The Weekly Market View

September 18 2017

بنك أبوظبي التجاري ADCB

US equities hit new all-time highs

Risk sentiment returned despite another North Korean missile test and as Hurricane Irma hit parts of the US. Global equities gained led by Japanese equities (+3.3%) as the US dollar bounced back against the yen (+2.8%). US and European markets also rose strongly with US indices setting new all-time highs. UK stocks on the other hand fell as the pound surged against both the dollar and the euro on the back of BoE governor Carney's hawkish comments. The positive mood in markets sent US Treasuries down and yields up. The moves were exacerbated by a higher than expected US inflation print which boosts the odds of a December Fed funds rate hike. Gold dipped along with other safe havens after making strong gains in recent weeks. Brent crude continued its strong run, rising 5% during the week (+25% from June lows). Decent global growth leading to strong demand and a peaking US rig count have contributed to the bullish mood in the oil market.

Is the market right to discount a pick-up in US inflation?

The most important data release last week was US headline inflation for August, which rose 1.9% y-o-y from 1.7% in June. Lacklustre US inflation together with diminished expectations of US fiscal stimulus have been the main drivers behind US dollar weakness this year. The Fed has been tussling with a succession of soft inflation prints which have cast doubt over its ability to raise rates one more time this year. Any sign therefore that inflation may be picking up can have a profound impact on the US dollar and on financial markets more broadly. On the back of the data release the probability of a December hike in the Fed funds rate promptly jumped to over 50%. However, the Fed does not only look at inflation in determining whether or not to tighten monetary policy. It also looks at the labor market, which is currently extremely tight. At the same time, US dollar weakness has loosened financial conditions considerably this year. It is therefore quite plausible that the market is too complacent when it comes to the likelihood of another interest rate hike in the US this year. If inflation continues to hold up around the 2% level, and it has decent chances to do so given the recent rise in energy prices, the Fed could hike once more in December. For now, however, the higher August inflation print likely gives the Fed the required confirmation to proceed with its plan to begin running off its $4.5trn balance sheet at its FOMC meeting later this week. We do not expect this to unsettle equity markets given it has been very well flagged by the Fed and overall equity market fundamentals remain supportive.

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

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

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Past week global markets' performance

Index Snapshot (World Indices)

Index	Latest	Weekly Chg %	YTD %
S&P 500	2,500.2	1.6	11.7
Dow Jones	22,268.3	2.2	12.7
Nasdaq	6,448.5	1.4	19.8
DAX	12,518.8	1.7	9.0
Nikkei 225	19,909.5	3.3	4.2
FTSE 100	7,215.5	-2.2	1.0
Sensex	32,272.6	1.8	21.2
Hang Seng	27807.6	0.5	26.4
Regional Markets (Sunday to Thursday)			
ADX	4481.2	0.6	-1.4
DFM	3657.2	0.4	3.6
Tadawul	7373.2	0.2	2.3
DSM	8409.5	-3.1	-19.4
MSM30	5002.46	-0.9	-13.5
BHSE	1303.8	-0.9	6.8
KWSE	6913.9	0.2	20.3
MSCI			
MSCI World	1,987.7	1.2	13.5
MSCI EM	1,102.2	1.0	27.8

Global Commodities, Currencies and Rates

Commodity	Latest	Weekly Chg %	YTD %
ICE Brent USD/bbl	55.6	3.4	-2.1
Nymex WTI USD/bbl	49.9	5.1	-7.1
Gold USD/t oz	1320.2	-2.0	15.0
Silver USD/t oz	17.6	-2.1	10.4
Platinum USD/t oz	969.1	-3.8	7.3
Copper USD/MT	6457.0	-4.8	17.4
Alluminium	2056.25	-1.0	21.4
Currencies			
EUR USD	1.1945	-0.8	13.6
GBP USD	1.3594	3.0	10.2
USD JPY	110.83	2.8	-5.5
CHF USD	0.9603	1.7	6.1
Rates			
USD Libor 3m	1.3239	1.0	32.7
USD Libor 12m	1.7321	2.2	2.8
UAE Eibor 3m	1.5512	0.2	5.1
UAE Eibor 12m	2.1420	0.8	2.2
US 3m Bills	1.0265	-1.0	106.4
US 10yr Treasury	2.2023	7.4	-9.9

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Summary market outlook

Bonds	
Global Yields	10-year US Treasury yields jumped to the highest level in three weeks as demand for safe-haven assets fizzled out. US inflation also surprised to the upside, boosting the odds of a December rate hike and pushing short-term yields higher. 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 fell in line with the equity market rally. However, volatility is unlikely to permanently remain low given the backdrop of ongoing geopolitical risks.
Equity Markets	
Local Equity Markets	GCC equity markets rose slightly, unable to really benefit from the rally in oil prices. 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 rallied, recovering the previous week's losses as markets shrugged off ongoing North Korea tensions. The S&P 500 reached new highs, crossing the 2,500 mark. However, Japanese equities were the top performers, benefitting from the weaker yen. On the other hand, UK equities underperformed the most as the pound appreciated on the back of hawkish comments from the BoE. Overall, we continue to believe that strong economic fundamentals along with robust corporate earnings growth will support global equities.
Commodities	
Precious Metals	Gold prices slid during along with waning safe-haven appetite. We stick to our overweight recommendation on gold as a risk hedge against ongoing political and (potential) inflationary risks.
Energy	Oil prices rallied on IEA reports which indicated that global crude production declined for the first time in four months in August. Brent Crude touched a five month high of USD55.85/bbl. 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 ended the week lower, tracking the decline in precious metals and on the back of disappointing China macro data. Longer-term we do not recommend industrial metals exposure due to ongoing concerns around Chinese growth prospects.
Currencies	
EURUSD	The euro fell against the dollar on the back of stronger than expected August headline inflation in the US which pushed the US dollar up. We expect the US dollar will continue to regain some ground.
Critical levels	R2 1.2031 / R1 1.1988 / S1 1.1902 / S2 1.1858
GBPUSD	The pound appreciated versus the dollar as the BoE turned hawkish at its MPC meeting. We expect sterling to remain under pressure due to political uncertainty, economic weakness and Brexit negotiations.
Critical levels	R2 1.3765 / R1 1.3680 / S1 1.3446 / S2 1.3297
USDJPY	The yen weakened against the dollar with an increase in risk-on sentiment. We believe there will remain a bias for yen weakness given the potential for dollar strength.
Critical levels	R2 112.35 / R1 111.59 / S1 109.82 / S2 108.80

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
9/18/2017	NAHB Housing Market Index	Sep	67	68	All eyes will be on the FOMC meeting in which the Fed is expected to commence its balance sheet reduction plan.
9/19/2017	Housing Starts MoM	Aug	1.70%	-4.80%	
9/19/2017	Export Price Index MoM	Aug	0.20%	0.40%	
9/20/2017	FOMC meeting	20-Sep	No change	-	
9/22/2017	Markit US Manufacturing PMI	Sep P	53	52.8	

Japan

	Indicator	Period	Expected	Prior	Comments
9/20/2017	Exports YoY	Aug	14.30%	13.40%	Focus will be on the BoJ MPC meeting.
9/21/2017	All Industry Activity Index MoM	Jul	-0.10%	0.40%	
9/21/2017	Nationwide Dept Sales YoY	Aug	--	-1.40%	
9/21/2017	BoJ MPC Meeting	21-Sep	No change	--	

Eurozone

	Indicator	Period	Expected	Prior	Comments
9/18/2017	CPI YoY	Aug F	1.50%	1.30%	Attention will be on inflation and trade data.
9/18/2017	CPI Core YoY	Aug F	1.20%	1.20%	
9/19/2017	ECB Current Account SA	Jul	-	21.2bn	
9/21/2017	ECB Publishes Economic Bulletin				
9/22/2017	Markit Manufacturing PMI	Sep P	57.2	57.4	

United Kingdom

	Indicator	Period	Expected	Prior	Comments
9/18/2017	Rightmove House Prices YoY	Sep	-	3.10%	Retail sales will be important.
9/20/2017	Retail Sales Inc Auto Fuel YoY	Aug	1.10%	1.30%	

China and India

Indicator	Period	Expected	Prior	Comments
				No important data releases scheduled for the week.

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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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