بنك أبوظبي التجاري ADCB

Equity markets still bouyant amidst US shutdown

Global equity markets rallied going into the third week of the year, shrugging off fears of US government shutdown.US equities posted modest gains as investors digested the second week of earnings results. However, emerging market equities were clear winners on the back of continued dollar weakness. The fear of US government shutdown weighed on the dollar which weakened even with the US yields rising to more than a three-year high. European equities ended the week higher in spite of a stronger euro, mainly boosted by the tech stocks rally and positive economic growth data coming out of China. Japanese equities were little changed from last week given the yen was modestly stronger versus the dollar. FTSE 100 was the only underperformer as pound appreciation was reflected in the weakness of the blue-chip companies. Gold prices ended the week almost flat, yet US treasuries were heavily sold amidst concerns of US government shutdown. While the House of Representatives passed a bill to keep the government funded through to mid-February, failure of action from the Senate led to the shutdown of US government. Elsewhere, oil prices partially reversed previous gains on IEA reports of an "explosive" expansion of US shale production in 2018.

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US government shutdown, US GDP, BoJ and ECB will be main focus

With the US government shutdown extending into the third day, market focus will be on the progress made on negotiations to resolve the deadlock and also on the possible implications the shutdown could have on the economic growth. We expect any impact of consumer spending will be short-term as the government employees affected by the shutdown will be immediately compensated once the deal is struck. At the same time, one cannot rule out the possibility of short-term noise in the markets which means that the appetite may remain mixed until there is more clarity. Historical precedents indicate that post-shutdown impact on equity and bond markets has been minimal. In terms of data releases coming out of the US, attention will be on the advance release of 4Q GDP. Any upward surprise in the GDP release is likely to add to the market optimism about global growth prospects and prove beneficial for the equity markets. Finally, the BoJ and the ECB are scheduled to meet this week on 23rd January and 25th January respectively. Markets will be closely tracking any change in language in terms of the possibility of future policy normalization taking place. We believe that both the central banks will stress more on the need of continuation of monetary stimulus rather than signaling any withdrawal, particularly to allay recent markets' concerns of early policy normalization.

Past week global markets' performance

Index Snapshot (World Indices)

Index	Latest	Weekly Chg %	YTD %
S&P 500	2,810.3	0.9	5.1
Dow Jones	26,071.7	1.0	5.5
Nasdaq	7,336.4	1.0	6.3
DAX	13,434.5	1.4	4.0
Nikkei 225	23,808.1	0.7	4.6
FTSE 100	7,730.8	-0.6	0.6
Sensex	35,511.6	2.7	4.3
Hang Seng	32254.9	2.7	7.8
Regional Markets (Sunday to Thursday)			
ADX	4625.4	0.9	5.2
DFM	3531.1	0.5	4.8
Tadawul	7539.0	1.3	4.3
DSM	9200.1	0.3	7.9
MSM30	5024.06	-1.3	-1.5
BHSE	1333.2	1.0	0.1
KWSE	6639.4	0.5	3.6
MSCI			
MSCI World	2,207.4	1.0	4.9
MSCI EM	1,232.6	2.0	6.4

Global Commodities, Currencies and Rates

Commodity	Latest	Weekly Chg %	YTD %
ICE Brent USD/bbl	68.6	-1.8	2.6
Nymex WTI USD/bbl	63.4	-1.4	4.9
Gold USD/t oz	1331.8	-0.0	2.2
Silver USD/t oz	17.0	-1.1	0.5
Platinum USD/t oz	1013.2	1.9	9.2
Copper USD/MT	7079.0	0.1	-1.1
Alluminium	2222	0.9	-1.6
Currencies			
EUR USD	1.2222	0.2	1.8
GBP USD	1.3858	0.9	2.6
USD JPY	110.77	-0.3	-1.7
CHF USD	0.9628	-0.5	1.2
Rates			
USD Libor 3m	1.7445	1.3	3.0
USD Libor 12m	2.2275	2.5	5.7
UAE Eibor 3m	1.8280	0.2	1.8
UAE Eibor 12m	2.5967	-0.2	0.8
US 3m Bills	1.4268	-0.7	3.7
US 10yr Treasury	2.6592	4.4	10.6

Summary market outlook

Bonds	
Global Yields	US treasury yields rose with the 10-year yields rising to the highest level in more than three years, amidst concerns of US government shutdown and optimism about global growth prospects. We expect long-end US treasuries to remain resilient unless inflation surprises significantly on the upside. European bonds were mostly steady in absence of any upward surprise in inflation.
Stress and Risk Indicators	The VIX was mostly unchanged in absence of any major economic data surprises. However, volatility is unlikely to stay low given the backdrop of ongoing geopolitical risks.
Equity Markets	
Local Equity Markets	GCC equity markets posted modest gains, mainly on the back of weaker dollar as oil prices pared gains. 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	US equities shrugged off fears of US government shutdown, posting weekly gains for the third consecutive week of the year. However, emerging market equities performed the best on account of weaker dollar and upbeat China GDP release. European equities also posted modest gains, tracking the rally in technology stocks. On the other hand, UK equities underperformed the most as the pound strength eroded the prospects of future profitability of UK companies. Overall, we continue to believe that strong economic fundamentals along with robust corporate earnings growth will support global equities.
Commodities	
Precious Metals	Gold prices were little changed amidst concerns of US government shutdown. We remain overweight on gold as a risk hedge against ongoing political and (potential) inflationary risks.
Energy	Oil prices retraced from their four-year record highs as IEA reported that the US shale production will be massive enough to offset the OPEC-led supply cuts. 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 on the back of strong China growth data and weaker 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 strengthened against the dollar due to overall dollar weakness. We expect the euro to remain under pressure as the US dollar regains ground.							
Critical levels	R2	1.2324	R1	1.2273	S1	1.2193	S2	1.2164
GBPUSD	The pound strengthened against the dollar amidst positive signs around a Brexit deal. We expect sterling to remain under pressure due to political uncertainty, economic weakness and Brexit negotiations.							
Critical levels	R2	1.3986	R1	1.3922	S1	1.3816	S2	1.3775
USDJPY	The yen rallied versus the dollar on account of weaker dollar demand. However, we believe there will remain a bias for yen weakness given divergent monetary policies between Japan and the US.							
Critical levels	R2	111.53	R1	111.15	S1	110.44	S2	110.11

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
01/24/2018	Markit US Manufacturing PMI	Jan P	55	55.1	All eyes will be on the advance release of US GDP 4Q17
01/24/2018	Existing Home Sales MoM	Dec	-1.90%	5.60%	
01/25/2018	Wholesale Inventories MoM	Dec P	0.40%	0.80%	
01/25/2018	Initial Jobless Claims	20-Jan	235k	220k	
01/25/2018	New Home Sales	Dec	675k	733k	
01/26/2018	GDP Annualized QoQ	4Q A	3.00%	3.20%	
01/26/2018	Durable Goods Orders	Dec P	0.90%	1.30%	

Japan

	Indicator	Period	Expected	Prior	Comments
01/22/2018	All Industry Activity Index MoM	Nov	0.90%	0.30%-	Main focus will be on the BoJ MPC Meeting
01/23/2018	BoJ MPC Meeting	23-Jan	No change	-	
01/23/2018	Machine Tool Orders YoY	Dec F	-	48.3%	
01/23/2018	Trade Balance	Dec	¥520.0b	¥112.2b-	
01/23/2018	Exports YoY	Dec	9.8%	16.2%	
01/23/2018	Nikkei PMI Mfg	Jan P	-	54	
01/25/2018	Natl CPI YoY	Dec	1.10%	0.60%	
01/25/2018	Natl CPI Core YoY	Dec	0.40%	0.30%	

Eurozone

	Indicator	Period	Expected	Prior	Comments
01/24/2018	Markit Manufacturing PMI	Jan P	60.3	60.6	Attention will be on ECB MPC meeting.
01/24/2018	Markit Composite PMI	Jan P	57.9	58.1	
01/25/2018	IFO Expectations (GE)	Jan	109.3	109.5	
01/25/2018	ECB MPC Meeting	25-Jan	No change		

United Kingdom

	Indicator	Period	Expected	Prior	Comments
01/26/2018	GDP QoQ	4Q A	0.40%	0.40%	GDP release will be the main focus.
01/26/2018	GDP YoY	4Q A	1.40%	1.70%	

China and India

Indicator	Period	Expected	Prior	Comments
				No important data 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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