The Weekly Market View

October 30 2017

Euro weakens as Draghi plays his cards right

Global equities edged down slightly in a week dominated by the ECB and Q3 GDP figures, however, high beta markets Japan, the Eurozone and Nasdaq all outperformed. ECB President Mario Draghi successfully delivered a "dovish taper", managing to talk down the prospects of monetary tightening whilst simultaneously halving the amount of bonds the central bank will purchase starting in January. Monthly bond purchases will fall from the current €60bn/month to €30bn/month, however, Mr. Draghi said that rates will remain at current levels well beyond the end of the quantitative easing program. This was more dovish than the market had been expecting, German bund yields dipped and the euro fell 1.5% against the US dollar. Euro strength this year has been a worry for the ECB as it hinders the ongoing economic recovery and weighs on inflation. Adding further pressure on the euro was better than expected US Q3 GDP numbers. Economists had expected growth to slow to 2.6% y-o-y (from 3.1% y-o-y in Q2) in the third quarter owing to the impact of the series of hurricanes that hit the US. Instead growth remained resilient, registering 3% y-o-y. Robust growth raises the likelihood that the unemployment rate will fall further in the coming months, possibly below 4%. This suggests that the Fed will raise rates once more in December, but also that expectations for rates hikes next year are too low. Currently the market is pricing just 40% likelihood of two hikes between now and the end of 2018. This seems unrealistic to us, a recalibrating of these expectations is likely to lead to a rebound in the US dollar.

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The week ahead: It's gonna be 'yuge'

The week ahead should be at least as eventful as the week gone by. Investors will receive a raft of market-moving information, especially out of the US. The Federal Reserve meets this week, no rate hike is expected but given the strong recent data in the US the Fed's statement will be closely examined. Friday will see jobs data released in the US, expectations are for the economy to have created 310,000 new jobs in October, which would offset the 33,000 jobs lost in September (largely hurricane related). At the same time both the unemployment rate and wage growth data will also be published. Wage growth picked up to 2.9% y-o-y last month, and it is one of the main indicators the Fed is watching. A reading of close to 3% will further boost the odds of a third rate hike of the year in the US in December. Finally, President Trump is poised to announce his nominee for Fed chair. Janet Yellen's term ends in February and he could opt to replace her. The front runners are Jerome Powell and economist John Taylor. The latter would be more hawkish, potentially pushing the dollar up further.

Past week global markets' performance

Index Snapshot (World Indices)

Index	Latest	Weekly Chg %	YTD %
S&P 500	2,581.1	0.2	15.3
Dow Jones	23,434.2	0.5	18.6
Nasdaq	6,701.3	1.1	24.5
DAX	13,217.5	1.7	15.1
Nikkei 225	22,008.5	2.6	15.1
FTSE 100	7,505.0	-0.2	5.1
Sensex	33,157.2	2.4	24.5
Hang Seng	28438.9	-0.2	29.3
Regional Markets (Sunday to Thursday)			
ADX	4467.7	-0.7	-1.7
DFM	3651.1	0.2	3.4
Tadawul	6910.7	-0.9	-4.2
DSM	8128.3	-0.4	-22.1
MSM30	4958.57	-1.7	-14.3
BHSE	1277.4	-0.5	4.7
KWSE	6623.5	-0.4	15.2
MSCI			
MSCI World	2,034.6	-0.0	16.2
MSCI EM	1,110.2	-0.8	28.8

Global Commodities, Currencies and Rates

Commodity	Latest	Weekly Chg %	YTD %
ICE Brent USD/bbl	60.4	4.7	6.4
Nymex WTI USD/bbl	53.9	4.7	0.3
Gold USD/t oz	1273.4	-0.6	11.0
Silver USD/t oz	16.9	-1.0	5.9
Platinum USD/t oz	916.8	-0.8	1.5
Copper USD/MT	6831.5	-2.5	24.2
Alluminium	2156.25	1.5	27.3
Currencies			
EUR USD	1.1608	-1.5	10.4
GBP USD	1.3128	-0.5	6.4
USD JPY	113.67	0.1	-2.9
CHF USD	0.9981	1.4	2.1
Rates			
USD Libor 3m	1.3801	1.1	38.3
USD Libor 12m	1.8479	0.9	9.6
UAE Eibor 3m	1.5713	0.1	6.5
UAE Eibor 12m	2.2065	0.1	5.3
US 3m Bills	1.0928	-0.9	119.7
US 10yr Treasury	2.4064	0.9	-1.6

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Summary market outlook

Bonds	
Global Yields	US Treasury yields came under pressure amid uncertainty regarding the next Fed chair appointment. We still expect Treasury yields to remain range bound unless there is a sharp jump in inflation/inflation expectations. In Europe, the ECB announced a tapering of its monthly bond purchases, thus extending its stimulus for longer. As a result, the 10yr Bund yield fell below 0.4%. An upward correction is likely if the upcoming GDP and PMI releases surprise to the upside.
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 were sold off despite rally in oil prices. Instead they tracked broader emerging markets lower. 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 performed well during the week, led by Japanese equities. The S&P 500 reached new record highs, boosted by the stronger than expected GDP data and better than expected earnings from technology companies. Japanese equities outperformed the most on the back of Prime Minister Abe victory in the general elections. European equities also rose as the euro weakened on account of dovishness from the ECB. Overall, we continue to believe that strong economic fundamentals along with robust corporate earnings growth will support global equities.
Commodities	
Precious Metals	Gold prices fell during the week, weighed down by the dollar. We stick to our overweight recommendation on gold as a risk hedge against ongoing political and (potential) inflationary risks.
Energy	Brent crude touched two-year high of USD60/bbl, boosted by the 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 were mixed, mostly weighed down by the lower gold prices and the stronger dollar. Longer-term we do not recommend industrial metals exposure due to concerns around Chinese growth prospects post the Party Congress.

Currencies								
EURUSD	The euro declined to a three month low versus the dollar in reaction to the ECB's decision of "lower but longer" QE stimulus. We expect the euro to remain under pressure as the US dollar regains some ground.							
Critical levels	R2	1.1627	R1	1.1618	S1	1.1601	S2	1.1593
GBPUSD	The pound weakened against the dollar mainly on account of broad dollar strength. We expect sterling to remain under pressure due to political uncertainty, economic weakness and Brexit negotiations.							
Critical levels	R2	1.3150	R1	1.3138	S1	1.3111	S2	1.3095
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	113.83	R1	113.78	S1	113.66	S2	113.60

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

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Forthcoming important economic data

United States

	Indicator	Period	Expected	Prior	Comments
10/30/2017	Personal Income	Sep	0.4%	0.2%	FOMC meeting will be an important event this week. Focus will also be on core PCE, payroll data and PMI releases.
10/30/2017	PCE Core MoM	Sep	0.1%	0.1%	
10/30/2017	PCE Core YoY	Sep	1.3%	1.3%	
11/01/2017	Markit US Manufacturing PMI	Oct F	54.5	54.5	
11/01/2017	ISM Manufacturing	Oct	59.4	60.8	
11/01/2017	FOMC meeting	1-Nov	No change		
11/03/2017	Change in Nonfarm Payrolls	Oct	310k	-33k	
11/03/2017	Unemployment Rate	Oct	4.2%	4.2%	
11/03/2017	Average Hourly Earnings MoM	Oct	0.2%	0.5%	
11/03/2017	Factory Orders	Sep	1.2%	1.2%	
11/03/2017	Durable Goods Orders	Sep F	-	2.2%	

Japan

	Indicator	Period	Expected	Prior	Comments
10/30/2017	Consumer Confidence	Oct F	-1	-1	GDP and inflation data will be important.
10/31/2017	GDP SA QoQ	3Q A	0.5%	0.6%	
10/31/2017	CPI Core YoY	Oct A	1.1%	1.1%	

Eurozone

	Indicator	Period	Expected	Prior	Comments
10/30/2017	Consumer Confidence	Oct A	-1.1	-1.2	Focus will be on the GDP, core CPI and PMI releases.
10/31/2017	GDP SA QoQ	3Q A	0.5%	0.6%	
10/31/2017	CPI Core YoY	Oct A	1.1%	1.1%	
11/02/2017	Markit Manufacturing PMI	Oct F	58.6	58.6	

United Kingdom

	Indicator	Period	Expected	Prior	Comments
11/01/2017	Nationwide House Px NSA YoY	Oct	2.2%	2.0%	All eyes will be on the BoE meeting where a rate hike is expected by the market.
11/01/2017	Markit UK PMI Manufacturing SA	Oct	55.9	55.9	
11/02/2017	BoE MPC Meeting	2-Nov	25bp hike		

China and India

	Indicator	Period	Expected	Prior	Comments
10/31/2017	Manufacturing PMI (CH)	Oct	52.1	52.4	Attention will be on China PMI.
11/01/2017	Caixin China PMI Mfg (CH)	Oct	51	51	
11/01/2017	Nikkei India PMI Mfg (IN)	Oct	-	51.2	

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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