Markets remain stable for the second week in a row

Markets observed a second week of stability in spite of mixed signals from the Fed minutes. Most of the equity markets ended the week with modest gains. The technology heavy NASDAQ was the best performer, jumping by 1.4% over the week, induced by the rally in tech stocks early last week. The S&P 500 reported gains of 0.6% in spite of the selling pressure after the Fed minutes. Japanese stocks also rose, helped by weakness in the yen. A "hawkish" interpretation of the Fed minutes in which the central bank sounded more optimistic about the strength of the economy drove the dollar index higher. The dollar rally pushed the euro lower by 0.9%. Pound sterling dropped by 0.4%, and the yen by 0.6%. US treasuries remained under pressure, struggling amidst a heavy bond supply week. The pressure was mostly on the short-dated bonds with the 2-year yield jumping to the highest level seen in the past decade. Long-end US treasuries, i.e. the 10-year yield, retraced lower after climbing closer to almost 3% post the release of the Fed minutes. The reversal down after the significant spiking of the yields was probably also facilitated by Friday's Fed's semi-annual report, which calmed down on markets' inflation fears. Gold prices, however declined with the dollar strength regaining ground. Oil prices on the other hand jumped higher on reports which indicated that US crude production declined by 1.6mln barrels in contrast to expectations of an increase of 1.8mln barrels.

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

Mohammed Al Hemeiri
Analyst
Tel: +971 (0)2 696 2236
mohammed.alhemeiri@adcb.com

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Powell's testimony, Core PCE and Italian elections will be the main focus

After the mixed communique by the Fed last week, market participants will be closely focusing on new Fed Chair Jay Powell's testimony before the House Financial Services Committee on 27th February, Tuesday followed with the same before the Senate Banking Committee on Thursday. This will be the new Fed Chair's first formal speech before the Congress and markets will be interested to see if Mr. Powell is tilting towards the possibility of four rate hikes this year. We do not expect any surprises as such from Mr. Powell's speech, who is most likely going to stress the importance of sticking to a gradual rate hike approach, as highlighted in the Fed's semi-annual monetary policy report last Friday. In terms of data releases, core PCE – which is the Fed's most preferred measure of inflation-, will also be important in driving sentiment in the markets. Outside the US, focus will be on the Italian elections due on 4 March, Sunday. Markets may be under-pricing election risks with Italian bond yields not having widened much versus the German bund yields. Any negative surprises from the Italian elections could increase appetite for safe-haven assets including US treasuries and German bunds.

Past week global markets' performance

Index Snapshot (World Indices)

Index	Latest	Weekly Chg %	YTD %
S&P 500	2,747.3	0.6	2.8
Dow Jones	25,310.0	0.4	2.4
Nasdaq	7,337.4	1.4	6.3
DAX	12,483.8	0.3	-3.4
Nikkei 225	21,892.8	0.8	-3.8
FTSE 100	7,244.4	-0.7	-5.8
Sensex	34,142.2	0.4	0.3
Hang Seng	31267.2	0.5	4.5
Regional Markets (Sunday to Thursday)			
ADX	4579.6	-0.1	4.1
DFM	3286.5	-0.2	-2.5
Tadawul	7525.2	0.2	4.1
DSM	9096.4	0.2	6.7
MSM30	4972.01	-0.8	-2.5
BHSE	1351.8	1.4	1.5
KWSE	6756.5	0.5	5.4
MSCI			
MSCI World	2,140.9	0.1	1.8
MSCI EM	1,216.4	1.4	5.0

Global Commodities, Currencies and Rates

Commodity	Latest	weekly Chg %	YTD %
ICE Brent USD/bbl	67.3	3.8	0.7
Nymex WTI USD/bbl	63.6	3.0	5.2
Gold USD/t oz	1328.7	-1.4	2.0
Silver USD/t oz	16.5	-0.7	-2.4
Platinum USD/t oz	996.8	-0.9	7.4
Copper USD/MT	7073.5	-1.2	-1.2
Alluminium	2134	-3.8	-5.5
Currencies			
EUR USD	1.2295	-0.9	2.4
GBP USD	1.3971	-0.4	3.4
USD JPY	106.89	0.6	-5.4
CHF USD	0.9361	1.0	4.1
Rates			
USD Libor 3m	1.9563	3.8	15.5
USD Libor 12m	2.4597	2.9	16.7
UAE Eibor 3m	1.8600	-2.2	3.6
UAE Eibor 12m	2.6140	-1.6	1.4
US 3m Bills	1.6387	3.1	19.1
US 10yr Treasury	2.8660	-0.3	19.1

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Summary market outlook

Bonds	
Global Yields	US treasuries stabilized with 10-year yield ending the week at 2.86% while the yield curve flattened further. We expect 10-year yield to consolidate below 3% as further uptick in yields will only trigger a buying opportunity for long-duration fixed income investors.
Stress and Risk Indicators	The VIX index dropped lower as markets remained stable for another week. However, volatility is unlikely to decline significantly given the backdrop of markets' fear of central bank policy normalization.
Equity Markets	
Local Equity Markets	GCC equity markets performed mixed during the week in spite of the rise in oil prices. 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 recorded second week of modest gains. Tech-heavy NASDAQ was the best performer, rising by 1.4% while S&P 500 also posted gains in spite of coming selling pressure post the Fed minutes. Yen weakness also drove Japanese stocks higher. Emerging market stocks performed well in spite of the dollar strength regaining ground. In spite of the recent equity market volatility, we continue to believe that strong economic fundamentals along with robust corporate earnings growth will support global equities.
Commodities	
Precious Metals	Gold prices declined with the US dollar strengthening. We remain overweight on gold as a risk hedge against ongoing political and (potential) inflationary risks.
Energy	Oil prices picked up, boosted by reports of decline in US crude inventories. 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 remained under pressure on the back of dollar strength. Longer-term we do not recommend industrial metals exposure due to concerns around Chinese growth prospects post the Party Congress.

Currencies								
EURUSD	The euro depreciated versus the dollar with the latter regaining strength. We expect the euro to remain range bound with a minor upward bias.							
Critical levels	R2	1.2364	R1	1.2330	S1	1.2270	S2	1.2245
GBPUSD	The pound fell versus the dollar on reports of increase in jobless rate. We expect sterling to remain under pressure due to political uncertainty, economic weakness and Brexit negotiations.							
Critical levels	R2	1.4060	R1	1.4015	S1	1.3916	S2	1.3861
USDJPY	The yen depreciated versus the dollar on account of broad dollar strength. However, we believe there will remain a bias for yen weakness given divergent monetary policies between Japan and the US.							
Critical levels	R2	107.47	R1	107.18	S1	106.56	S2	106.22

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
02/26/2018	Chicago Fed Nat Activity Index	Jan	0.2	0.27	GDP and core PCE will be the main releases this week.
02/26/2018	New Home Sales MoM	Jan	3.60%	-9.30%	
02/27/2018	Wholesale Inventories MoM	Jan p	0.4%	0.40%	
02/27/2018	Durable Goods Orders	Jan p	-2.00%	2.80%	
02/28/2018	MBA Mortgage Applications	23-Feb	--	-6.60%	
02/28/2018	GDP Annualized QoQ	4Q S	2.50%	2.60%	
03/01/2018	PCE Core YoY	Jan	1.50%	1.50%	
03/01/2018	Initial Jobless Claims	24-Feb	--	--	
03/01/2018	Markit Manufacturing PMI	Feb F	55.8	55.9	
03/02/2018	U. of Mich. Sentiment	Feb F	99.5	99.9	

Japan

	Indicator	Period	Expected	Prior	Comments
02/28/2018	Industrial Production MoM	Jan P	-4.20%	2.90%	Focus will be on Japan industrial production and Nikkei PMI Mfg.
03/01/2018	Nikkei PMI Mfg	Feb F	--	54	
03/01/2018	Jobless Rate	Jan	2.80%	2.80%	

Eurozone

	Indicator	Period	Expected	Prior	Comments
02/27/2018	Consumer Confidence	Feb	103	104	All attention will be on consumer confidence, and PMI.
03/01/2018	Markit Manufacturing PMI	Feb F	58.5	58.5	
03/02/2018	Retail Sales YoY (GE)	Jan	3.30%	-1.90%	
03/02/2018	PPI YoY	Jan	1.60%	2.20%	

United Kingdom

	Indicator	Period	Expected	Prior	Comments
02/28/2018	Nationwide House PX MoM	Feb	0.20%	0.60%	Housing data and PMI will be important.
02/28/2018	Nationwide House Px NSA YoY	Feb	2.60%	3.20%	
03/01/2018	Markit PMI Manufacturing SA	Feb	55	55.3	

China and India

	Indicator	Period	Expected	Prior	Comments
02/25/2018	Eight Infrastructure Industries (IN)	Jan	--	4.00%	Focus will be on China Manufacturing PMI.
02/28/2018	Manufacturing PMI (CH)	Feb	51.2	51.3	
02/28/2018	Nikkei PMI Mfg (IN)	Feb	--	52.4	
03/01/2018	Caixin PMI Mfg (CH)	Feb	51.3	51.5	

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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