The Weekly Market View

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Accomodating central banks support risk sentiment

Risk appetite remains supported with the three central banks- Fed, ECB and BoE while moving gradually to the exit door, maintaining an accommodative stance. Majority of the equity markets registered modest gains. US equities were the best performers, particularly large-caps and tech stocks, mostly boosted in anticipation of finalisation of the tax reform bill. UK equities fared well too, helped by weakness in the pound sterling. On the other hand, Japanese equities underperformed the most as the yen strengthened versus the dollar. European equities saw some profit taking mostly on political uncertainty ahead of the announcement of elections in Italy. The dollar ended the week almost flat, recovering from the mid-week losses post the "surprise less" Fed meeting and weaker core CPI print. While the Fed raised the Fed Fund rate as expected, it maintained its 2018 outlook with the exception of three rate hikes. The central bank was more optimistic about the growth outlook, raising the forecast to 2.5% but indicating that it is closely monitoring the inflation risks. This along with the disappointing core CPI print spurred demand for safe-have assets including gold, US treasuries and yen. In spite of the rate hike being priced in, the US treasury yield curve flattened to a new 10-year low as Mrs Yellen signalled to the possibility of yield curve flattening/inversion even in a strong growth environment. Elsewhere, oil prices ended the week almost flat, even after rising above the USD65/bbl. level, on concerns of rising US production.

US tax reform bill, Core PCE and BoJ will be the main focus

The focus this week will be mainly on the progress on the US tax reform bill. Amidst the uncertainty last week about the tax reform passing, the Republicans managed to close the deal with the final voting in both the chambers most likely to take place early this week in order to be sent to the President before Christmas. Even though most of the optimism has been priced in, the final passage of tax reform bill is still likely to bring some holiday cheer to the markets. In terms of economic indicators coming out of the US, markets will be looking out for the Core PCE (Personal consumption expenditure) release, an inflation indicator which is closely tracked by the Fed while formulating their policy decisions. An upward surprise in the PCE could push long-term yields higher. Attention will also be on the Bank of Japan (BoJ) MPC meeting which will mark the last of the central bank gatherings. Similar to other major central banks, the BoJ is likely to stay accommodative with no major surprises expected. In spite of growing signs of improvement in the economy, the central bank is expected to maintain its monetary stimulus program to support inflation.

Kindly note that this is our last weekly edition of 2017 and we will resume publication on 8th January 2018. Happy holidays to all our readers.

Past week global markets' performance

Index Snapshot (World Indices)

Index	Latest	Weekly Chg %	YTD %
S&P 500	2,675.8	0.9	19.5
Dow Jones	24,651.7	1.3	24.7
Nasdaq	6,936.6	1.4	28.9
DAX	13,103.6	-0.4	14.1
Nikkei 225	22,553.2	-1.1	18.0
FTSE 100	7,490.6	1.3	4.9
Sensex	33,463.0	0.6	25.7
Hang Seng	28848.1	0.7	31.1
Regional Markets (Sunday to Thursday)			
ADX	4339.2	1.0	-4.6
DFM	3355.4	-1.2	-5.0
Tadawul	7075.7	-1.0	-1.9
DSM	8211.9	4.9	-21.3
MSM30	5061.79	-0.0	-12.5
BHSE	1265.6	0.0	3.7
KWSE	6331.7	2.7	10.2
MSCI			
MSCI World	2,085.5	0.6	19.1
MSCI EM	1,118.5	0.7	29.7

Global Commodities, Currencies and Rates

Commodity	Latest	Weekly Chg %	YTD %
ICE Brent USD/bbl	63.2	-0.3	11.3
Nymex WTI USD/bbl	57.3	-0.1	6.7
Gold USD/t oz	1254.0	0.6	9.3
Silver USD/t oz	16.0	1.2	0.6
Platinum USD/t oz	888.8	0.6	-1.6
Copper USD/MT	6735.5	3.0	22.4
Alluminium	2050.5	2.9	21.0
Currencies			
EUR USD	1.1766	-0.2	11.9
GBP USD	1.3319	-0.5	7.9
USD JPY	112.69	-0.8	-3.8
CHF USD	0.9916	-0.2	2.8
Rates			
USD Libor 3m	1.6133	4.2	61.7
USD Libor 12m	2.0476	1.8	21.5
UAE Eibor 3m	1.7223	0.8	16.7
UAE Eibor 12m	2.4700	0.8	17.9
US 3m Bills	1.3120	3.2	163.8
US 10yr Treasury	2.3530	-1.0	-3.7

Please refer to the disclaimer at the end of this publication

Summary market outlook

Bonds

Global Yields

10yr US treasury yield moved lower in reaction to the “surprise less” Fed meeting and weak core CPI print. The yield curve flattened further in spite of the rate hike being fully priced in as Mrs Yellen hinted at the possibility of further flattening even in a solid growth environment. We expect long-end US treasuries to remain resilient unless inflation surprises significantly on the upside.

Stress and Risk Indicators

The VIX stayed low with lack of market surprises. However, volatility is unlikely to stay low given the backdrop of ongoing geopolitical risks.

Equity Markets

Local Equity Markets

GCC equity markets saw some rebound but overall remain mixed with flattish oil prices. Kuwaiti markets rallied as the Kuwait’s central bank decided not to raise rates in spite of the Fed rate hike. Abu Dhabi also performed well, receiving boost from the successful ADNOC IPO. 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 registered modest gains amidst accommodative central bank stance and US tax reform optimism. US equities performed the best as uncertainty regarding tax reform bill cleared later in the week and Fed’s bullish outlook on economy also helped sentiment. The FTSE 100 rose higher on the back of pound sterling weakness. In contrast, Japanese equities underperformed as the yen strengthened versus the dollar. Overall, we continue to believe that strong economic fundamentals along with robust corporate earnings growth will support global equities.

Commodities

Precious Metals

Gold prices rose over the week, supported by the safe-haven demand. 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 almost after rising above USD65/bbl last week. Concerns on rise in US output dampened the early-week bullish sentiment. 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 performed well, tracking the rise in gold prices and relatively flattish 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 was almost flat versus the dollar in spite of the dovish ECB stance. We expect the euro to remain under pressure as the US dollar regains ground.

	R2	R1	S1	S2
Critical levels	1.1833	1.1791	1.1728	1.1707

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.

	R2	R1	S1	S2
Critical levels	1.3502	1.3411	1.3265	1.3210

USDJPY

The yen strengthened versus the dollar supported by the safe-have appetite. We believe there will remain a bias for yen weakness given divergent monetary policies between Japan and the US.

	R2	R1	S1	S2
Critical levels	113.17	112.89	112.18	111.75

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
12/18/2017	NAHB Housing Market Index	Dec	70	70	GDP and Core PCE will be the main releases this week
12/19/2017	Housing Starts	Nov	1248k	1290k	
12/21/2017	GDP Annualized QoQ	3Q T	3.30%	3.30%	
12/22/2017	PCE Core YoY	Nov	1.50%	1.40%	
12/22/2017	Durable Goods Orders	Nov P	2.10%	-0.80%	
12/22/2017	New Home Sales	Nov	651k	685k	
12/22/2017	Univ. of Mich. Sentiment	Dec F	97.2	96.8	

Japan

	Indicator	Period	Expected	Prior	Comments
12/17/2017	Trade Balance	Nov	-¥40.0b	¥285.4b	All eyes will be on the last BoJ MPC meeting for this year.
12/17/2017	Exports YoY	Nov	14.70%	14.00%	
12/19/2017	Machine Tool Orders YoY	Nov F	--	46.90%	
12/20/2017	BoJ MPC meeting	20-Dec	No change		

Eurozone

	Indicator	Period	Expected	Prior	Comments
12/18/2017	CPI YoY	Nov F	1.50%	1.50%	Eurozone CPI and German IFO survey will be closely tracked by the market.
12/18/2017	CPI Core YoY	Nov F	0.90%	0.90%	
12/21/2017	Consumer Confidence	Dec A	0.2	0.1	
12/19/2017	IFO Expectations (GE)	Dec	110.8	111	

United Kingdom

	Indicator	Period	Expected	Prior	Comments
12/22/2017	GDP QoQ	3Q F	0.40%	0.40%	GDP release will be the main focus.
12/22/2017	GDP YoY	3Q F	1.50%	1.50%	

China and India

Indicator	Period	Expected	Prior	Comments
				No major releases scheduled for the week

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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