# The Weekly Market View

September 4 2017



## Mostly strong US macro data buoys equities and boosts the dollar

Lingering concerns over North Korea and fresh worries over the impact of Hurricane Harvey on US growth pushed 10-year Treasuries to a ten month low of 2.08% earlier in the week before yields rebounded on Friday. Helping the rebound in yields was mostly positive US macro data. The main exceptions being jobs numbers and core PCE inflation, both of which disappointed slightly. However, upwardly revised US Q2 GDP growth (to an annual pace of 3% from 2.6% previously) and the ISM manufacturing survey hitting a 6-year high boosted equities and the dollar. US and Japanese equities outperformed, while Eurozone equities struggled. The combination of strong growth based data, but still weak inflation along with elevated levels of geopolitical risk boosted gold by 2.6% during the week (15.5% y-t-d).

### Geopolitical risks linger, but equity fundamentals remain strong

Global risk assets have remained impressively resilient in recent months as investors have ignored calls for imminent corrections by well-known market commentators. The fact remains that the fundamentals supporting risk assets, and equities in particular are strong. By fundamentals we mean global economic growth as well as corporate profits. The combination of these two, in the context of supportive monetary policy means that equities can continue to largely ignore political risks, such as the one unfolding on the Korean peninsula. The real risk for equity markets, therefore, is a scaling back of economic growth and/or earnings growth expectations. Nevertheless, a sudden sharp escalation between North Korea and others would also unnerve investors, albeit such an event is difficult to predict. In this environment, we continue to see the attractions of gold and US Treasuries as risk hedges. Within the equity universe US equities should remain the most resilient should the situation in North Korea drag on, while European, Emerging and Japanese equities are the most vulnerable.

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## Past week global markets' performance

Index Snapshot	(World Indices)
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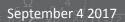
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Index	Latest	Weekly Chg %	YTD %				
S&P 500	2,476.6	1.4	10.6				
Dow Jones	21,987.6	0.8	11.3				
Nasdaq	6,435.3	2.7	19.5				
DAX	12,142.6	-0.2	5.8				
Nikkei 225	19,691.5	1.2	3.0				
FTSE 100	7,438.5	0.5	4.1				
Sensex	31,892.2	0.9	19.8				
Hang Seng	27953.2	0.4	27.1				
Regional Markets	(Sunday to Thu	rsday)					
ADX	4468.4	-0.6	-1.7				
DFM	3637.6	0.4	3.0				
Tadaw ul	7258.6	0.2	0.7				
DSM	8800.6	-1.7	-15.7				
MSM30	5052.55	2.1	-12.6				
BHSE	1302.5	0.0	6.7				
KWSE	6892.1	0.1	19.9				
MSCI							
MSCI World	1,965.8	1.1	12.3				
MSCI EM	1,091.4	0.6	26.6				

Global Comr	nodities	Currencies	and	Rates

Global Commodities, Currencies and Rates						
Commodity	Latest	Weekly Chg %	YTD %			
ICE Brent USD/bbl	52.8	0.6	-7.2			
Nymex WTI USD/bbl	47.3	-1.2	-12.0			
Gold USD/t oz	1325.2	2.6	15.5			
Silver USD/t oz	17.7	3.9	11.3			
Platinum USD/t oz	1007.6	3.4	11.6			
Copper USD/MT	6776.0	0.9	23.2			
Alluminium	2121.75	3.1	25.3			
Currencies						
EUR USD	1.1860	-0.5	12.8			
GBP USD	1.2951	0.5	5.0			
USD JPY	110.25	0.8	-6.1			
CHF USD	0.9648	0.8	5.6			
Rates						
USD Libor 3m	1.3161	-0.1	31.9			
USD Libor 12m	1.7118	-0.9	1.5			
UAE Eibor 3m	1.5417	0.2	4.5			
UAE Eibor 12m	2.1238	-0.2	1.4			
US 3m Bills	0.9998	-0.4	101.0			
US 10yr Treasury	2.1657	-0.0	-11.4			

Please refer to the disclaimer at the end of this publication

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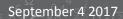




# **Summary market outlook**

Global Yields  10-year US Treasury yields fell to a 10-month low of 2.08% intraweek as worries over the impact of Hurricane Harvey rose and core PCE inflation disappointed. However, they rebounded to finish the week flat following a strong ISM print and upward revision to Q2 GDP growth. 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 moved lower in line with the equity market rebound towards the end of the week. However, given ongoing global political uncertainty, a jump in volatility should not be ruled out.  Equity Markets  GCC equity markets lacked direction during the holiday-shortened trading week. 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 up over 1%, driven mostly by US equities. The combination of strong US growth data (both GDP growth and ISM) coupled with soft inflation data suggests a continuation of the "goldliocks" environment equity markets have enjoyed for most of this year. Overall, strong and synchronized global growth data and robust corporate earnings growth means elevated valuations can be sustained for longer.  Commodities  Precious Metals  Soft US inflation pointing to fewer Fed rate hikes and still elevated levels of geopolitical risk, mostly emanating from North Korea boosted gold prices further during the week. We stick to our overweight recommendation on gold as a risk hedge against ongoing political and potential for inflationary risks.  Oil prices ended the week more or less flat. The devastation caused by Hurricane Harvey has hit US refining capabilities more than it has impacted US oil production. As such it is likely to have only a temporary effect on crude oil prices. We expect oil to continue trading i
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A break out at the upper end will be challenging given US production will likely act as a ceiling on oil prices.
Industrial metals continued their recent upward march, suggesting Chinese growth still remains robust on the back of Chinese authorities' stimulus efforts. Longer-term we do not recommend industrial metals exposure due to ongoing concerns around Chinese growth prospects.
Currencies
Having comfortably breached the \$1.20 the euro fell back against the US dollar on the back of strong US growth data. The ECB's monetary policy committee meeting on 7 September will be closely watched for any indication of tapering. We expect euro strength to have mostly run its course and believe the US dollar will regain some ground.
Critical levels R2 1.2165 R1 1.2012 S1 1.1765 S2 1.1671
The pound strengthened slightly versus the dollar, but remains range bound. We expect sterling to remain under pressure due to political uncertainty, economic weakness and Brexit negotiations.
Critical levels R2 1.3075 R1 1.3013 S1 1.2871 S2 1.2791
USDJPY  The yen weakened against the dollar on the back of stronger US growth data. We believe there will remain a bias for yen weakness given the potential for dollar strength.
Critical levels R2 112.13 R1 111.19 S1 108.79 S2 107.33

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# Forthcoming important economic data

### **United States**



	Indicator	Period	Expected	Prior	Comments
9/5/2017	Factory Orders	Jul	-3.30%	3.00%	
9/5/2017	Durable Goods Orders	Jul F	1.00%	-6.80%	
9/6/2017	MBA Mortgage Applications	1-Sep		-2.30%	Factory orders and durable goods
9/6/2017	Trade Balance	Jul	-\$44.6b	-\$43.6b	orders will give further insight into the strength of the US economy.
9/6/2017	Markit US Composite PMI	Aug F		56	strength of the objectmonly.
9/6/2017	ISM Non-Manf. Composite	Aug	55.5	53.9	
9/7/2017	Initial Jobless Claims	2-Sep	242k	236k	
Japan					

	Indicator	Period	Expected	Prior
9/4/2017	Nikkei Japan PMI Composite	Aug		51.8

Final Q2 GDP growth will be the main data point out of Japan.

¥934.6b

1.00%

Comments

## 9/7/2017 Eurozone

9/7/2017



GDP SA QoQ

**BoP Current Account Balance** 

	Indicator	Period	Expected	Prior	Comments
9/5/2017	Markit Eurozone Composite PMI	Aug F	55.8	55.8	All eyes will be on the ECB
9/5/2017	Retail Sales YoY	Jul	2.50%	3.10%	Monetary Policy meeting, many expect President Draghi to signal
9/7/2017	GDP SA YoY	2Q F	2.20%	2.20%	the intention to begin tapering of
9/7/2017	ECB Monetary Policy Committee Meeting	7-Sep	0.00%	0.00%	asset purchases.

Jul

2QF

¥2044.6b

0.70%

## United Kingdom

	Indicator	Period	Expected	Prior	Comments
9/5/2017	Markit/CIPS UK Composite PMI	Aug	54	54.1	
9/7/2017	Halifax House Prices MoM	Aug	0.20%	0.40%	House prices and industrial
9/8/2017	Industrial Production YoY	Jul	0.30%	0.30%	production are the main releases in
9/8/2017	Manufacturing Production YoY	Jul	1.70%	0.60%	the UK this week.
9/8/2017	Trade Balance	Jul	-£3250	-£4564	

## China and India





	Indicator	Period	Expected	Prior	Comments
9/4/2017	Caixin China PMI Composite (CH)	Aug		51.9	
9/6/2017	Foreign Reserves (CH)	Aug		\$3080.7b	
9/7/2017	Imports YoY (CH)	Aug	10.00%	11.00%	
9/7/2017	Exports YoY (CH)	Aug	5.10%	7.20%	
9/8/2017	CPI YoY (CH)	Aug	1.60%	1.40%	Chinese PMI, foreign reserves data
9/8/2017	PPI YoY (CH)	Aug	5.40%	5.50%	and trade data will closely watched.
9/9/2017	Money Supply M2 YoY (CH)	Aug	9.10%	9.20%	
9/5/2017	Nikkei India PMI Composite (IN)	Aug		46	
9/7/2017	Exports YoY (IN)	Aug		3.90%	
9/7/2017	Imports YoY (IN)	Aug		15.40%	

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September 4 2017



### **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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