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No relief for equity markets

The sell-off in global equities extended for another week, marking the largest weekly decline in almost two years. The Dow Jones recorded two declines on Monday and then followed by Thursday with the drop exceeding 1000 points, the largest recorded to date. Volatility spiked with the VIX Index, known as the "fear" index rising to near record high levels. While the sell-off was mainly triggered by US stocks, the declines were deeper in stocks outside the US. Japanese equities underperformed the most amongst its developed market peers on account of strengthening of the yen, a safe-haven asset at times of volatility. Emerging markets bore the brunt of the stronger dollar with markets like Hong Kong (who has a fixed peg versus the dollar) declining by almost 10% over the week. Broad dollar strength also proved detrimental for commodities. Gold and precious metals declined, tracking the strength in the dollar. After having a stellar start to the year, oil prices retraced back to the levels last seen in mid-December as rising US production in addition to dollar strength weighed on sentiment. Finally, US treasury yields ended the week at 2.85%, after declining to 2.66% in intraday levels earlier last week, in reaction to weak investor interest seen at long-dated bond auctions.

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The Inflation test- all eyes on the US CPI

Investors believe that the main trigger for the reversal in markets was February 2nd wage inflation release. However, as Bob Schiller, economics Noble prize winner, has correctly pointed out the perceived triggers are rarely the true cause. We believe that the markets nervousness about higher inflation fears and faster monetary policy normalisation are overdone. The Fed is unlikely to turn aggressive in its strategy of hiking policy rates. In fact, if the current sell-off worsens, one cannot ignore the possibility that the Fed will have to consider the impact of the financial market volatility on economic growth in its monetary policy framework. Having said that, market nerves will be tested again ahead of the CPI release for January due on 14th February. The consensus is expecting the headline number to decline to 1.9% while the core is expected to rise slightly to 1.8%. Any positive surprise in the inflation numbers could add to the volatility in the markets, yet does not imply that we are entering a high inflation pressure environment which the markets have been fearing. The recent sell-off may have opened scope for a buying opportunity, yet we exercise caution and recommend to wait till the market stabilizes. At the same time, we remain overweight global equities over bonds given the backdrop of rising growth and still favor US equities which are likely to be less hit compared to its peers.

Past week global markets' performance

Index Snapshot (World Indices)

Index	Latest	weekly Chg %	YTD %
S&P 500	2,619.6	-5.2	-2.0
Dow Jones	24,190.9	-5.2	-2.1
Nasdaq	6,874.5	-5.1	-0.4
DAX	12,107.5	-5.3	-6.3
Nikkei 225	21,382.6	-8.1	-6.1
FTSE 100	7,092.4	-4.7	-7.7
Sensex	34,005.8	-3.0	-0.1
Hang Seng	29507.4	-9.5	-1.4
Regional Markets (Sunday to Thursday)			
ADX	4599.5	0.3	4.6
DFM	3325.6	-1.8	-1.3
Tadawul	7403.2	-2.7	2.4
DSM	8893.3	-0.7	4.3
MSM30	5006.62	-1.0	-1.8
BHSE	1333.0	-1.6	0.1
KWSE	6654.6	-0.2	3.8
MSCI			
MSCI World	2,050.9	-5.6	-2.5
MSCI EM	1,142.9	-7.1	-1.3

Global Commodities, Currencies and Rates

Commodity	Latest	weekly Chg %	YTD %
ICE Brent USD/bbl	62.8	-8.4	-6.1
Nymex WTI USD/bbl	59.2	-9.5	-2.0
Gold USD/t oz	1316.7	-1.3	1.1
Silver USD/t oz	16.4	-1.4	-3.4
Platinum USD/t oz	965.4	-2.6	4.0
Copper USD/MT	6755.0	-4.4	-5.6
Alluminium	2124.25	-4.0	-5.9
Currencies			
EUR USD	1.2252	-1.7	2.1
GBP USD	1.3827	-2.1	2.3
USD JPY	108.80	-1.2	-3.6
CHF USD	0.9386	0.8	3.8
Rates			
USD Libor 3m	1.8200	1.7	7.4
USD Libor 12m	2.3135	1.0	9.8
UAE Eibor 3m	1.8417	0.8	2.6
UAE Eibor 12m	2.6443	0.4	2.6
US 3m Bills	1.5545	5.5	13.0
US 10yr Treasury	2.8512	0.4	18.5

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Summary market outlook

Bonds	
Global Yields	US treasuries posted a volatile week with 10-year yield ending the week at 2.85% The curve steepened as the long-end sold off on weak investor appetite at the bond auctions. We expect 10yr 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 jumped to near record highs in reaction to the equity market sell-off. Volatility is unlikely to stay low in the near term given the backdrop of markets' fear of central bank policy normalization.
Equity Markets	
Local Equity Markets	GCC equity market were relatively resilient to last week's turmoil in emerging markets and commodities market. 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 remained under pressure for the second week in a row. The S&P 500 fell by 5.2% last week, entering into the correction territory (10% decline from recent highs). However, Japanese equities underperformed the most as safe-have demand led to yen appreciation. A stronger dollar was detrimental for the emerging markets, particularly for the markets which maintain a fixed peg versus the dollar. 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 dropped further on account of dollar strength and on concerns of rising US rates. We remain overweight on gold as a risk hedge against ongoing political and (potential) inflationary risks.
Energy	Oil prices declined to their mid-December levels, wiping out all the gains seen at the start of the year. In addition to dollar strength, reports of rising US production dented appetite. 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 underperformed as lower gold prices and stronger dollar weighed on the sentiment. 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 as investors flocked to the dollar amidst the global market sell-off. We expect the euro to remain under pressure as the US dollar regains ground.

	R2	R1	S1	S2
Critical levels (EURUSD)	1.2330	1.2291	1.2209	1.2167

GBPUSD — The pound fell against the dollar in spite of hawkish BoE bias. We expect sterling to remain under pressure due to political uncertainty, economic weakness and Brexit negotiations.

	R2	R1	S1	S2
Critical levels (GBPUSD)	1.4082	1.3955	1.3732	1.3637

USDJPY — The yen rose against the dollar on account of safe-haven demand. However, 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 (USDJPY)	109.98	109.39	108.13	107.46

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
02/14/2018	CPI MoM	Jan	0.30%	0.10%	CPI, retail sales, and capacity utilization will be the main releases.
02/14/2018	CPI YoY	Jan	1.90%	2.10%	
02/14/2018	Retail Sales Advance MoM	Jan	0.20%	0.40%	
02/14/2018	Initial Jobless Claims	10-Feb	228k	221k	
02/15/2018	Industrial Production MoM	Jan	0.20%	0.90%	
02/15/2018	Capacity Utilization	Jan	78.00%	77.90%	
02/16/2018	Housing Starts	Jan	1231k	1192k	
02/16/2018	Housing Starts MoM	Jan	3.30%	-8.20%	
02/16/2018	Univ. of Mich. Sentiment	Feb P	95.5	95.7	

Japan

	Indicator	Period	Expected	Prior	Comments
02/13/2018	PPI YoY	Jan	2.70%	3.10%	The focus will be on PPI, and GDP.
02/13/2018	Machine Tool Orders YoY	Jan p	--	48.30%	
02/14/2018	GDP SA QoQ	4Q p	0.20%	0.60%	
02/15/2018	Industrial Production MoM	Dec F	--	2.70%	

Eurozone

	Indicator	Period	Expected	Prior	Comments
02/14/2018	CPI YoY (GE)	Jan F	1.60%	1.60%	All attention will be on GDP, industrial production, and German CPI will be important.
02/14/2018	GDP SA QoQ	4Q p	0.60%	0.60%	
02/15/2018	Industrial Production YoY	Jan	-.60%	-1.50%	

United Kingdom

	Indicator	Period	Expected	Prior	Comments
02/13/2018	CPI YoY	Jan	2.90%	3.00%	Attention will be on CPI, and retail sales.
02/13/2018	CPI Core YoY	Jan	2.60%	2.50%	
02/13/2018	RPI YoY	Jan	4.10%	4.10%	
02/16/2018	Retail Sales Ex Auto Fuel YoY	Jan	2.40%	1.30%	
02/16/2018	Retail Sales Inc Auto Fuel MoM	Jan	0.60%	-1.50%	

China and India

	Indicator	Period	Expected	Prior	Comments
02/10/2018	Aggregate Financing CNY (CH)	Jan	3150.0b	1140.0b	All eyes will be on China January releases for aggregate financing, new yuan loans, India CPI and WPI release.
02/10/2018	New Yuan Loans CNY (CH)	Jan	2050.0b	584.4b	
02/12/2018	CPI YoY (IN)	Jan	5.10%	5.21%	
02/12/2018	Industrial Production YoY (IN)	Dec	6.10%	8.40%	
02/14/2018	Wholesale Prices YoY (IN)	Jan	3.20%	3.58%	
02/15/2018	Exports YoY (IN)	Jan	--	12.40%	

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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