The Weekly Market View

November 20 2017

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Equity markets in standby mode after strong earnings season

Equity markets moved sideward as a positive US earnings season is drawing to an end and US tax reform is being debated in the Congress. The wait-and-see attitude also spilled over to currency markets as the US dollar weakened against other major currencies, perhaps thereby contributing to the underperformance of both European and Japanese equities. As was to be expected, the weaker US dollar did provide some relief to emerging equity and bond markets. As for the latter, it is increasingly difficult to talk about a single homogeneous emerging markets category. Thus it is true that China tightening and a generally stronger US dollar will create some headwinds for emerging markets, there are different types of emerging markets and thus scenarios. Those that are financing their growing debt with current account surpluses, such as Russia are less at risk. There are others, such as Turkey and South Africa who are having significant external financing imbalances and who as such should be avoided. As global yields stabilize, emerging bond markets in particular will find some relief, provided their external finance balances are in order, which is the case for Russia and Indonesia in particular.

Markets to move sideward as political events unfold in Germany and the US

The main focus this week will be on the PMI indicators of advanced economies. We expect the solid growth momentum in the US and in the Euro-zone to continue. It is less certain, however, that markets will immediately take notice and translate the good news into higher quotations. It looks more that most of the economic news is priced in, whilst markets try to ascertain the direction of policy and politics as it develops in some of the major economies in the world. In the US discussions on tax reform are likely to drag on without providing a clear sense of how the final outcome will look like. In the Euro-zone, the collapse of the German government talks is likely to raise concerns about possible re-elections, a first in the post-war history of Germany. In the UK, Mrs May remains under pressure as some expect her to make new concessions to the European Union. Last but not least, China seems determinedly embarked upon a tightening mood. All these developments can be overcome, and we expect them to be overcome. Yet, in the short run they are likely to cause at best some volatility, at worst a temporary correction as investors cash in on the significant gains accrued through 2017.

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Past week global markets' performance

Index Snapshot (World Indices)

Index	Latest	Weekly Chg %	YTD %
S&P 500	2,578.9	-0.1	15.2
Dow Jones	23,358.2	-0.3	18.2
Nasdaq	6,782.8	0.5	26.0
DAX	12,993.7	-1.0	13.2
Nikkei 225	22,396.8	-1.3	17.2
FTSE 100	7,380.7	-0.7	3.3
Sensex	33,342.8	0.1	25.2
Hang Seng	29199.0	0.3	32.7
Regional Markets (Sunday to Thursday)			
ADX	4326.5	-1.1	-4.8
DFM	3447.7	0.3	-2.4
Tadawul	6913.5	-0.6	-4.1
DSM	7825.8	-0.8	-25.0
MSM30	5107.83	1.0	-11.7
BHSE	1269.9	0.2	4.1
KWSE	6311.1	0.8	9.8
MSCI			
MSCI World	2,033.2	-0.3	16.1
MSCI EM	1,136.5	0.7	31.8

Global Commodities, Currencies and Rates

Commodity	Latest	Weekly Chg %	YTD %
ICE Brent USD/bbl	62.7	-1.3	10.4
Nymex WTI USD/bbl	56.6	-0.3	5.3
Gold USD/t oz	1292.4	1.4	12.6
Silver USD/t oz	17.3	2.5	8.7
Platinum USD/t oz	951.9	2.4	5.4
Copper USD/MT	6728.5	-1.0	22.3
Alluminium	2092.5	0.4	23.5
Currencies			
EUR USD	1.1790	1.1	12.1
GBP USD	1.3215	0.1	7.1
USD JPY	112.10	-1.3	-4.3
CHF USD	0.9891	-0.7	3.0
Rates			
USD Libor 3m	1.4407	2.0	44.4
USD Libor 12m	1.9062	1.3	13.1
UAE Eibor 3m	1.6138	0.9	9.4
UAE Eibor 12m	2.2750	1.9	8.6
US 3m Bills	1.2585	3.1	153.0
US 10yr Treasury	2.3435	-2.3	-4.1

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Summary market outlook

Bonds	
Global Yields	US Treasury yields came under pressure with the short-dated bond underperforming in anticipation of December rate hike expectations. The curve flattened for most of the week. We expect Treasury yields to remain range bound unless there is a sharp jump in inflation expectations, something we do not see for the moment.
Stress and Risk Indicators	The VIX receded after jumping significantly the prior week. Volatility is unlikely to stay low given the backdrop of ongoing geopolitical risks.
Equity Markets	
Local Equity Markets	GCC equity markets were mixed and remained volatile on account of rising tensions in the middle east. 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 into the MSCI watch list for potential promotion into the MSCI Emerging Markets index. We do recognize that the upward trend will be volatile given the rise in political uncertainty.
Global Equity Markets	Global equities moved sideward over the week as reports of possible delay in US tax reform rattled investor sentiment. European equities underperformed the most on disappointing earnings results and stronger euro. Japanese equities came finally under pressure too as the yen strengthened against the US dollar. Overall, we continue to believe that strong economic fundamentals along with robust corporate earnings growth will support global equities.
Commodities	
Precious Metals	Gold prices rose for the second consecutive week, helped by tax reform uncertainty. We stick to our overweight recommendation on gold as a risk hedge against ongoing political and (potential) inflationary risks.
Energy	Oil prices receded after reaching a three year record high on the back of rising tensions in Saudi. 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 declined last week on account of softness in China data. Longer-term we do not recommend industrial metals exposure due to concerns around Chinese growth prospects post the Party Congress.
Currencies	
EURUSD	The euro appreciated versus the dollar as tax reform concerns weighed on the dollar. We expect the euro to remain under pressure as the US dollar regains some ground.
Critical levels	R2 1.1848 · R1 1.1794 · S1 1.1704 · S2 1.1668
GBPUSD	The pound rose marginally against the dollar, partly pulled by the euro. We expect sterling to remain under pressure due to political uncertainty, economic weakness and Brexit negotiations.
Critical levels	R2 1.3243 · R1 1.3227 · S1 1.3190 · S2 1.3169
USDJPY	The yen strengthened versus the dollar helped by safe haven appetite. We believe there will remain a bias for yen weakness given divergent monetary policies between Japan and the US.
Critical levels	R2 112.37 · R1 112.04 · S1 111.86 · S2 111.71

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
11/21/2017	Chicago Fed Nat Activity Index	Oct	0.2	0.17	FOMC minutes, PMI and durable goods order will be the focus in the US this week.
11/21/2017	Existing Home Sales	Oct	5.40m	5.39m	
11/22/2017	MBA Mortgage Applications	17-Nov	--	3.10%	
11/22/2017	Initial Jobless Claims	18-Nov	240k	249k	
11/22/2017	Durable Goods Orders	Oct P	0.40%	2.00%	
11/22/2017	U. of Mich. Sentiment	Nov F	98	97.8	
11/22/2017	FOMC Meeting Minutes	1-Nov	--	--	
11/24/2017	Markit US Manufacturing PMI	Nov P	55	54.6	

Japan

	Indicator	Period	Expected	Prior	Comments
11/20/2017	Trade Balance	Oct	¥330.0b	¥670.2b	Manufacturing PMI data will give an insight into the strength of the economy in Q4.
11/20/2017	Exports YoY	Oct	15.70%	14.10%	
11/20/2017	Imports YoY	Oct	20.20%	12.00%	
11/21/2017	All Industry Activity Index MoM	Sep	-0.40%	0.10%	
11/24/2017	Nikkei Japan PMI Mfg	Nov P	--	52.8	

Eurozone

	Indicator	Period	Expected	Prior	Comments
11/22/2017	Consumer Confidence	Nov A	-0.9	-1	ECB minutes and the German IFO survey are the highlights in Europe.
11/23/2017	Markit Eurozone Manufacturing PMI	Nov P	58.2	58.5	
11/23/2017	ECB account of the monetary policy meeting				
11/24/2017	IFO Business Climate (GER)	Nov	116.6	116.7	

United Kingdom

	Indicator	Period	Expected	Prior	Comments
11/23/2017	GDP QoQ	3Q P	0.40%	0.40%	GDP data will be closely scrutinized in the UK
11/23/2017	GDP YoY	3Q P	1.50%	1.50%	
11/23/2017	Private Consumption QoQ	3Q P	0.40%	0.10%	
11/23/2017	Government Spending QoQ	3Q P	0.30%	0.60%	
11/23/2017	Gross Fixed Capital Formation QoQ	3Q P	0.40%	0.70%	
11/23/2017	Exports QoQ	3Q P	-0.80%	0.70%	
11/23/2017	Imports QoQ	3Q P	0.90%	0.70%	

China and India

	Indicator	Period	Expected	Prior	Comments

No major data out of China or India this 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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