The Weekly Market View

19 February 2018

ADCB بنك أبوظبي التجاري

Equity markets bounce back in spite of relatively strong inflation numbers

Last week we pointed out that the apparent trigger of a market sell-off is generally not the true underlying cause. Last week's events seem to confirm it. Indeed, if the expectation of higher US inflation – through a surge in wages – was really behind the sell-off, it would have been reasonable to expect a continuation of it, after last week's US inflation numbers beat expectations. Instead, global markets bounced back, together with commodity and energy prices, implied volatility fell and yields stabilized. As important, the US dollar weakened providing relief to emerging markets in terms of financial conditions. The Japanese yen did not give up on its gains, but the Japanese government's confirmation of Kuroda as governor means that the Bank of Japan is likely to remain an outlier amongst the globe's central banks, i.e. it will stick with continuing accommodation and as such it is unlikely that the yen will continue to appreciate, which is good for Japanese equities too.

What's in the Fed's mind?

Fed Funds' Futures Markets are giving an almost certainty to a March hike, and a very high probability to a hike in June. It seems not unreasonable to expect three more hikes in 2018, as indicated by the latest so called "dotplot chart" which the Federal Reserve issues following each Federal Reserve Open Market Committee. If ten year US Treasury yields would stabilize around 3%, that would still mean an upward sloping yield curve in the context of monetary policy stabilization. The Federal Reserve of course has indicated – through the same "dotplot chart" - that it sees to more rate hikes in 2019. We are less certain about that as we believe both growth and inflation to stabilize in 2018, not to further pick up. In fact, we do not expect the January Federal Reserve Minutes, to be published this week, to mention excessive concerns about inflation significantly picking up. As a result, we do not expect the minutes to significantly impact markets. The global PMI indicators, on the other hand, are likely to confirm a solid global expansion and justify optimism on corporate earnings.

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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Past week global markets' performance

Index Snapshot (World Indices)

Index	Latest	weekly Chg %	YTD %
S&P 500	2,732.2	4.3	2.2
Dow Jones	25,219.4	4.3	2.0
Nasdaq	7,239.5	5.3	4.9
DAX	12,452.0	2.8	-3.6
Nikkei 225	21,720.3	1.6	-4.6
FTSE 100	7,294.7	2.9	-5.1
Sensex	34,010.8	0.0	-0.1
Hang Seng	31115.4	5.4	4.0
Regional Markets (Sunday to Thursday)			
ADX	4577.4	-0.2	4.1
DFM	3330.4	0.3	-1.2
Tadawul	7510.5	2.5	3.9
DSM	9027.7	-0.2	5.9
MSM30	5016.62	0.5	-1.6
BHSE	1339.7	0.5	0.6
KWSE	6764.3	1.9	5.6
MSCI			
MSCI World	2,137.9	4.2	1.6
MSCI EM	1,199.7	5.0	3.6

Global Commodities, Currencies and Rates

Commodity	Latest	weekly Chg %	YTD %
ICE Brent USD/bbl	64.8	3.3	-3.0
Nymex WTI USD/bbl	61.7	4.2	2.1
Gold USD/t oz	1347.0	2.3	3.4
Silver USD/t oz	16.6	1.7	-1.7
Platinum USD/t oz	1005.4	4.1	8.3
Copper USD/MT	7159.0	6.0	0.0
Alluminium	2218	4.4	-1.8
Currencies			
EUR USD	1.2406	1.3	3.3
GBP USD	1.4026	1.4	3.8
USD JPY	106.21	-2.4	-6.1
CHF USD	0.9270	-1.2	5.1
Rates			
USD Libor 3m	1.8849	3.6	11.3
USD Libor 12m	2.3906	3.3	13.5
UAE Eibor 3m	1.8917	0.7	5.4
UAE Eibor 12m	2.6722	0.5	3.7
US 3m Bills	1.5901	2.3	15.6
US 10yr Treasury	2.8749	0.8	19.5

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Summary market outlook

Bonds	
Global Yields	US treasuries stabilized with 10-year yield ending the week at 2.85%. 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 came down as the equitys market stabilized and bounced back. 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 markets have been relatively resilient through the February turmoil in emerging markets and commodities markets. 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 bounced back after two weeks of turmoil. The weakening of the US dollar should be key 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 picked up in line with the US dollar correcting. We remain overweight on gold as a risk hedge against ongoing political and (potential) inflationary risks.
Energy	Oil prices also picked up, even if the Brent price is still below its start of the year level. 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 also bounced back with the upturn in global 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 regained territory with the improvement in global sentiment. We expect the euro to remain range bound with a minor upward bias.
Critical levels	R2 1.2613 · R1 1.2510 · S1 1.2348 · S2 1.2290
GBPUSD	The pound strengthened against the dollar. We expect sterling to remain under pressure due to political uncertainty, economic weakness and Brexit negotiations.
Critical levels	R2 1.4204 · R1 1.4115 · S1 1.3967 · S2 1.3908
USDJPY	The yen rose against the dollar. However, we believe there will remain a bias for yen weakness given divergent monetary policies between Japan and the US.
Critical levels	R2 107.32 · R1 106.77 · S1 105.60 · S2 105.00

Note: R2, R1, S2 and S1 refer to Bloomberg calculated weekly technical resistance and support levels

Forthcoming important economic data

United States

Date	Indicator	Period	Expected	Prior	Comments
02/21/2018	MBA Mortgage Applications	16-Feb	--	-4.10%	All eyes will be on the FOMC meeting this week. Focus will also be on PMI data.
02/21/2018	Markit US Manufacturing PMI	Feb p	--	55.5	
02/21/2018	Markit US Composite PMI	Feb p	--	53.8	
02/21/2018	FOMC Meeting Minutes	13-Jan	--	--	
02/22/2018	Initial Jobless Claims	17-Feb	230k	230k	

Japan

Date	Indicator	Period	Expected	Prior	Comments
02/19/2018	Trade Balance	Jan	-¥1020.2b	¥359.0b	Japan PMI data will be the main release.
02/19/2018	Exports YoY	Jan	9.40%	9.30%	
02/19/2018	Imports YoY	Jan	7.80%	14.90%	
02/20/2018	Machine Tool Orders YoY	Jan F	--	48.80%	
02/21/2018	Nikkei PMI Mfg	Feb p	--	54.8	
02/21/2018	All Industry Activity Index MoM	Dec	0.40%	1.00%	
02/23/2018	Natl CPI YoY	Jan	1.30%	1.00%	
02/23/2018	Natl CPI Ex Fresh Food, Energy YoY	Jan	0.30%	0.30%	

Eurozone

Date	Indicator	Period	Expected	Prior	Comments
02/19/2018	ECB Current Account SA	Dec	--	32.5b	The main focus will be on ECB meeting, also PMI data and German IFO survey will be important.
02/20/2018	Consumer Confidence	Feb A	1	1.3	
02/21/2018	Markit Manufacturing PMI	Feb p	59.2	59.6	
02/21/2018	Markit Composite PMI	Feb p	58.4	58.8	
02/22/2018	IFO Expectations (GE)	Feb p	107.9	108.4	
02/23/2018	GDP SA QoQ	4Q F	0.60%	0.60%	
02/23/2018	CPI Core YoY	Jan F	1.00%	1.00%	
02/23/2018	CPI YoY	Jan F	1.30%	1.40%	

United Kingdom

Date	Indicator	Period	Expected	Prior	Comments
02/19/2018	Rightmove House Prices MoM	Feb	--	0.70%	GDP data will be closely scrutinized in the UK.
02/22/2018	GDP QoQ	4Q P	0.50%	0.50%	
02/22/2018	GDP YoY	4Q P	1.50%	1.50%	
02/22/2018	Private Consumption QoQ	4Q P	0.40%	0.60%	
02/22/2018	Government Spending QoQ	4Q P	0.30%	0.30%	
02/22/2018	Gross Fixed Capital Formation QoQ	4Q P	0.50%	0.20%	
02/22/2018	Exports QoQ	4Q P	0.20%	-0.70%	
02/22/2018	Imports QoQ	4Q P	1.10%	1.10%	

China and India

Date	Indicator	Period	Expected	Prior	Comments
02/25/2018	Eight Infrastructure Industries (IN)	Jan	--	4.00%	Focus will be on India Infrastructure Industries.

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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