The Weekly Market View

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Safe havens in demand as geopolitical risks linger

Risk assets continued to bear the brunt of increased risk aversion due to the potential impact of Hurricane Irma on US growth along with lingering North Korea tensions. As a result, 10-year US treasuries dropped to their lowest level since the 2016 US Presidential election while gold prices also rallied. Equity markets across the globe turned red with the exception of European equities which reacted positively to the ECB's September monetary policy committee meeting. The ECB pushed back a thorough review of its quantitative easing program until its October meeting. However, at the same time ECB President Mario Draghi raised concerns about continued euro strength, which have led the ECB to downgrade their 2018 and 2019 inflation forecasts. Markets clearly focused on the former and ignored the latter, pushing the euro to 33-month high and adding further pressure on the US dollar. Elsewhere, Japanese equities were the worst hit as the yen strengthened on the back of safe-haven demand.

Risks remain, but are unlikely to cause a meaningfully near-term correction

With the seasonally quieter summer months behind us, one can consider three key risk factors that have the potential of triggering a significant capital market correction: 1) a geopolitical crisis, 2) a growth slowdown, presumably led by the US, 3) high valuations driven by excessive leverage. At this juncture we do not see significant valuation problems (risk factor #3), whilst some concerns about growth in the US slowing down (risk factor # 2) must be viewed against a backdrop of a Fed that is increasingly reluctant to raise rates further, a continuing pick-up in Europe, China and Japan, a weaker US dollar, as well as the prospect of some US fiscal stimulus by the end of the year (the latter has become more likely due to hurricanes Harvey and Irma). This leaves us with a geopolitical crisis as the main risk factor. With regards to North Korea, we believe concerns are overblown; neither the US nor North Korea want a full-blown war. However, North Korean provocations will likely continue, meaning that markets will suffer periodic bouts of jitters. Nevertheless, we believe that any significant Korea-induced correction would warrant an opportunistic buying strategy. Given these considerations, and the persistence of geopolitical concerns, we stick to our bearish tilt within a relatively bullish stance: overweight US equities at the expense of other major regions, and stick to appropriate Treasury and gold hedges.

Past week global markets' performance

Index Snapshot (World Indices)

Index	Latest	Weekly Chg %	YTD %
S&P 500	2,461.4	-0.6	9.9
Dow Jones	21,797.8	-0.9	10.3
Nasdaq	6,360.2	-1.2	18.2
DAX	12,304.0	1.3	7.2
Nikkei 225	19,274.8	-2.1	0.8
FTSE 100	7,377.6	-0.8	3.3
Sensex	31,687.5	-0.7	19.0
Hang Seng	27668.5	-1.0	25.8
Regional Markets (Sunday to Thursday)			
ADX	4453.7	-0.3	-2.0
DFM	3644.3	0.2	3.2
Tadawul	7360.6	1.4	2.1
DSM	8675.5	-1.4	-16.9
MSM30	5047.08	-0.1	-12.7
BHSE	1315.5	1.0	7.8
KWSE	6897.4	0.1	20.0
MSCI			
MSCI World	1,964.5	-0.1	12.2
MSCI EM	1,091.2	-0.0	26.5

Global Commodities, Currencies and Rates

Commodity	Latest	Weekly Chg %	YTD %
ICE Brent USD/bbl	53.8	2.0	-5.4
Nymex WTI USD/bbl	47.5	0.4	-11.6
Gold USD/t oz	1346.6	1.6	17.3
Silver USD/t oz	18.0	1.4	12.8
Platinum USD/t oz	1007.6	0.0	11.6
Copper USD/MT	6780.0	0.1	23.3
Alluminium	2076.5	-2.1	22.6
Currencies			
EUR USD	1.2036	1.5	14.4
GBP USD	1.3200	1.9	7.0
USD JPY	107.84	-2.2	-8.5
CHF USD	0.9442	-2.1	7.9
Rates			
USD Libor 3m	1.3103	-0.4	31.3
USD Libor 12m	1.6951	-1.0	0.6
UAE Eibor 3m	1.5482	0.4	4.9
UAE Eibor 12m	2.1315	0.4	1.7
US 3m Bills	1.0367	3.7	108.4
US 10yr Treasury	2.0507	-5.3	-16.1

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Summary market outlook

Bonds	
Global Yields	10-year US Treasury yields fell to their lowest level since last year's US election on the back of concerns over Hurricane Irma as well as tension with North Korea. 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 jumped in line with the sell-off in equity markets. However, given ongoing global political uncertainty, current levels appear justified.
Equity Markets	
Local Equity Markets	GCC equity markets were resilient with the help of stabilisation in Brent crude prices and a weaker dollar. 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 ended the first week of September in negative territory amidst threats from Hurricane Irma and North Korea. Japanese equities suffered the most on account of yen appreciation. European equities ended the week higher as the ECB maintained its status quo. In spite of recent bouts of risk aversion, we continue to believe that strong economic fundamentals along with robust corporate earnings growth will support the risk appetite.
Commodities	
Precious Metals	Gold prices rose during the week with increased appetite for safe-haven assets due to elevated levels of geopolitical risk and concerns over Hurricane Irma. We stick to our overweight recommendation on gold as a risk hedge against ongoing political and (potential) inflationary risks.
Energy	Oil prices ended the week up with Brent crude gaining almost 2%, supported by higher refinery demand in Europe and Asia. We expect oil to continue trading in the range seen over the past 12 months ($42-$56/bbl). 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 despite higher gold prices and dollar weakness. Longer-term we do not recommend industrial metals exposure due to ongoing concerns around Chinese growth prospects.
Currencies	
EURUSD	The euro touched a 33-month high versus the dollar as markets ignored the ECB's concerns with regards to ongoing euro strength. We expect euro strength to have mostly run its course and believe the US dollar will regain some ground.
Critical levels	R2 1.2046 · R1 1.2032 · S1 1.2009 · S2 1.1999
GBPUSD	The pound appreciated versus the dollar, mainly on account of broad dollar weakness. We expect sterling to remain under pressure due to political uncertainty, economic weakness and Brexit negotiations.
Critical levels	R2 1.3213 · R1 1.3199 · S1 1.3173 · S2 1.3161
USDJPY	The yen strengthened significantly against the dollar, helped by the safe-haven appetite. We believe there will remain a bias for yen weakness given the potential for dollar strength.
Critical levels	R2 108.63 · R1 108.42 · S1 108.04 · S2 107.87

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
9/14/2017	CPI YoY	Aug	1.80%	1.70%	All focus will be on headline and core inflation along with weekly earnings.
9/14/2017	CPI Ex Food and Energy YoY	Aug	1.60%	1.70%	
9/14/2017	Real Avg Weekly Earnings YoY	Aug	--	1.10%	
9/15/2017	Retail Sales Advance MoM	Aug	0.10%	0.60%	
9/15/2017	Univ. of Mich. Sentiment	Sep P	95	96.8	

Japan

	Indicator	Period	Expected	Prior	Comments
9/11/2017	Tertiary Industry Index MoM	Jul	0.10%	0.00%	PPI and Industrial production will be closely watched.
9/13/2017	PPI YoY	Aug	3.00%	2.60%	
9/14/2017	Industrial Production YoY	Jul F	--	4.70%	

Eurozone

	Indicator	Period	Expected	Prior	Comments
9/13/2017	Industrial Production WDA YoY	Jul	3.30%	2.60%	Trade data will be important
9/15/2017	Trade Balance SA	Jul	20.3bn	22.3bn	

United Kingdom

	Indicator	Period	Expected	Prior	Comments
9/12/2017	CPI YoY	Aug	2.80%	2.60%	Attention will be on the BoE MPC meeting and inflation data.
9/12/2017	CPI Core YoY	Aug	2.50%	2.40%	
9/14/2017	BoE MPC meeting	14-Jul	No change	--	

China and India

	Indicator	Period	Expected	Prior	Comments
9/10/2017	New Yuan Loans CNY (CH)	Aug	950bn	825.5bn	China macro data for August and India inflation will be closely watched.
9/11/2017	Exports YoY (IN)	Aug	--	3.90%	
9/12/2017	CPI YoY (IN)	Aug	3.23%	2.36%	
9/14/2017	Retail Sales YoY (CH)	Aug	10.50%	10.40%	
9/14/2017	Fixed Assets Ex Rural YTD YoY (CH)	Aug	8.20%	8.30%	
9/14/2017	Industrial Production YoY (CH)	Aug	6.60%	6.40%	
9/14/2017	Wholesale Prices YoY (IN)	Aug	3.15%	1.88%	

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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