The Weekly Market View

January 23 2017

America first

Global equities were little changed with last week's focal point for markets, the inauguration of President Trump occurring at the end of the week. Investors expecting his inaugural address to focus on policy issues such as infrastructure spending, tax cuts and deregulation were left mostly disappointed. Instead the new president delivered a message which was very consistent with his campaign rhetoric, reiterating time and again his plan to shift power away from the capital and back to the people as well as putting America first in every decision he makes. Somewhat surprisingly, markets did not react too negatively. Emerging equities closed small down on the day, while US Treasury yields were virtually unchanged. Earlier in the week, British Prime Minister Theresa May's speech on Brexit had a greater impact on markets, especially on pound sterling which strengthened 1.6% during the week, leading to a fall of almost 2% in UK equities.

The week ahead – adjusting to the new reality

The fact that politics is now the predominant driver of financial markets was evident again last week. Perhaps not in the overall week on week changes, but in the tight ranges most markets occupied in anticipation of the US presidential inauguration. The only time markets made any significant moves was during Theresa May's Brexit speech. Even historically market moving data releases such as Chinese GDP and the ECB monetary policy committee meeting garnered relatively little attention. It may be repetitive, but everything now revolves around what Mr Trump will say, propose or tweet. This makes short term market moves extremely difficult to predict. We continue to believe that investors will give the new administration in the US the benefit of the doubt for a little while longer, meaning that the "Trump reflation" trade still has legs, albeit in the very near term markets have priced in a lot of good news already, and so we expect a short-term pull back.

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Past week global markets' performance

Index Snapshot (World Indices)

Index	Latest	Weekly Chg %	YTD %
S&P 500	2,271.3	-0.1	1.5
Dow Jones	19,827.3	-0.3	0.3
Nasdaq	5,555.3	-0.3	3.2
DAX	11,630.1	0.0	1.3
Nikkei 225	19,137.9	-0.8	0.1
FTSE 100	7,198.4	-1.9	0.8
Sensex	27,034.5	-0.7	1.5
Hang Seng	22885.9	-0.2	4.0
Regional Markets (Sunday to Thursday)			
ADX	4704.7	0.5	3.5
DFM	3690.4	-0.8	4.5
Tadawul	6875.9	-0.7	-4.6
DSM	10941.4	2.2	4.8
MSM30	5734.14	-0.5	-0.8
BHSE	1239.7	2.3	1.6
KWSE	6435.8	5.4	12.0
MSCI			
MSCI World	1,782.7	-0.3	1.8
MSCI EM	893.3	-0.3	3.6

Global Commodities, Currencies and Rates

Commodity	Latest	Weekly Chg %	YTD %
ICE Brent USD/bbl	55.5	0.1	-2.3
Nymex WTI USD/bbl	53.2	0.1	-0.9
OPEC Baskt* USD/bbl	51.5	-2.3	-3.5
Gold 100 oz USD/t oz	1210.3	1.1	5.5
Platinum USD/t oz	978.2	-0.7	8.3
Copper USD/MT	5706.0	-1.6	3.7
Alluminium	1843.75	1.9	8.8
Currencies			
EUR	1.0703	0.6	1.8
GBP	1.2375	1.6	0.3
JPY	114.62	0.1	2.0
CHF	1.0016	-0.7	1.7
Rates			
USD Libor 3m	1.0434	2.0	4.6
USD Libor 12m	1.7329	2.0	2.8
UAE Eibor 3m	1.4053	0.5	-4.8
UAE Eibor 12m	2.0721	1.1	-1.1
US 3m Bills	0.4974	-4.9	0.0
US 10yr Treasury	2.4668	2.9	0.9

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Believe it or not, Theresa May provides an indication of what Trump is up to

Trump's battle continues on the inauguration stage

Donald Trump has surprised once more, this time on his inauguration. However, while many observers have dubbed his speech, again, full of rancour and with little respect for those who lost the election, a closer look would not entirely agree with such conclusion. The speech was more against the elite, and foreign countries (as well as foreign companies and workers) than it was against any specific interest group within the United States. True, by accusing former governments of having impoverished the middle class, and ruined the country, he reignited the electoral debate at a time that he was expected to overcome divisions. It is important to bear in mind, however, that presidential inauguration speeches are not necessarily abundant in detail. Whilst Trump's messages clearly create substantial questions on how the US will continue to pursue both its international trade relations and its military alliances, nobody knows exactly what his concrete actions will be.

No line in the sand

It is said that when a US president draws a line in the sand, he should stick to it. In this regard President Obama has been accused of pursuing military action against the Assad regime, something he had promised to do in case it would have persisted in the utilization of chemical warfare (something that, according to many US friends, the Assad regime effectively did). To us it seems that Trump plans to avoid contradicting himself simply by avoiding to draw any line in the sand, whether it be on trade relations, or foreign and military affairs. For all the talk, for all the bombast and threats, we have not heard of any specific ultimatum. If this is so, Trump's policy measures might surprise on the upside, and people will give him the benefit of the doubt for more months to come. In other words, markets are right now believing that Trump is confusing his future interlocutors. By not setting any ultimatum or minimum request, and limiting himself to veiled threats, he hopes to surprise them positively when negotiations start, so that he can broker the best deal possible.

On our side, we believe that this assessment is quite realistic, and that's why – for the months to come – we still see upward momentum. Having said so, beyond some point, say after next summer, we believe that disappointment will prevail since Trump's measures are unlikely to massively boost growth whilst US monetary conditions will remain tight, whether it be through the exchange rate or through higher interest rates (plausibly both). At the same time equity valuations are rich after a bull run which has lasted almost eight years.

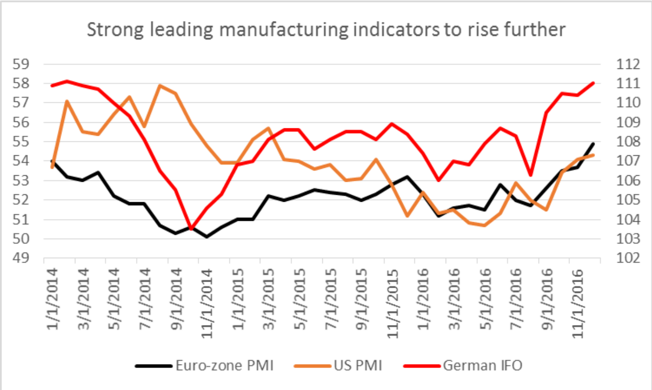
Theresa's clues

The extent to which Trump can continue to confound his future counterparts is maybe evident from Theresa May's Brexit speech. She did not make any commitment, did not set any specific target or ultimatum. And whilst she elaborated on many options, and set out some preferences – in particular safeguarding as much free trade as possible with the EU – nothing was "written in stone". Markets were nonetheless "positively" surprised: true, a bounce back of sterling was in the cards, but significance of the recovery at close to 3%, took almost everyone by surprise. Now if Mrs. May, who presides over a smaller and less influential economy can keep her cards close to her chest, why would that not be possible for Donald Trump?

China stimulus also continuing, global PMIs to confirm global cyclical upturn

China GDP, industrial production, retail sales and investment data confirmed that the government is still on track in boosting growth in the run-up towards the National Party Congress in the autumn of this year. True, we are seeing some correction away from the massive investments in state-owned enterprises, but for now authorities are unlikely to risk political unrest by significantly reducing total stimulus.

With China stimulus still on, preliminary global leading manufacturing indicators (aka PMIs) for January are likely going to confirm that growth is still on track, in spite of the US dollar strength putting some pressure on the US business cycle.



Source: Bloomberg, Thomson Reuters

In addition to the leading manufacturing indicators, we will see a series of important US data making headlines, and plausibly confirming the current positive growth momentum. We will pay attention to existing home sales, to ascertain if higher yields are not negatively affecting the critical US housing market. At the same time we will pay close attention to the December figures for capital goods to see whether US companies are buying into the Trump reflation theme, and - perhaps more importantly – the durable goods figures and University of Michigan Consumer confidence to verify the continuing positivity of the US consumer.

Summary market outlook

Bonds	
Global Yields	10yr US Treasury yields rose last week on hawkish comments from Janet Yellen as she expressed confidence in economic growth. A stronger than expected GDP print this week could add to the upward pressure on bond yields. Yet, we expect limited upside as ongoing market anxiety about Mr. Trump's economic policies could support appetite for safe-haven assets.
Stress and Risk Indicators	The VIX moved slightly higher last week, yet remained close to its two-year low. Any positive surprise in the upcoming economic data coupled with US policy uncertainty could push the index higher.

Equity Markets	
Local Equity Markets	GCC equity markets performed well as oil prices were comparatively stable last week. Dollar weakness also proved positive for the regional markets. KWSE was the best performer, gaining more than 5%. In contrast, Saudi market continued to underperform, mainly on account of disappointing earnings results. Market performance this week will be largely influenced by fourth quarter earnings.
Global Equity Markets	Global equity markets were mostly unchanged in the run up to the President inauguration speech last Friday. FTSE 100, however came under pressure as the UK Prime Minister Theresa May's speech resulted in a strengthening of pound sterling. US equities, which were trading in a tight range before the Trump inauguration speech, finished the week almost flat. The positive momentum which equity markets experienced following the election day has started showing some signs of slow down. As such, a pull-back is likely as investors assess the possible impact of Trump's trade protectionist agenda.

Commodities	
Precious Metals	Gold prices continued to edge higher, boosted by the weak dollar. Trump's inauguration speech failed to provide any clarity on the possible US policies, pushing investor interest towards safe-haven assets. We continue to prefer gold as a risk hedge amidst the ongoing uncertainty regarding US policy direction.
Energy	Oil prices stabilised at around USD55/bbl on optimism ahead of the weekend OPEC and non-OPEC member's review meeting on the plan of production cuts. However, we express caution against any significant jump in oil prices given the continuous increase in US oil and gas rig counts.
Industrial Metals	Demand for industrial metals was mixed in spite of the weaker dollar. We expect this downward trend to continue as subdued China demand should weigh on metals prices.

Currencies								
EURUSD	The euro strengthened against the greenback on strong economic data and Mr Trump referencing his unhappiness at the strength of the dollar. However, a more hawkish Fed stance and stronger dollar could lead to a reversal in the ongoing trend							
Critical levels	R2	1.0763	R1	1.0733	S1	1.0649	S2	1.0595
GBPUSD	The pound sterling bounced back versus the dollar this week on the back of a PM May's Brexit speech. Nevertheless, a correction is likely in the near term as "Brexit" concerns will continue to hang over the economic outlook.							
Critical levels	R2	1.2478	R1	1.2417	S1	1.2297	S2	1.2219
USDJPY	The yen slightly weakened against the dollar. Further weakness cannot be ruled out as the yen is trading at stronger levels compared to the beginning of the year.							
Critical levels	R2	115.91	R1	115.27	S1	114.10	S2	113.57

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Forthcoming important economic data

United States

	Indicator	Period	Expected	Prior	Comments
01/24/2017	Markit US Manufacturing PMI	Jan P	54.5	54.3	GDP 4Q print and housing data will be the key focus this week.
01/24/2017	Existing Home Sales	Dec	5.50m	5.61m	
01/26/2017	Initial Jobless Claims	21-Jan	247k	234k	
01/26/2017	New Home Sales	Dec	586k	592k	
01/27/2017	GDP Annualized QoQ	4Q 2016	2.2%	3.5%	
01/27/2017	Durable Goods Orders	Dec P	2.7%	-4.5%	
01/27/2017	Univ. of Mich. Sentiment	Jan-F	98.1	98.1	

Japan

	Indicator	Period	Expected	Prior	Comments
01/23/2017	All Industry Activity Index MoM	Nov	0.4%	0.2%	Exports and inflation data to be closely watched.
01/25/2017	Exports YoY	Dec	1.2%	-0.4%	
01/27/2017	Natl CPI YoY	Dec	0.2%	0.5%	

Eurozone

	Indicator	Period	Expected	Prior	Comments
01/23/2017	Consumer Confidence	Jan A	-4.8	-5.1	Markit PMI and IFO survey will be closely tracked by the market.
01/24/2017	Markit Eurozone Manufacturing PMI	Jan P	54.8	54.9	
01/25/2017	IFO Business Climate (GE)	Jan	111.3	111.0	

United Kingdom

	Indicator	Period	Expected	Prior	Comments
01/26/2017	GDP QoQ	4Q 2016	0.5%	0.6%	GDP 4Q 2016 data will be the main highlight.

China and India

Indicator	Period	Expected	Prior	Comments
				No major data

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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