The Weekly Market View

October 16 2017

Japan gain, Saudi pain

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A broad-based rally in markets last week as risk assets continued their recent resurgence; commodities rallied impressively alongside equities. However, traditional safe havens such as gold, US Treasuries and the Japanese yen also performed strongly. Regionally, emerging markets (EM) outpaced developed markets and despite the stronger yen (+0.8% vs. the US$), Japan was the best performing market of all (+2.2%).

*Last November **we moved overweight Japanese equities (currency hedged)**, since then the market has rallied almost 25% in total return terms, slightly outperforming global equities. Much of this performance has come during the last month, the Topix rose c8% during this time, more than double what global equities returned. Despite this very strong performance and despite next week's general elections in Japan, we remain overweight the market. The pre-election rally has not surprised us, going into elections the Japanese market has historically rallied, only for investors to book gains on the outcome (buy the rumour sell the fact). This time is unlikely to be different, however, we believe the positive backdrop will continue medium-term.*

*A victory for incumbent Prime Minister Shinzo Abe, as the polls currently suggest, can be interpreted as support for the reflationary policies he embarked upon and which have become known as "Abenomics" in which hyper-easy monetary policy, fiscal spending and structural reform combine to boost economic growth and inflation. The signs are that these policies are gaining traction; economic growth looks set to equal its second best stretch of uninterrupted post-war growth, business confidence is at a 10-year high and unemployment has fallen sharply. Corporates are also improving their return on equity, corporate governance and dividend pay-out ratios. At 14.3x forward PE, Japanese equity valuations remain cheap relative to global (16.1x) and US equities (18.0x). **Expect some profit taking as the election draws closer but remain overweight Japanese equities (currency hedged).***

*Saudi equities on the hand fell sharply last week (-2.9%). The market is now back to levels seen before MSCI announced the market was to be added to the watch list for potential EM index inclusion, which was also the basis for **our tactical overweight** on the market. Reasons for last week's sell off are unclear, but speculation (in the Financial Times) that the Kingdom's much anticipated Aramco IPO may be delayed or shelved in favour of a private sale are unlikely to help sentiment. However, MSCI EM index inclusion is not predicated on the IPO happening. **We will closely monitor developments in relation to our Saudi equity call.***

Past week global markets' performance

Index Snapshot (World Indices)

Index	Latest	Monthly Chg %	YTD %
S&P 500	2,553.2	0.2	14.0
Dow Jones	22,871.7	0.4	15.7
Nasdaq	6,605.8	0.2	22.7
DAX	12,991.9	0.3	13.2
Nikkei 225	21,155.2	2.2	10.7
FTSE 100	7,535.4	0.2	5.5
Sensex	32,432.7	1.9	21.8
Hang Seng	28476.4	0.1	29.4
Regional Markets (Sunday to Thursday)			
ADX	4525.9	2.2	-0.5
DFM	3660.3	1.4	3.7
Tadawul	6987.8	-2.9	-3.1
DSM	8342.1	2.5	-20.1
MSM30	5128.48	-0.8	-11.3
BHSE	1274.7	-0.3	4.4
KWSE	6628.5	-0.5	15.3
MSCI			
MSCI World	2,028.0	0.7	15.8
MSCI EM	1,125.9	2.1	30.6

Global Commodities, Currencies and Rates

Commodity	Latest	Monthly Chg %	YTD %
ICE Brent USD/bbl	57.2	2.8	0.6
Nymex WTI USD/bbl	51.5	4.4	-4.2
Gold USD/t oz	1303.8	2.1	13.6
Silver USD/t oz	17.4	3.5	9.4
Platinum USD/t oz	945.8	3.2	4.7
Copper USD/MT	6858.0	3.3	24.7
Alluminium	2110.25	-1.1	24.6
Currencies			
EUR USD	1.1820	0.8	12.4
GBP USD	1.3285	1.7	7.7
USD JPY	111.82	-0.7	-4.6
CHF USD	0.9745	-0.5	4.6
Rates			
USD Libor 3m	1.3533	0.2	35.6
USD Libor 12m	1.8129	0.5	7.5
UAE Eibor 3m	1.5698	0.4	6.4
UAE Eibor 12m	2.1908	0.4	4.6
US 3m Bills	1.0673	0.5	114.6
US 10yr Treasury	2.2730	-3.6	-7.0

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Summary market outlook

Bonds	
Global Yields	US Treasury yields ticked lower while the curve flattened as the rise in core inflation failed to meet expectations. However, markets continue to price in a 70% probability of a December rate hike. Overall, we expect Treasury yields to remain range bound unless there is a sharp jump in inflation/inflation expectations.
Stress and Risk Indicators	The VIX remained near record lows in the absence of any major surprises in economic data. However, volatility is unlikely to stay low given the backdrop of ongoing geopolitical risks.
Equity Markets	
Local Equity Markets	GCC equity markets were mixed even though oil prices moved higher. Saudi was the worst performer. Overall, we remain neutral on GCC equities given the potential for 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 with the S&P500 touching new record highs. Japanese markets performed the best in spite of the stronger yen and ahead of the snap elections. Emerging markets also rallied strongly, helped by weakness in the dollar. Overall, we continue to believe that strong economic fundamentals along with robust corporate earnings growth will support global equities.
Commodities	
Precious Metals	Gold prices jumped as the weak US inflation print added to uncertainty regarding future Fed hikes. We stick to our overweight recommendation on gold as a risk hedge against ongoing political and (potential) inflationary risks.
Energy	Oil prices continued to rally with the Brent jumping above $57/bbl on increased Iraq-Kurdistan tensions. 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 rallied, tracking the rise in gold prices. Longer-term we do not recommend industrial metals exposure due to ongoing concerns around Chinese growth prospects.
Currencies	
EURUSD	The euro appreciated versus the dollar on account of easing political concerns in Spain and a weaker dollar. We expect the US dollar will continue to regain some ground.
Critical levels	R2 1.1903 · R1 1.1862 · S1 1.1792 · S2 1.1764
GBPUSD	The pound strengthened against the dollar on reports of the EU offering a two-year transition period for Brexit. However, we expect sterling to remain under pressure due to political uncertainty, economic weakness and Brexit negotiations.
Critical levels	R2 1.3380 · R1 1.3333 · S1 1.3243 · S2 1.3201
USDJPY	The yen gained versus the dollar in line with the rally in safe-haven assets. We believe there will remain a bias for yen weakness given divergent monetary policies between Japan and the US.
Critical levels	R2 112.56 · R1 112.19 · S1 111.57 · S2 111.32

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

Forthcoming important economic data

United States

	Indicator	Period	Expected	Prior	Comments
10/17/2017	Export Price Index MoM	Sep	0.50%	0.60%	Light week in terms of data releases.
10/17/2017	Industrial Production MoM	Sep	0.20%	-0.90%	
10/17/2017	NAHB Housing Market Index	Oct	64	64	
10/18/2017	Housing Starts MoM	Sep	-0.40$	-0.80%	

Japan

	Indicator	Period	Expected	Prior	Comments
10/19/2017	Exports YoY	Sep	15.0%	18.1%	Exports data will be important.
10/19/2017	All Industry Activity Index MoM	Aug	0.20%	0.10%	
10/19/2017	Machine Tool Orders YoY	Sep F	-	45.3%	

Eurozone

	Indicator	Period	Expected	Prior	Comments
10/17/2017	CPI YoY	Sep F	1.5%	1.5%	Focus will be on inflation data.
10/17/2017	ZEW Survey Expectations	Oct	-	31.7	
10/17/2017	CPI Core YoY	Sep F	1.1%	1.1%	

United Kingdom

	Indicator	Period	Expected	Prior	Comments
10/16/2017	Rightmove House Prices YoY	Oct	-	1.1%	Attention will be on inflation and retail sales data.
10/17/2017	CPI YoY	Sep	3.0%	2.9%	
10/17/2017	CPI Core YoY	Sep	2.7%	2.7%	
10/17/2017	RPI YoY	Sep	4.0%	3.9%	
10/19/2017	Retail Sales Inc Auto Fuel YoY	Sep	2.1%	2.4%	

China and India

	Indicator	Period	Expected	Prior	Comments
10/13/2017	New Yuan Loans CNY (CH)	Sep	1200bn	1090bn	All eyes will be on China GDP, inflation and India WPI release.
10/16/2017	CPI YoY (CH)	Sep	1.6%	1.8%	
10/16/2017	Wholesale Prices YoY (IN)	Sep	3.3%	3.2%	
10/19/2017	GDP YoY (CH)	3Q	6.8%	6.9%	
10/19/2017	Retail Sales YoY (CH)	Sep	10.2%	10.1%	
10/19/2017	Industrial Production YoY (CH)	Sep	6.4%	6.0%	
This week	Exports YoY (IN)	Sep	-	10.3%	

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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