected by the disappointing earnings announcements by some of the large US companies. Besides the ECB statement and China's economic data, market will be affected by the earnings announcements in the next couple of weeks.

Commodities	
Precious Metals	Positive surprises in global economic data and rising probability of a Fed rate hike in December continued to weigh on precious metals as gold price trended lower. We believe that the price will benefit more significantly when the risk-off mood will re-emerge more strongly.
Energy	Although the oil price closed the week flat, it touched a 2016 high last week on potential support from Russia to OPEC's proposed output cut later this year. However, we believe that the price has run its course on talk of a production freeze/cut and see limited upside beyond USD 55/bbl. A sideways movement is likely in the near term.
Industrial Metals	Industrial metals declined on largely disappointing China economic releases last week. Long term prospects remain negative with China pushing in the direction of less rather than more consumption of industrial metals.

Currencies								
EURUSD	Largely positive economic releases from the US and rising market probability of the Fed rate hike in December continued to push the dollar higher against the euro. The later could go further down in the very near term due to the current momentum. However, we see the euro not very far from its lows and ECB "no action" could stabilize the currency.							
Critical levels	R2	1.1290	R1	1.1131	S1	1.0892	S2	1.0812
GBPUSD	The British pound continues to suffer from Brexit and broader dollar strength. We believe that Brexit concerns will continue to hang over the economic outlook (notwithstanding improvements in economic data for the two months) and the currency.							
Critical levels	R2	1.2633	R1	1.2412	S1	1.2030	S2	1.1869
USDJPY	General dollar strength is helping the BoJ as it has taken appreciation pressure off the yen. The currency, in fact, lost more than a percent last week again. We believe that in the absence of more dollar strength, the Japanese yen will trend slightly higher.							
Critical levels	R2	105.71	R1	104.94	S1	103.11	S2	102.05

Forthcoming important economic data

United States

	Indicator	Period	Expected	Prior	Comments
10/17/2016	Empire Manufacturing	Oct	1.00	-1.99	Inflation and housing data will be looked at
10/17/2016	Industrial Production MoM	Sep	0.2%	-0.4%	
10/18/2016	CPI YoY	Sep	1.5%	1.1%	
10/18/2016	CPI Core YoY	Sep	2.3%	2.3%	
10/19/2016	Housing Starts	Sep	1175K	1142K	
10/20/2016	Existing Home Sales	Sep	5.35m	5.33m	
10/20/2016	Leading Index	Sep	0.2%	-0.2%	

Japan

	Indicator	Period	Expected	Prior	Comments
10/17/2016	Industrial Production MoM	Aug F	--	1.5%	Market will look into how the industrial sector has done in the recent months.
10/19/2016	All Industry Activity Index MoM	Aug	0.2%	0.3%	
10/20/2016	Machine Tool Orders YoY	Sep F	--	-6.3%	

Eurozone

	Indicator	Period	Expected	Prior	Comments
10/17/2016	CPI YoY	Sep F	0.4%	0.2%	Market will focus on the ECB but are not expecting immediate change
10/17/2016	CPI Core YoY	Sep F	0.8%	0.8%	
10/20/2016	ECB Policy Rate Decision	Oct	No Change		

United Kingdom

	Indicator	Period	Expected	Prior	Comments
10/18/2016	CPI YoY	Sep	0.9%	0.6%	Inflation, job data and consumer spending to be focal points
10/18/2016	Unemployment Rate	Aug	4.9%	4.9%	
10/20/2016	Retail Sales Ex Auto Fuel MoM	Sep	0.2%	-0.3%	

China and India

	Indicator	Period	Expected	Prior	Comments
This Week	New Yuan Loans (CH)	Sep	1000B	948B	Global markets will focus on the China's third quarter GDP
This Week	Money Supply M2 YoY (CH)	Sep	11.6%	11.4%	
10/19/2016	Industrial Production YoY (CH)	Sep	6.4%	6.3%	
10/19/2016	Retail Sales YoY (CH)	Sep	10.7%	10.6%	
10/19/2016	Fixed Assets Investments YoY (CH)	Sep	8.2%	8.1%	
10/19/2016	GDP YoY (CH)	3Q	6.7%	6.7%	

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

*This publication is intended for general information purposes only. It should not be construed as an offer, recommendation or solicitation to purchase or dispose of any securities or to enter in any transaction or adopt any hedging, trading or investment strategy. Neither this publication nor anything contained herein shall form the basis of any contract or commitment whatsoever. Distribution of this publication does not oblige Abu Dhabi Commercial Bank PJSC ("**ADCB**") to enter into any transaction.*

The content of this publication should not be considered legal, regulatory, credit, tax or accounting advice. Anyone proposing to rely on or use the information contained in the publication should independently verify and check the accuracy, completeness, reliability and suitability of the information and should obtain independent and specific advice from appropriate professionals or experts regarding information contained in this publication.

Information contained herein is based on various sources, including but not limited to public information, annual reports and statistical data that ADCB considers accurate and reliable. However, ADCB makes no representation or warranty as to the accuracy or completeness of any statement made in or in connection with this publication and accepts no responsibility whatsoever for any loss or damage caused by any act or omission taken as a result of the information contained in this publication. This publication is intended for qualified customers of ADCB.

Charts, graphs and related data or information provided in this publication are intended to serve for illustrative purposes only. The information contained in this publication is prepared as of a particular date and time and will not reflect subsequent changes in the market or changes in any other factors relevant to their determination. All statements as to future matters are not guaranteed to be accurate. ADCB expressly disclaims any obligation to update or revise any forward looking statements to reflect new information, events or circumstances after the date of this publication or to reflect the occurrence of unanticipated events.

ADCB does and may at any time solicit or provide commercial banking, investment banking, credit, advisory or other services to the companies covered in its publications. As a result, recipients of this publication should be aware that any or all of the foregoing services may at time give rise to a conflict of interest that could affect the objectivity of this publication.

Past performance does not guarantee future results. Investment products are not bank deposits and are not guaranteed by ADCB. They are subject to investment risks, including possible loss of principal amount invested. Please refer to ADCB's Terms and Conditions for Investment Services.

This publication is being furnished to you solely for your information and neither it nor any part of it may be used, forwarded, disclosed, distributed or delivered to anyone else. You may not copy, reproduce, display, modify or create derivative works from any data or information contained in this publication.