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Markets stable in spite of political noise

Markets were largely resilient and mostly unperturbed by the bouts of rise in geopolitical risks and a hawkish Fed statement. Global equities hovered near their record highs, led again by Japanese equities which continued to be the best performer with the yen weakening versus the dollar. UK equities also recovered most of its losses as the pound depreciated after Prime Minister Therese May's speech in Florence spurred more Brexit uncertainty. However, safe-have assets corrected in spite of geopolitical tensions, except for the US Treasuries corrected (and the latter strength was likely more related to the Fed's hawkish statement than to any geopolitical issue). US Treasuries were mostly stable with the short-dated bonds coming under more pressure as the Fed stuck to its rate projections for this year, meaning it could hike one more time in December. Elsewhere, oil prices rose for the third consecutive week, helped by the slow recovery in US refineries and OPEC and non-OPEC members' commitment to supply cuts.

Don't take the Fed's "dot plot" too seriously

The main highlight last week was the FOMC meeting where the Fed as expected announced the beginning of balance sheet reduction in October but at the same time maintained its dot plot with one more hike this year and three more hikes in 2018. Apart from the market-based probability a December rate hike rising to 62%, the market's reaction was mostly muted. This indicates that market participants remain unconvinced as the recent decline in inflation is more of "mystery" for the Fed. Also, the fact that the Fed lowered its projection for the long-run terminal rate signals that they may not be comfortable with as many hikes as indicated, giving them more room to switch to a more accommodative stance if inflation fails to reach their target. As such, we believe that positive growth outlook along with a stable yield curve should continue to provide support to the markets. This week, the market will be paying close attention to the core PCE, an indicator closely tracked by the Fed. A lower than expected print is likely to firm up market expectations of less rate hikes. Many Fed speakers including Mrs Yellen are due to speak on monetary policy this week and are most likely to explain their latest economic projections. Elsewhere, focus will be on the UK GDP print and in the emerging markets, China PMI release will be closely tracked by the market.

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Past week global markets' performance

Index Snapshot (World Indices)

Index	Latest	Weekly Chg %	YTD %
S&P 500	2,502.2	0.1	11.8
Dow Jones	22,349.6	0.4	13.1
Nasdaq	6,426.9	-0.3	19.4
DAX	12,592.4	0.6	9.7
Nikkei 225	20,296.5	1.9	6.2
FTSE 100	7,310.6	1.3	2.3
Sensex	31,922.4	-1.1	19.9
Hang Seng	27880.5	0.3	26.7
Regional Markets (Sunday to Thursday)			
ADX	4455.1	-0.6	-2.0
DFM	3632.5	-0.7	2.9
Tadaw ul	7326.3	-0.6	1.6
DSM	8360.8	-0.6	-19.9
MSM30	5100.44	2.0	-11.8
BHSE	1307.9	0.3	7.2
KWSE	6849.1	-0.9	19.2
MSCI			
MSCI World	1,994.6	0.3	13.9
MSCI EM	1,102.3	0.0	27.8

Global Commodities, Currencies and Rates

Commodity	Latest	Weekly Chg %	YTD %
ICE Brent USD/bbl	56.9	2.2	0.1
Nymex WTI USD/bbl	50.7	1.5	-5.7
Gold USD/t oz	1297.3	-1.7	13.1
Silver USD/t oz	17.0	-3.4	6.7
Platinum USD/t oz	933.3	-3.7	3.3
Copper USD/MT	6405.0	-0.8	16.4
Alluminium	2141.5	4.1	26.4
Currencies			
EUR USD	1.1951	0.1	13.6
GBP USD	1.3504	-0.7	9.4
USD JPY	111.99	1.0	-4.4
CHF USD	0.9693	0.9	5.1
Rates			
USD Libor 3m	1.3294	0.4	33.2
USD Libor 12m	1.7754	2.5	5.3
UAE Eibor 3m	1.5572	0.2	5.5
UAE Eibor 12m	2.1517	0.2	2.7
US 3m Bills	1.0202	-0.6	105.1
US 10yr Treasury	2.2499	2.2	-8.0

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Summary market outlook

Bonds	
Global Yields	US Treasuries faced some selling pressure, but were mostly stable even though the Fed maintained its projection for another rate hike this year. The curve flattened as Janet Yellen acknowledged that the decline in inflation was a bit of "mystery", limiting the rise in long-term yields. 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 dropped to the lowest level in two months in absence of any surprise in economic data. However, volatility is unlikely to permanently remain low given the backdrop of ongoing geopolitical risks.
Equity Markets	
Local Equity Markets	GCC equity markets were mixed 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 stayed in the positive territory with US equities almost flat as markets digested the Fed's policy announcement. Japanese equities remained the top performers, adding to previous week's gain, as the yen weakened further versus the dollar. Similarly, UK equities also recovered its previous week's loss with the pound depreciating against the 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 fell during the week as December Fed rate hike expectations rose post the FOMC meeting. . We stick to our overweight recommendation on gold as a risk hedge against ongoing political and (potential) inflationary risks.
Energy	Oil prices rose for the third week in a row, helped by the slow recovery of US refineries after the Hurricane Harvey. In addition, OPEC member and Russia decided to stick to the oil supply cuts, adding to the rally in 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 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 ended flat versus the dollar. Fed's commitment to normalise policy rates spurred the dollar to appreciate, yet strong European PMI release later during the week pared the mid-week dollar gains. We expect the US dollar will continue to regain some ground.
GBPUSD	The pound fell against the dollar mainly on increased Brexit uncertainty. We expect sterling to remain under pressure due to political uncertainty, economic weakness and Brexit negotiations.
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	R1	S1	S2
EURUSD	1.1941	1.1920	1.1888	1.1876
GBPUSD	1.3538	1.3514	1.3469	1.3448
USDJPY	112.50	112.34	112.01	111.84

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
9/26/2017	New Home Sales MoM	Aug	2.90%	-9.40%	Focus will be on the GDP 2Q print, core PCE and housing data
9/28/2017	GDP Annualized QoQ	2Q T	3.10%	3.00%	
9/28/2017	Core PCE QoQ	2Q T	0.90%	0.90%	
9/28/2017	Wholesale Inventories MoM	Aug P	0.40%	0.60%	
9/29/2017	PCE Core MoM	Aug	0.20%	0.10%	
9/29/2017	PCE Core YoY	Aug	1.40%	1.40%	
9/29/2017	Univ. of Mich. Sentiment	Sep F	95.3	95.3	

Japan

	Indicator	Period	Expected	Prior	Comments
9/25/2017	Nikkei Japan PMI Mfg	Sep P	-	52.2	PMI and inflation will be closely tracked by the market.
9/29/2017	Jobless Rate	Aug	2.80%	2.80%	
9/29/2017	Natl CPI YoY	Aug	0.70%	0.40%	
9/29/2017	Natl CPI Ex Fresh Food, Energy YoY	Aug	0.20%	0.10%	

Eurozone

	Indicator	Period	Expected	Prior	Comments
9/25/2017	IFO Expectations (GE)	Sep	108	107.9	Inflation estimate and German IFO survey will be important.
9/28/2017	Consumer Confidence	Sep F	-1.2	-1.2	
9/29/2017	CPI Estimate YoY	Sep	1.60%	1.50%	
9/29/2017	CPI Core YoY	Sep A	1.20%	1.20%	

United Kingdom

	Indicator	Period	Expected	Prior	Comments
9/29/2017	Nationwide House PX MoM	Sep	0.10%	-0.10%	All eyes will be on the 2Q GDP print.
9/29/2017	Current Account Balance	2Q	-15.9b	-16.9b	
9/29/2017	GDP YoY	2Q F	1.70%	1.70%	

China and India

	Indicator	Period	Expected	Prior	Comments
9/29/2017	Caixin PMI Mfg (CH)	Sep	51.5	51.6	Focus will be on China PMI data. .
9/30/2017	Manufacturing PMI (CH)	Sep	51.7	51.7	
9/29/2017	Fiscal Deficit INR Crore (IN)	Aug	-	63211	

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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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