

Strong job release eases pressure off the dollar

Global equities extended gains, led by UK stocks and Dow Jones. FTSE 100 was the best performer, mainly driven by the pound weakness after the Bank of England expressed a dovish stance at its MPC meeting. S&P 500 was almost unchanged while the Dow Jones touched new record highs above 22000 level in reaction to strong labor market data release last Friday. US non-farm payrolls surprised on the upside, rising by 209,000 in July with unemployment rate further declining to 4.3%. Average hourly job earnings, an indicator of job growth, rose by 0.3% on month-on-month basis, keeping the year-on-year growth at 2.5%. As a result, the dollar rebounded from its 13-month low, rallying by 0.7 percent on Friday. US Treasury yields also edged higher in reaction to the job figures, yet ended the week lower. However, market expectations of December Fed rate hike expectations, as indicated by the Fed futures, were almost unchanged as jobs growth and increase in core PCE still appear subdued. Finally, energy prices came under pressure on reports of US production reaching new record high and increased supply from Libya and Nigeria- both the countries exempt from the OPEC supply cut deal.

US inflation to drive rate hike expectations

After the fully loaded last week, the upcoming week will be relatively quiet in terms of data releases. The focus will now shift from US labour data to the US CPI release for July, due on Friday. The headline inflation is expected to rise by 1.8% y-o-y, yet markets will be closely watching the core CPI which is expected to expand slightly by 0.2% m-o-m but likely to remain unchanged at 1.7% y-o-y on a yearly basis. Both headline and core inflation have declined this year after climbing above the Fed's target of 2%, driving future inflation expectations lower. Softer than expected inflation print could again add pressure on the dollar and at the same time, reduce the likelihood of a Fed rate hike in December. However, persistent job growth should allow the Fed to stick to its gradual pace of tightening which is more likely to come through balance sheet unwinding in September. Elsewhere in emerging markets, a number of macro-economic data from China is due to release this week. Market focus will be mainly on the foreign reserves and the trade data, both expected to have remained strong in July.

Past week global markets' performance

| Index Snapshot (World Indices) | | | | Global Commodities, Currencies and Rates | | | |
|----------------------------------------------|----------|--------------|-------|------------------------------------------|--------|--------------|-------|
| Index | Latest | Weekly Chg % | YTD % | Commodity | Latest | Weekly Chg % | YTD % |
| S&P 500 | 2,476.8 | 0.2 | 10.6 | ICE Brent USD/bbl | 52.4 | -0.2 | -7.7 |
| Dow Jones | 22,092.8 | 1.2 | 11.8 | Nymex WTI USD/bbl | 49.6 | -0.3 | -7.7 |
| Nasdaq | 6,351.6 | -0.4 | 18.0 | Gold USD/t oz | 1258.9 | -0.8 | 9.7 |
| DAX | 12,297.7 | 1.1 | 7.1 | Silver USD/t oz | 16.3 | -2.9 | 2.1 |
| Nikkei 225 | 19,952.3 | -0.0 | 4.4 | Platinum USD/t oz | 964.2 | 3.1 | 6.8 |
| FTSE 100 | 7,511.7 | 1.9 | 5.2 | Copper USD/MT | 6330.0 | 0.7 | 15.1 |
| Sensex | 32,325.4 | 0.0 | 21.4 | Alluminium | 1892 | 0.2 | 11.7 |
| Hang Seng | 27562.7 | 2.2 | 25.3 | Currencies | | | |
| Regional Markets (Sunday to Thursday) | | | | EUR USD | 1.1773 | 0.2 | 11.9 |
| ADX | 4596.0 | 0.6 | 1.1 | GBP USD | 1.3040 | -0.7 | 5.7 |
| DFM | 3675.1 | 1.9 | 4.1 | USD JPY | 110.69 | 0.0 | -5.7 |
| Tadaw ul | 7085.6 | -1.2 | -1.7 | CHF USD | 0.9727 | 0.4 | 4.8 |
| DSM | 9398.1 | -1.7 | -10.0 | Rates | | | |
| MSM30 | 5057.57 | 0.2 | -12.5 | USD Libor 3m | 1.3119 | 0.1 | 31.5 |
| BHSE | 1322.6 | -1.0 | 8.4 | USD Libor 12m | 1.7229 | -0.4 | 2.2 |
| KWSE | 6825.7 | 0.3 | 18.7 | UAE Eibor 3m | 1.5268 | 0.3 | 3.5 |
| MSCI | | | | UAE Eibor 12m | 2.1328 | 0.0 | 1.8 |
| MSCI World | 1,967.8 | 0.4 | 12.4 | US 3m Bills | 1.0698 | -0.7 | 115.1 |
| MSCI EM | 1,067.3 | 0.4 | 23.8 | US 10yr Treasury | 2.2620 | -1.2 | -7.5 |

Please refer to the disclaimer at the end of this publication

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Summary market outlook

| Bonds | | | | | | | | | |
|-----------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------|--------|-----------|--------|-----------|--------|-----------|--------|
| Global Yields | US Treasury yields rose above their one-month low in reaction to better than expected labour data, yet ended the week lower. The upcoming inflation data this week will be a major driver for the bond market. Overall, we expect Treasury yields to remain range bound unless there is a sharp jump in inflation/inflation expectations. In Europe, UK gilt yields moved lower on the back of dovish BoE stance. In spite of the inflationary pressures, we expect the gilts to remain supported due to Brexit risks. | | | | | | | | |
| Stress and Risk Indicators | The VIX moved slighter higher, yet remained near its record low. Current levels are too low given the ongoing global political uncertainty and we therefore expect volatility to rise. | | | | | | | | |
| Equity Markets | | | | | | | | | |
| Local Equity Markets | GCC equity markets performed mixed last week with oil prices coming under pressure. 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 decent last week with gains mainly coming from Europe. While S&P 500 was almost unchanged, the Dow Jones received a boost from strong labour data. Positive earnings in Europe pushed the DAX higher. UK equities were the best performers, driven by pound weakness. Overall for equities globally, we continue to expect some consolidation to take place in the near-term. | | | | | | | | |
| Commodities | | | | | | | | | |
| Precious Metals | Gold prices declined slightly as strong jobs report spurred dollar demand. We stick to our overweight recommendation on gold as a risk hedge against ongoing political and potential for inflationary risks. | | | | | | | | |
| Energy | Energy prices ended the week lower, slightly reversing the previous two week's gain. Reports of record high oil shipments from Libya and increased oil supply from Nigeria- both exempt from OPEC cut deal- weighed on the market sentiment. US shale production also reached a new record high last week, further adding pressure on the oil market. Overall, we expect some upward normalization to take place. However, moderately rising US shale production will act as a ceiling on oil prices. | | | | | | | | |
| Industrial Metals | Industrial metals held up well, buoyed by better than expected China PMI release. We do not recommend industrial metals exposure due to ongoing concerns around Chinese demand. | | | | | | | | |
| Currencies | | | | | | | | | |
| EURUSD | The euro was flat against the dollar in spite of strong Europe GDP data. On a long term basis, we expect the euro to weaken given the divergence in central bank policies in Europe versus the US | | | | | | | | |
| Critical levels | <table border="0"> <tr> <td>R2</td> <td>1.1957</td> <td>R1</td> <td>1.1865</td> <td>S1</td> <td>1.1704</td> <td>S2</td> <td>1.1636</td> </tr> </table> | R2 | 1.1957 | R1 | 1.1865 | S1 | 1.1704 | S2 | 1.1636 |
| R2 | 1.1957 | R1 | 1.1865 | S1 | 1.1704 | S2 | 1.1636 | | |
| GBPUSD | The pound weakened versus the dollar on the back of dovish BoE stance. We expect the sterling to remain under pressure due to political uncertainty and Brexit negotiations. | | | | | | | | |
| Critical levels | <table border="0"> <tr> <td>R2</td> <td>1.3216</td> <td>R1</td> <td>1.3128</td> <td>S1</td> <td>1.2988</td> <td>S2</td> <td>1.2936</td> </tr> </table> | R2 | 1.3216 | R1 | 1.3128 | S1 | 1.2988 | S2 | 1.2936 |
| R2 | 1.3216 | R1 | 1.3128 | S1 | 1.2988 | S2 | 1.2936 | | |
| USDJPY | The yen remain unchanged versus the dollar buoyed by low US yields. However, bias for yen weakness remains given the potential for dollar strength. | | | | | | | | |
| Critical levels | <table border="0"> <tr> <td>R2</td> <td>111.73</td> <td>R1</td> <td>111.21</td> <td>S1</td> <td>110.01</td> <td>S2</td> <td>109.33</td> </tr> </table> | R2 | 111.73 | R1 | 111.21 | S1 | 110.01 | S2 | 109.33 |
| R2 | 111.73 | R1 | 111.21 | S1 | 110.01 | S2 | 109.33 | | |

Forthcoming important economic data

United States

| Indicator | Period | Expected | Prior | Comments |
|-----------|----------------------------|----------|-------|----------|
| 8/9/2017 | Unit Labor Costs | 2Q P | 1.10% | 2.20% |
| 8/9/2017 | Wholesale Inventories MoM | Jun F | 0.60% | 0.60% |
| 8/10/2017 | Initial Jobless Claims | 5-Aug | 240k | 240k |
| 8/11/2017 | CPI YoY | Jul | 1.80% | 1.60% |
| 8/11/2017 | CPI Ex Food and Energy YoY | Jul | 1.70% | 1.70% |

CPI numbers will be important in forming future Fed rate hike expectations

Japan

| Indicator | Period | Expected | Prior | Comments |
|-----------|-----------------------------|----------|---------|----------|
| 8/8/2017 | BoP Current Account Balance | Jun | ¥860.5b | ¥1653.9b |
| 8/10/2017 | PPI YoY | Jul | 2.30% | 2.10% |
| 8/10/2017 | Tertiary Industry Index MoM | Jun | 0.20% | -0.10% |

Current account balance will be the key focus.

Eurozone

| Indicator | Period | Expected | Prior | Comments |
|-----------|------------------------------------|----------|-------|----------|
| 8/7/2017 | Industrial Production WDA YoY (GE) | Jun | 3.70% | 5.00% |
| 8/7/2017 | Sentix Investor Confidence | Aug | 27.6 | 28.3 |
| 8/11/2017 | CPI YoY (GE) | Jul F | 1.70% | 1.70% |
| 8/11/2017 | CPI YoY (FR) | Jul F | 0.70% | 0.70% |

Europe investor confidence indicator will be important

United Kingdom

| Indicator | Period | Expected | Prior | Comments |
|-----------|---------------------------|----------|--------|----------|
| 8/7/2017 | Halifax House Prices MoM | Jul | 0.30% | -1.00% |
| 8/10/2017 | Industrial Production MoM | Jun | 0.10% | -0.10% |
| 8/10/2017 | Trade Balance | Jun | -£2500 | -£3073 |

Industrial production and foreign data will be closely watched.

China and India

| Indicator | Period | Expect | Prior | Comments |
|-----------|------------------------------|--------|-----------|-----------|
| 8/7/2017 | Foreign Reserves (CH) | Jul | \$3074.9b | \$3056.8b |
| 8/8/2017 | Exports YoY (CH) | Jul | 11.00% | 11.30% |
| 8/9/2017 | CPI YoY (CH) | Jul | 1.50% | 1.50% |
| 8/10/2017 | New Yuan Loans CNY (CH) | Jul | 790bn | 1540bn |
| 8/10/2017 | Aggregate Financing CNY (CH) | Jul | 1000bn | 1776bn |
| 8/10/2017 | Exports YoY (IN) | Jul | - | 4.40% |

Focus will be on China's foreign reserves and foreign trade data

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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