بنك أبوظبي التجاري ADCB

Fiscal stimulus optimism boosts risk-taking

Risk-on sentiment was boosted by talks of the much awaited US tax reform, with US stocks reaching new record highs. The dollar strengthened against the majority of currencies, receiving a boost from the positive investor sentiment. European equities were the best performers mainly on account of euro weakness. In contrast, broad dollar strength caused emerging markets to underperform for the second consecutive week. Safe-haven assets were negatively impacted by the growing risk-on sentiment. Gold prices declined as the market probability of a December Fed rate hike jumped to almost 70% while the yen fell versus the dollar. Oil prices climbed further, helped by growing global demand and concerns of potential supply disruptions in Iraq due to the Kurdistan referendum.

Return of the reflation trade?

Whilst there is still uncertainty whether the government will be successful in passing tax reform, the renewed focus on the fiscal stimulus talks is likely to keep the markets optimism intact. Preference for small-cap stocks is expected to build given that these companies will benefit the most from a lower corporate tax rate. At the same time, dollar strength is expected to continue, putting pressure on emerging market assets. This further explains our selective bias for emerging market economies with strong fundamentals and domestic story that should remain resilient in a dollar appreciating environment. The recent euro weakness is likely to continue, further spurred by yesterday's Catalonia vote for independence which is adding temporary uncertainty within the region. However, continued euro weakness – combined with structural reforms in France and the weaker periphery economies - will prove beneficial for European risk assets and equities. This week we have a plethora of economic data coming out of the US markets including the ISM manufacturing and labour payroll data, which will be important for timing of future rate hikes. While a December rate hike almost looks certain, lower-than expected inflation along with synchronised and stable global growth is expected to keep the goldilocks scenario intact.

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Past week global markets' performance

Index Snapshot (World Indices)

Index	Latest	Weekly Chg %	YTD %
S&P 500	2,519.4	0.7	12.5
Dow Jones	22,405.1	0.2	13.4
Nasdaq	6,496.0	1.1	20.7
DAX	12,828.9	1.9	11.7
Nikkei 225	20,356.3	0.3	6.5
FTSE 100	7,372.8	0.8	3.2
Sensex	31,283.7	-2.0	17.5
Hang Seng	27554.3	-1.2	25.2
Regional Markets (Sunday to Thursday)			
ADX	4397.4	-1.3	-3.3
DFM	3564.0	-1.9	0.9
Tadawul	7283.0	-0.6	1.0
DSM	8312.4	-0.6	-20.4
MSM30	5137.35	0.7	-11.2
BHSE	1283.5	-1.9	5.2
KWSE	6679.7	-2.5	16.2
MSCI			
MSCI World	2,000.6	0.3	14.2
MSCI EM	1,081.7	-1.9	25.5

Global Commodities, Currencies and Rates

Commodity	Latest	Weekly Chg %	YTD %
ICE Brent USD/bbl	56.8	1.2	-0.1
Nymex WTI USD/bbl	51.7	2.0	-3.8
Gold USD/t oz	1279.8	-1.4	11.5
Silver USD/t oz	16.7	-2.0	4.6
Platinum USD/t oz	912.1	-2.3	1.0
Copper USD/MT	6485.0	1.2	17.9
Alluminium	2081	-2.8	22.8
Currencies			
EUR USD	1.1814	-1.1	12.3
GBP USD	1.3398	-0.8	8.6
USD JPY	112.51	0.5	-4.0
CHF USD	0.9683	-0.1	5.2
Rates			
USD Libor 3m	1.3339	0.3	33.7
USD Libor 12m	1.7823	0.4	5.7
UAE Eibor 3m	1.5582	-0.1	5.6
UAE Eibor 12m	2.1727	0.7	3.7
US 3m Bills	1.0405	2.0	109.2
US 10yr Treasury	2.3336	3.7	-4.5

Summary market outlook

Bonds	
Global Yields	US Treasuries came under selling pressure on rising market concerns that Trump's tax reform in the form of an expansionary fiscal policy will weigh on the debt issuance. Overall, we expect Treasury yields to remain range bound unless there is a sharp jump in inflation/inflation expectations.
Stress and Risk Indicators	The VIX remained near record lows in absence of any surprise in economic data. However, volatility is unlikely to stay low given the backdrop of ongoing geopolitical risks.
Equity Markets	
Local Equity Markets	GCC equity markets sold off, tracking the trend in emerging market equities and in spite of the rally in oil prices. We remain neutral on GCC equities given the potential for 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 with the exception of emerging markets performed well last week. US equities rallied on the renewed prospects of tax reform, reaching new record highs. However, European equities were the best performers, propelled by the weaker euro. In contrast, continuous dollar strength for another week weighed on the emerging markets, making them the worst performers. Overall, we continue to believe that strong economic fundamentals along with robust corporate earnings growth will support global equities.
Commodities	
Precious Metals	Gold prices continued to decline with rise in December Fed rate hike expectation. We stick to our overweight recommendation on gold as a risk hedge against ongoing political and (potential) inflationary risks.
Energy	Oil prices jumped for the fourth consecutive week on concerns of potential supply disruptions due to the Kurdish referendum in Iraq and strengthening global demand. We expect oil to continue trading in the range seen over the past 12 months ($42-$56/bbl). 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 were mixed, tracking the decline in precious metals. Longer-term we do not recommend industrial metals exposure due to ongoing concerns around Chinese growth prospects.
Currencies	
EURUSD	The euro weakened versus the dollar on the back of weaker Euro inflation print and broad dollar strength. We expect the US dollar will continue to regain some ground.
Critical levels	R2 1.1839 · R1 1.1816 · S1 1.1772 · S2 1.1753
GBPUSD	The pound fell against the dollar mainly on account of disappointing economic data. We expect sterling to remain under pressure due to political uncertainty, economic weakness and Brexit negotiations.
Critical levels	R2 1.3407 · R1 1.3390 · S1 1.3362 · S2 1.3352
USDJPY	The yen weakened against the dollar with an increase in risk-on sentiment. We believe there will remain a bias for yen weakness given the potential for dollar strength.
Critical levels	R2 112.92 · R1 112.79 · S1 112.47 · S2 112.28

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
10/02/2017	Markit US Manufacturing PMI	Sep F	53	53	All eyes will be on the labour market data.
10/02/2017	ISM Manufacturing	Sep	58	58.8	
10/05/2017	Durable Goods Orders	Aug F	1.70%	1.70%	
10/06/2017	Change in Nonfarm Payrolls	Sep	85k	156k	
10/06/2017	Unemployment Rate	Sep	4.40%	4.40%	
10/06/2017	Average Hourly Earnings MoM	Sep	0.30%	0.10%	

Japan

	Indicator	Period	Expected	Prior	Comments
10/02/2017	Nikkei Japan PMI Mfg	Sep F	-	52.6	PMI will be important.
10/03/2017	Consumer Confidence Index	Sep	43.5	43.3	

Eurozone

	Indicator	Period	Expected	Prior	Comments
10/02/2017	Markit Eurozone Manufacturing PMI	Sep F	58.2	58.2	Focus will be on the ECB MPC minutes and PMI release.
10/04/2017	Retail Sales YoY	Aug	2.60%	2.60%	
10/05/2017	ECB MPC minutes				

United Kingdom

	Indicator	Period	Expected	Prior	Comments
10/02/2017	Markit UK PMI Manufacturing SA	Sep	56.2	56.9	PMI will be closely tracked.

China and India

	Indicator	Period	Expected	Prior	Comments
10/03/2017	Nikkei India PMI Mfg (IN)	Sep	-	51.2	China foreign reserves and RBI MPC meeting will be important.
10/04/2017	RBI MPC meeting (IN)	4-Oct	No change	-	
10/08/2017	Foreign Reserves (CH)	Sep	-	$3091.5b	

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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