Risk-on mode gathers steam but not for emerging markets

Risk assets ended the week on a positive note with Wall Street stocks touching a new record high on solid US jobs number and investors continued to assess the potential impact of tax reform. US non-farm payrolls rose by 228,000 in November, higher than market expectation of 195,000 while the unemployment rate held steady at 4.1%. However, growth in average weekly earnings remain muted, rising by 0.2% m-o-m in November. Yet, December rate hike expectations were intact and the dollar rallied while safe-haven assets except for US treasuries came under pressure. European equities performed the best mainly on account of euro weakness versus the dollar. The UK reached a historical deal on its EU exit terms, paving way for the second phase of trade talks which are likely to be more complicated. As a result, the pound sterling which rose in reaction to the deal confirmation, retreated later, thus pushing the FTSE 100 higher by 1.3% over the week. On the other hand, emerging market equities underperformed due to broad dollar weakness. Safe-haven assets including gold and yen underperformed, yet US treasuries were resilient with the 10yr yields ending the week almost flat. Oil prices were lower on concerns about rise in US shale production impacting demand.

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FOMC meeting to set the stage for 2018

This week will be heavy with three central banks- Federal Reserve, ECB and Bank of England scheduled to meet for the last time this year. The main focus will be on the FOMC meeting on 13/14 December when the Fed is widely expected to lift rates by 25bp (fully priced in by the market). In addition, the markets will be paying attention to the economic projections and closely looking for any changes in the Fed's rhetoric and rate hike outlook for 2018. Based on the current dot plot, the Fed is expected to be raise rates three times next year. Our expectation is that the Fed will stick to its gradual approach in hiking rates with no significant change in its rate outlook given inflation pressures and wage growth have been subdued. As such, we expect the dollar strength to stay its course going into next year. In Europe, the ECB is likely to maintain status-quo but market participants will be looking for any changes in growth and inflations projections post the disappointing core inflation reading. In the UK, the Bank of England is expected to keep rates unchanged and hold a "wait and watch" approach for 2018 with the risks emanating from the finalisation of Brexit deal.

Past week global markets' performance

Index Snapshot (World Indices)

Index	Latest	Weekly Chg %	YTD %
S&P 500	2,651.5	0.4	18.4
Dow Jones	24,329.2	0.4	23.1
Nasdaq	6,840.1	-0.1	27.1
DAX	13,153.7	2.3	14.6
Nikkei 225	22,811.1	-0.0	19.3
FTSE 100	7,394.0	1.3	3.5
Sensex	33,250.3	1.3	24.9
Hang Seng	28639.9	-1.5	30.2
Regional Markets (Sunday to Thursday)			
ADX	4276.9	-0.1	-5.9
DFM	3393.5	-0.8	-3.9
Tadawul	7085.5	-0.1	-1.7
DSM	7773.6	0.2	-25.5
MSM30	5066.09	-0.9	-12.4
BHSE	1267.4	-1.0	3.8
KWSE	6186.9	-0.4	7.6
MSCI			
MSCI World	2,073.5	0.2	18.4
MSCI EM	1,110.8	-0.5	28.8

Global Commodities, Currencies and Rates

Commodity	Latest	Weekly Chg %	YTD %
ICE Brent USD/bbl	63.4	-0.5	11.6
Nymex WTI USD/bbl	57.4	-1.7	6.8
Gold USD/t oz	1247.6	-2.5	8.7
Silver USD/t oz	15.8	-3.5	-0.8
Platinum USD/t oz	883.7	-5.5	-2.1
Copper USD/MT	6538.5	-2.9	18.9
Alluminium	1993.25	-3.2	17.7
Currencies			
EUR USD	1.1756	-1.0	11.8
GBP USD	1.3397	-0.6	8.6
USD JPY	113.52	1.2	-3.0
CHF USD	0.9936	1.7	2.6
Rates			
USD Libor 3m	1.5488	3.6	55.2
USD Libor 12m	2.0108	2.6	19.3
UAE Eibor 3m	1.7030	3.9	15.4
UAE Eibor 12m	2.4460	2.3	16.8
US 3m Bills	1.2712	1.0	155.6
US 10yr Treasury	2.3760	0.6	-2.8

Please refer to the disclaimer at the end of this publication

Summary market outlook

Bonds	
Global Yields	US Treasury were resilient to the rise in the "risk-on" sentiment post the strong job numbers. The market is fully pricing in a 25bp rate hike at the upcoming FOMC meeting this week. A more hawkish Fed outlook could push yields up, particularly further at the short-dated segment of the curve.
Stress and Risk Indicators	The VIX dipped to the lowest level in a month as equity market rallied on positive economic outlook. However, volatility is unlikely to stay low given the backdrop of ongoing geopolitical risks.
Equity Markets	
Local Equity Markets	GCC equity markets ended the week on a mixed note as oil prices declined and dollar strength gained momentum. 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	Equity markets were higher over the week, boosted by solid US job growth with the S&P 500 reaching a new record high. European equities rallied the most as the euro weakened significantly versus the dollar. The FTSE 100 also rose higher over the week as the pound sterling depreciated after the first round of Brexit talks were successful. Emerging market equities underperformed on account of broad dollar strength. Overall, we continue to believe that strong economic fundamentals along with robust corporate earnings growth will support global equities.
Commodities	
Precious Metals	Gold prices declined over the week with the rise in "risk-on" sentiment. We stick to our overweight recommendation on gold as a risk hedge against ongoing political and (potential) inflationary risks.
Energy	Oil prices fell during the week on reports of increase in US shale production. 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 declined last week tracking the decline in gold prices and relatively stronger dollar. Longer-term we do not recommend industrial metals exposure due to concerns around Chinese growth prospects post the Party Congress.

Currencies								
EURUSD	The euro appreciated versus the dollar with the dollar strength gaining momentum. We expect the euro to remain under pressure as the US dollar regains ground.							
Critical levels	R2	1.1904	R1	1.1883	S1	1.1847	S2	1.1831
GBPUSD	The pound fell against the dollar as markets assessed the complexity of the second phase of Brexit talks. We expect sterling to remain under pressure due to political uncertainty, economic weakness and Brexit negotiations.							
Critical levels	R2	1.3514	R1	1.3480	S1	1.3421	S2	1.3396
USDJPY	The yen weakened versus the dollar as the risk-off sentiment faded. We believe there will remain a bias for yen weakness given divergent monetary policies between Japan and the US.							
Critical levels	R2	113.29	R1	113.06	S1	112.52	S2	112.21

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

Date	Indicator	Period	Expected	Prior	Comments
12/13/2017	CPI MoM	Nov	0.40%	0.10%	All eyes will be on the FOMC meeting which will provide the Fed's rate outlook for 2018. Headline and core inflation reading will also be closely tracked.
12/13/2017	CPI YoY	Nov	2.20%	2.00%	
12/13/2017	Core CPI YoY	Nov	1.80%	1.80%	
12/13/2017	FOMC Rate Decision	13-Dec	25bp hike	-	
12/14/2017	Retail Sales Advance MoM	Nov	0.30%	0.20%	
12/14/2017	Markit Manufacturing PMI	Dec P	53.6	53.9	
12/15/2017	Industrial Production MoM	Nov	0.30%	0.90%	
12/15/2017	Capacity Utilization	Nov	77.20%	77.00%	

Japan

Date	Indicator	Period	Expected	Prior	Comments
12/11/2017	Machine Tool Orders YoY	Nov P	-	49.80%	PPI will be important.
12/11/2017	PPI YoY	Nov	3.30%	3.40%	
12/11/2017	Tertiary Industry Index MoM	Oct	0.20%	-0.20%	
12/13/2017	Nikkei PMI Mfg	Dec P	-	53.6	

Eurozone

Date	Indicator	Period	Expected	Prior	Comments
12/14/2017	Markit Manufacturing PMI	Dec P	59.7	60.1	ECB meeting will be the main focus.
12/14/2017	ECB MPC Meeting	14-Dec	No change	-	

United Kingdom

Date	Indicator	Period	Expected	Prior	Comments
12/10/2017	Rightmove House Prices MoM	Dec	-	-0.80%	Attention will be on the BoE meeting. Inflation and retail sales print will also be important
12/12/2017	CPI YoY	Nov	3.00%	3.00%	
12/12/2017	CPI Core YoY	Nov	2.70%	2.70%	
12/12/2017	RPI YoY	Nov	4.00%	4.00%	
12/14/2017	Retail Sales Ex Auto Fuel YoY	Nov	0.20%	-0.30%	
12/14/2017	BoE MPC Meeting	14-Dec	No change	-	

China and India

Date	Indicator	Period	Expected	Prior	Comments
12/12/2017	CPI YoY (IN)	Nov	4.26%	3.58%	Focus will be on India CPI and WPI releases.
12/13/2017	Retail Sales YoY (CH)	Nov	10.30%	10.00%	
12/13/2017	Exports YoY (IN)	Nov	-	7.60%	
12/14/2017	Wholesale Prices YoY (IN)	Nov	3.80%	3.59%	
This week	New Yuan Loans CNY (CH)	Nov	800.0b	663.2b	
This week	Aggregate Financing CNY (CH)	Nov	1250b	1040b	

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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