The Weekly Market View

June 19 2017

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Markets shrug off second rate hike of the year

Global equities were little changed this week despite the Federal Reserve hiking interest rates by a further 25bps to 1%-1.25%. The FOMC also shed further light on its plans to unwind its $4.5trn balance sheet which it accumulated following the global financial crisis. They plan to initiate this process later this year. It therefore seems likely that the third rate hike this year (which the Fed has indicated it wants to implement) will come towards the end of the year. It is unlikely that the Fed will want to tighten using two tools simultaneously, at least not until it can gauge the impact of its balance sheet reduction on the market. 10-year Treasury yields fell on the announcement, suggesting the market is more worried about poor recent data rather than rising rates. The dollar did strengthen somewhat against most currencies, which contributed to an underperformance of emerging market equities. Oil prices dropped towards the bottom of their recent range, down significantly since OPEC's (and some non-OPEC) decision to extend its production quotas less than one month ago. Resilient and still growing US shale production despite lower oil prices is behind the recent slump.

MSCI reclassification on June 20 the focus for equity investors

On June 20 MSCI will announce the outcome of its market reclassification review. Market participants will find out if Chinese A-shares will be added to the Emerging Markets (EM) equity benchmark and if Argentina will be upgraded to EM status (from Frontier currently). However, for regional investors the focus will be on Saudi Arabia, which has a good chance of getting added to MSCI's watch list for potential inclusion into the EM index in June 2018, with actual implementation a year later (this follows the standard MSCI review cycle). Should Saudi equities not make it onto the watch list during this review, it is possible an off-cycle announcement will still see the market added later this year. Estimates as to the weight Saudi would occupy in the EM benchmark are around 2%-3% (excluding Aramco) but rise as high as 7% including Aramco. Based on an estimated c$350bn of passively managed money tracking the MSCI EM index, a weight of 2% should result in c$7bn of inflows from passive fund rebalancing alone. Inflows from active funds could be far greater still. The experiences of other equity markets which were upgraded or included into the EM index suggests Saudi equities could be primed for a period of outperformance. ***Please see our note for more details.***

Past week global markets' performance

Index Snapshot (World Indices)

Index	Latest	Weekly Chg %	YTD %
S&P 500	2,433.2	0.1	8.7
Dow Jones	21,384.3	0.5	8.2
Nasdaq	6,151.8	-0.9	14.3
DAX	12,752.7	-0.5	11.1
Nikkei 225	19,943.3	-0.3	4.3
FTSE 100	7,463.5	-0.8	4.5
Sensex	31,056.4	-0.7	16.6
Hang Seng	25626.5	-1.6	16.5
Regional Markets (Sunday to Thursday)			
ADX	4501.8	0.1	-1.0
DFM	3459.4	2.1	-2.0
Tadawul	6820.8	0.2	-5.4
DSM	9257.9	2.2	-11.3
MSM30	5248.41	-1.6	-9.2
BHSE	1327.0	0.3	8.7
KWSE	6810.7	0.8	18.5
MSCI			
MSCI World	1,923.2	0.0	9.8
MSCI EM	1,003.1	-1.5	16.3

Global Commodities, Currencies and Rates

Commodity	Latest	Weekly Chg %	YTD %
ICE Brent USD/bbl	47.4	-1.6	-16.6
Nymex WTI USD/bbl	44.7	-2.4	-16.7
Gold USD/t oz	1253.7	-1.0	9.3
Silver USD/t oz	16.7	-2.9	4.9
Platinum USD/t oz	929.9	-1.1	3.0
Copper USD/MT	5655.5	-1.5	2.8
Alluminium	1855	-2.2	9.5
Currencies			
EUR USD	1.1198	0.0	6.5
GBP USD	1.2783	0.3	3.6
USD JPY	110.88	0.5	-5.5
CHF USD	0.9733	0.4	4.7
Rates			
USD Libor 3m	1.2736	3.0	27.6
USD Libor 12m	1.7323	0.2	2.8
UAE Eibor 3m	1.5010	0.4	1.7
UAE Eibor 12m	2.0990	-0.1	0.2
US 3m Bills	1.0011	0.5	101.3
US 10yr Treasury	2.1514	-2.2	-12.0

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Summary market outlook

Bonds	
Global Yields	Bond markets dismissed the Fed rate hike and reacted to the softer inflation data. 10yr US yields declined and the treasury curve flattened to the lowest level since October 2015. Unless inflation data significantly surprises on the upside, we expect US Treasury yields to remain supported in the near term. In the UK, gilt yields moved up in reaction to higher than expected inflation and 3 BoE members dissenting to keep rates on hold. Nevertheless, we believe that safe-haven demand due to Brexit risks should keep yields contained.
Stress and Risk Indicators	The VIX fell in the absence of any major surprises in economic data. However, current levels are very low given the ongoing global political uncertainty and we expect volatility to rise.
Equity Markets	
Local Equity Markets	GCC equity markets performed well in spite of dollar strength and lower oil prices. Investors will be looking out for the potential inclusion of Saudi equities onto the MSCI watch list on June 20. Overall, we remain neutral on GCC equities given the potential for further dollar strength and seemingly capped oil prices.
Global Equity Markets	Global equities ended the week lower except for US markets which were broadly flat. Markets were unfazed by the Fed rate hike given most of it was already priced in. UK equities fell by 0.8% on the back of pound strength and ongoing political uncertainty over Brexit negotiations. Nevertheless, we believe that the positive global macro backdrop and strong corporate earnings will support risk appetite.
Commodities	
Precious Metals	Gold prices declined due to softer appetite for safe-haven assets and renewed dollar strength. Nevertheless, we stick to our overweight recommendation on gold as a risk hedge against ongoing political and inflationary risks.
Energy	Energy prices dipped lower with WTI breaking the USD45/bbl level. Data showing continuous increases in stockpiles of US crude and a rising US rig count triggered the decline. While we expect some upward normalization to take place, rising US crude production is likely to act as a ceiling on oil prices.
Industrial Metals	Industrial metals underperformed amidst the slightly stronger dollar last week. We expect this trend to continue due to ongoing concerns around Chinese demand.

Currencies				
EURUSD	The euro ended the week flat versus the dollar. 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 1.1225	R1 1.1216	S1 1.1197	S2 1.1187
GBPUSD	The pound slightly appreciated versus the dollar mainly on account of a higher than expected rise in inflation. We expect sterling to remain under pressure due to political uncertainty and Brexit negotiations.			
Critical levels	R2 1.2823	R1 1.2793	S1 1.2740	S2 1.2715
USDJPY	The yen depreciated versus the dollar amidst the rise in dollar demand. We expect the yen to weaken given the potential for dollar strength and widening interest rate differentials.			
Critical levels	R2 111.03	R1 110.97	S1 110.81	S2 110.71

Forthcoming important economic data

United States

	Indicator	Period	Expected	Prior	Comments
06/20/2017	Current Account Balance	1Q	-$123.6b	-$112.4b	Housing data and PMI numbers will be closely tracked. .
06/21/2017	Existing Home Sales MoM	May	-0.40%	-2.30%	
06/22/2017	FHFA House Price Index MoM	Apr	0.50%	0.60%	
06/23/2017	Markit US Manufacturing PMI	Jun P	52.9	52.7	
06/23/2017	New Home Sales MoM	May	3.80%	-11.40%	

Japan

	Indicator	Period	Expected	Prior	Comments
06/19/2017	Exports YoY	May	16%	7.50%	Attention will be on exports and PMI.
06/21/2017	All Industry Activity Index MoM	Apr	1.60%	-0.60%	
06/23/2017	Nikkei Japan PMI Mfg	Jun P	-	53.1	

Eurozone

	Indicator	Period	Expected	Prior	Comments
06/22/2017	ECB Publishes Economic Bulletin				Consumer confidence and PMI preliminary data will be important.
06/22/2017	Consumer Confidence	Jun A	-3	-3.3	
06/23/2017	Markit Eurozone Manufacturing PMI	Jun P	56.8	57	

United Kingdom

	Indicator	Period	Expected	Prior	Comments
06/19/2017	Rightmove House Prices YoY	Jun	2.80%	3.00%	Light week in terms of data releases.

China and India

Indicator	Period	Expected	Prior	Comments
				No major data release 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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