The Weekly Market View

July 31 2017

Dollar weakness not catching a break

Global equities were mostly flat with the S&P 500 ending the week almost unchanged as weakness in technology stocks pared the early week gains. European equities declined on account of continuous euro strength while tracking the retreat in technology stocks. FTSE 100 underperformed the most over the week, driven mainly by the slump in tobacco stocks. The main highlight last week was the dovish FOMC statement where the Fed struck a cautious tone on the inflation outlook. The probability of a third rate hike this year is now vastly reduced with the Fed fund futures expectations of December rate hike dropping to 36%. Separately, US 2Q GDP data missed estimates while the employment cost index came out weaker than expected, pointing to the lack of inflationary pressures in the labour market. As a result, dollar slumped to a 13-month low while the euro advanced above the 1.17 level, supported by resilience in economic data. Dollar weakness and dovish FOMC outlook also boosted demand for safe-have assets including gold and yen. US Treasuries, however ended the week slightly higher as the dovish Fed tone and disappointing US economic data failed to completely offset the early week rise in yields. Energy prices posted the highest weekly gain so far this year, boosted by a steeper fall in US crude inventories and affirmation of production cuts from Saudi Arabia and Russia.

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A fully loaded week

The week will see a series of important economic data coming out of both US and Europe which could impact the movement in the dollar. Most important is the US labour market data, where the market is expecting for 180k jobs to be added, lower than previous month while wage growth is likely to decline to 2.4% from 2.5%, adding to the concerns of easing labour market inflation. Core PCE inflation and ISM manufacturing data will also have a bearing on the market expectations of future Fed stance. In Europe, the focus will be on the second quarter GDP where the market is expecting the economy to grow at 2.1%, better than the first quarter. If economic data coming out of the Europe this week remains resilient while the same from US continues to disappoint, then further downward pressure on the dollar cannot be ruled out. However, on long-term basis, the recent euro strength is likely to peter out as we expect the ECB to remain accommodative for longer. Elsewhere, the Bank of England meeting is scheduled to meet this Thursday and is likely to stay dovish given inflation pressures have recently eased. In emerging markets, focus will be on the China PMI and also the RBI meeting where the market is expecting a policy rate cut of 25bp.

Past week global markets' performance

Index Snapshot (World Indices)

Index	Latest	Weekly Chg %	YTD %
S&P 500	2,472.1	-0.0	10.4
Dow Jones	21,830.3	1.2	10.5
Nasdaq	6,374.7	-0.2	18.4
DAX	12,162.7	-0.6	5.9
Nikkei 225	19,943.6	-0.7	4.3
FTSE 100	7,368.4	-1.1	3.2
Sensex	32,418.7	0.9	21.8
Hang Seng	27188.1	1.0	23.6
Regional Markets (Sunday to Thursday)			
ADX	4577.1	0.3	0.7
DFM	3608.9	0.9	2.2
Tadawul	7115.8	-1.2	-1.3
DSM	9469.6	0.2	-9.3
MSM30	5063.95	1.0	-12.4
BHSE	1332.4	1.1	9.2
KWSE	6795.2	0.4	18.2
MSCI			
MSCI World	1,960.3	0.1	11.9
MSCI EM	1,063.0	0.3	23.3

Global Commodities, Currencies and Rates

Commodity	Latest	Weekly Chg %	YTD %
ICE Brent USD/bbl	52.9	9.3	-6.9
Nymex WTI USD/bbl	49.9	8.6	-7.1
Gold USD/t oz	1267.7	1.2	10.5
Silver USD/t oz	16.7	1.4	4.9
Platinum USD/t oz	935.6	0.1	3.6
Copper USD/MT	6283.0	4.7	14.2
Alluminium	1888.75	-0.6	11.5
Currencies			
EUR USD	1.1733	0.8	11.6
GBP USD	1.3123	1.1	6.3
USD JPY	110.56	-0.4	-5.8
CHF USD	0.9684	2.4	5.2
Rates			
USD Libor 3m	1.3106	-0.3	31.3
USD Libor 12m	1.7290	-0.4	2.6
UAE Eibor 3m	1.5227	-1.8	3.2
UAE Eibor 12m	2.1322	-0.1	1.8
US 3m Bills	1.0775	-7.0	116.6
US 10yr Treasury	2.2800	2.3	-6.7

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Summary market outlook

Bonds	
Global Yields	US Treasury yields rose slightly higher as dovish Fed outlook and weaker than expected preliminary GDP print failed to offset the pickup in yields seen earlier in the week. We expect Treasury yields to remain supported in the near term unless there is a sharp jump in inflation/inflation expectations. In Europe, bond yields moved higher as inflation expectations rose after the German inflation surprised on the upside. Overall, we expect the Treasury-Bund spread to tighten further towards the end of the year.
Stress and Risk Indicators	The VIX remained near record low in absence of any economic data surprises. Current levels are very low given the ongoing global political uncertainty and we therefore expect volatility to rise.
Equity Markets	
Local Equity Markets	GCC equity markets performed well with the help of recovery in oil prices and weaker dollar. Overall, 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 were mainly flat last week with S&P 500 ending the week almost unchanged as strong earnings results offset the retreat in the technology stocks. FTSE 100 underperformed the most on the back of pound strength versus the dollar. Stronger euro and yen respectively also dragged the European markets and Nikkei lower. Overall for equities globally, we expect some consolidation to take place in the near-term.
Commodities	
Precious Metals	Gold prices edged higher again this week helped by the safe haven demand and dollar weakness. We stick to our overweight recommendation on gold as a risk hedge against ongoing political and potential for inflationary risks.
Energy	Energy prices ended the week higher as Saudi, UAE, Kuwait and Russia supported further production cuts. Decline in US crude inventories also proved supportive for the oil market. Overall, we expect some upward normalization to take place. However, moderately rising US shale production will act as a ceiling on oil prices.
Industrial Metals	Industrial metals performed well amidst the weaker dollar last week. We do not recommend industrial metals exposure due to ongoing concerns around Chinese demand.
Currencies	
EURUSD	The euro strengthened against the dollar receiving further boost from strong France GDP. On a long term basis, we expect the euro to weaken given the divergence in central bank policies in Europe versus the US.
Critical levels	R2 1.1764 · R1 1.1756 · S1 1.1739 · S2 1.1730
GBPUSD	The pound advanced versus the dollar ahead of the BoE meeting and inflation report. We expect the sterling to remain under pressure due to political uncertainty and Brexit negotiations.
Critical levels	R2 1.3155 · R1 1.3143 · S1 1.3118 · S2 1.3106
USDJPY	The yen appreciated versus the dollar buoyed by lower US yields and weak dollar demand. However, bias for yen weakness remains given the potential for dollar strength.
Critical levels	R2 110.83 · R1 110.75 · S1 110.57 · S2 110.47

Forthcoming important economic data

United States

	Indicator	Period	Expected	Prior	Comments
8/1/2017	Personal Income	Jun	0.40%	0.40%	Market focus will be on the labour data and the ISM manufacturing and non-manufacturing data.
8/1/2017	PCE Core YoY	Jun	1.40%	1.40%	
8/1/2017	ISM Manufacturing	Jul	56.4	57.8	
8/3/2017	ISM Non-Man Composite	Jul	56.9	57.4	
8/3/2017	Factory Orders	Jun	2.80%	-0.80%	
8/3/2017	Durable Goods Orders	Jun F	6.00%	6.50%	
8/4/2017	Change in Nonfarm Payrolls	Jul	180k	222k	
8/4/2017	Average Hourly Earnings YoY	Jul	2.40%	2.50%	
8/4/2017	Unemployment Rate	Jul	4.30%	4.40%	

Japan

	Indicator	Period	Expected	Prior	Comments
7/31/2017	Industrial Production MoM	Jun P	1.50%	-3.60%	PMI numbers will be important.
8/1/2017	Nikkei Japan PMI Mfg	Jul F	-	52.2	

Eurozone

	Indicator	Period	Expected	Prior	Comments
7/31/2017	CPI Core YoY	Jul A	1.10%	1.10%	Attention will be on the GDP 2Q print and core CPI numbers
8/1/2017	Markit Mfg PMI	Jul F	56.8	56.8	
8/1/2017	GDP SA YoY	2Q A	2.10%	1.90%	

United Kingdom

	Indicator	Period	Expected	Prior	Comments
8/1/2017	Markit UK PMI Manufacturing SA	Jul	54.5	54.3	Focus will be on the Bank of England MPC meeting.
8/3/2017	BoE MPC Meeting	3-Aug	No change	-	

China and India

	Indicator	Period	Expected	Prior	Comments
7/31/2017	Manufacturing PMI (CH)	Jul	51.5	51.7	China PMI and RBI MPC will be the main focus this week.
8/1/2017	Caixin China PMI Mfg (CH)	Jul	50.4	50.4	
8/1/2017	Nikkei India PMI Mfg (IN)	Jul	-	50.9	
8/2/2017	RBI MPC Meeting (IN)	2-Aug	25bp rate cut		

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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