The Weekly Market View

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بنك أبوظبي التجاري ADCB

Mostly strong US macro data buoys equities and boosts the dollar

Lingering concerns over North Korea and fresh worries over the impact of Hurricane Harvey on US growth pushed 10-year Treasuries to a ten month low of 2.08% earlier in the week before yields rebounded on Friday. Helping the rebound in yields was mostly positive US macro data. The main exceptions being jobs numbers and core PCE inflation, both of which disappointed slightly. However, upwardly revised US Q2 GDP growth (to an annual pace of 3% from 2.6% previously) and the ISM manufacturing survey hitting a 6-year high boosted equities and the dollar. US and Japanese equities outperformed, while Eurozone equities struggled. The combination of strong growth based data, but still weak inflation along with elevated levels of geopolitical risk boosted gold by 2.6% during the week (15.5% y-t-d).

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Geopolitical risks linger, but equity fundamentals remain strong

Global risk assets have remained impressively resilient in recent months as investors have ignored calls for imminent corrections by well-known market commentators. The fact remains that the fundamentals supporting risk assets, and equities in particular are strong. By fundamentals we mean global economic growth as well as corporate profits. The combination of these two, in the context of supportive monetary policy means that equities can continue to largely ignore political risks, such as the one unfolding on the Korean peninsula. The real risk for equity markets, therefore, is a scaling back of economic growth and/or earnings growth expectations. Nevertheless, a sudden sharp escalation between North Korea and others would also unnerve investors, albeit such an event is difficult to predict. In this environment, we continue to see the attractions of gold and US Treasuries as risk hedges. Within the equity universe US equities should remain the most resilient should the situation in North Korea drag on, while European, Emerging and Japanese equities are the most vulnerable.

Past week global markets' performance

Index Snapshot (World Indices)

Index	Latest	Weekly Chg %	YTD %
S&P 500	2,476.6	1.4	10.6
Dow Jones	21,987.6	0.8	11.3
Nasdaq	6,435.3	2.7	19.5
DAX	12,142.6	-0.2	5.8
Nikkei 225	19,691.5	1.2	3.0
FTSE 100	7,438.5	0.5	4.1
Sensex	31,892.2	0.9	19.8
Hang Seng	27953.2	0.4	27.1
Regional Markets (Sunday to Thursday)			
ADX	4468.4	-0.6	-1.7
DFM	3637.6	0.4	3.0
Tadawul	7258.6	0.2	0.7
DSM	8800.6	-1.7	-15.7
MSM30	5052.55	2.1	-12.6
BHSE	1302.5	0.0	6.7
KWSE	6892.1	0.1	19.9
MSCI			
MSCI World	1,965.8	1.1	12.3
MSCI EM	1,091.4	0.6	26.6

Global Commodities, Currencies and Rates

Commodity	Latest	Weekly Chg %	YTD %
ICE Brent USD/bbl	52.8	0.6	-7.2
Nymex WTI USD/bbl	47.3	-1.2	-12.0
Gold USD/t oz	1325.2	2.6	15.5
Silver USD/t oz	17.7	3.9	11.3
Platinum USD/t oz	1007.6	3.4	11.6
Copper USD/MT	6776.0	0.9	23.2
Alluminium	2121.75	3.1	25.3
Currencies			
EUR USD	1.1860	-0.5	12.8
GBP USD	1.2951	0.5	5.0
USD JPY	110.25	0.8	-6.1
CHF USD	0.9648	0.8	5.6
Rates			
USD Libor 3m	1.3161	-0.1	31.9
USD Libor 12m	1.7118	-0.9	1.5
UAE Eibor 3m	1.5417	0.2	4.5
UAE Eibor 12m	2.1238	-0.2	1.4
US 3m Bills	0.9998	-0.4	101.0
US 10yr Treasury	2.1657	-0.0	-11.4

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Summary market outlook

Bonds	
Global Yields	10-year US Treasury yields fell to a 10-month low of 2.08% intraweek as worries over the impact of Hurricane Harvey rose and core PCE inflation disappointed. However, they rebounded to finish the week flat following a strong ISM print and upward revision to Q2 GDP growth. 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 moved lower in line with the equity market rebound towards the end of the week. However, given ongoing global political uncertainty, a jump in volatility should not be ruled out.
Equity Markets	
Local Equity Markets	GCC equity markets lacked direction during the holiday-shortened trading week. 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 ended up over 1%, driven mostly by US equities. The combination of strong US growth data (both GDP growth and ISM) coupled with soft inflation data suggests a continuation of the “goldilocks” environment equity markets have enjoyed for most of this year. Overall, strong and synchronized global growth data and robust corporate earnings growth means elevated valuations can be sustained for longer.
Commodities	
Precious Metals	Soft US inflation pointing to fewer Fed rate hikes and still elevated levels of geopolitical risk, mostly emanating from North Korea boosted gold prices further during the week. We stick to our overweight recommendation on gold as a risk hedge against ongoing political and potential for inflationary risks.
Energy	Oil prices ended the week more or less flat. The devastation caused by Hurricane Harvey has hit US refining capabilities more than it has impacted US oil production. As such it is likely to have only a temporary effect on crude oil prices. 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 continued their recent upward march, suggesting Chinese growth still remains robust on the back of Chinese authorities’ stimulus efforts. Longer-term we do not recommend industrial metals exposure due to ongoing concerns around Chinese growth prospects.
Currencies	
EURUSD	Having comfortably breached the $1.20 the euro fell back against the US dollar on the back of strong US growth data. The ECB’s monetary policy committee meeting on 7 September will be closely watched for any indication of tapering. We expect euro strength to have mostly run its course and believe the US dollar will regain some ground.
Critical levels	R2 1.2165 · R1 1.2012 · S1 1.1765 · S2 1.1671
GBPUSD	The pound strengthened slightly versus the dollar, but remains range bound. We expect sterling to remain under pressure due to political uncertainty, economic weakness and Brexit negotiations.
Critical levels	R2 1.3075 · R1 1.3013 · S1 1.2871 · S2 1.2791
USDJPY	The yen weakened against the dollar on the back of stronger US growth data. We believe there will remain a bias for yen weakness given the potential for dollar strength.
Critical levels	R2 112.13 · R1 111.19 · S1 108.79 · S2 107.33

Forthcoming important economic data

United States

	Indicator	Period	Expected	Prior	Comments
9/5/2017	Factory Orders	Jul	-3.30%	3.00%	Factory orders and durable goods orders will give further insight into the strength of the US economy.
9/5/2017	Durable Goods Orders	Jul F	1.00%	-6.80%	
9/6/2017	MBA Mortgage Applications	1-Sep	--	-2.30%	
9/6/2017	Trade Balance	Jul	-$44.6b	-$43.6b	
9/6/2017	Markit US Composite PMI	Aug F	--	56	
9/6/2017	ISM Non-Manf. Composite	Aug	55.5	53.9	
9/7/2017	Initial Jobless Claims	2-Sep	242k	236k	

Japan

	Indicator	Period	Expected	Prior	Comments
9/4/2017	Nikkei Japan PMI Composite	Aug	--	51.8	Final Q2 GDP growth will be the main data point out of Japan.
9/7/2017	BoP Current Account Balance	Jul	¥2044.6b	¥934.6b	
9/7/2017	GDP SA QoQ	2Q F	0.70%	1.00%	

Eurozone

	Indicator	Period	Expected	Prior	Comments
9/5/2017	Markit Eurozone Composite PMI	Aug F	55.8	55.8	All eyes will be on the ECB Monetary Policy meeting, many expect President Draghi to signal the intention to begin tapering of asset purchases.
9/5/2017	Retail Sales YoY	Jul	2.50%	3.10%	
9/7/2017	GDP SA YoY	2Q F	2.20%	2.20%	
9/7/2017	ECB Monetary Policy Committee Meeting	7-Sep	0.00%	0.00%	

United Kingdom

	Indicator	Period	Expected	Prior	Comments
9/5/2017	Markit/CIPS UK Composite PMI	Aug	54	54.1	House prices and industrial production are the main releases in the UK this week.
9/7/2017	Halifax House Prices MoM	Aug	0.20%	0.40%	
9/8/2017	Industrial Production YoY	Jul	0.30%	0.30%	
9/8/2017	Manufacturing Production YoY	Jul	1.70%	0.60%	
9/8/2017	Trade Balance	Jul	-£3250	-£4564	

China and India

	Indicator	Period	Expected	Prior	Comments
9/4/2017	Caixin China PMI Composite (CH)	Aug	--	51.9	Chinese PMI, foreign reserves data and trade data will closely watched.
9/6/2017	Foreign Reserves (CH)	Aug	--	$3080.7b	
9/7/2017	Imports YoY (CH)	Aug	10.00%	11.00%	
9/7/2017	Exports YoY (CH)	Aug	5.10%	7.20%	
9/8/2017	CPI YoY (CH)	Aug	1.60%	1.40%	
9/8/2017	PPI YoY (CH)	Aug	5.40%	5.50%	
9/9/2017	Money Supply M2 YoY (CH)	Aug	9.10%	9.20%	
9/5/2017	Nikkei India PMI Composite (IN)	Aug	--	46	
9/7/2017	Exports YoY (IN)	Aug	--	3.90%	
9/7/2017	Imports YoY (IN)	Aug	--	15.40%	

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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