The Weekly Market View

October 01 2018

Dollar strengthens as Fed paints an upbeat outlook

Global equity markets came slightly under pressure, in reaction to the outcome of the Fed meeting and increase in Italy uncertainty later during the week. As expected, the Fed raised policy rates by 25bp but the main highlight was the removal of the "accommodative" stance from its monetary policy statement, in addition to other few tweaks made in its forward guidance. As expected, the Fed's upbeat outlook of the US economy reignited the dollar surge. The bond yield curve flattened further with long-term treasury yields ending lower as the Fed Chair Jay Powell advocated a dovish inflation outlook in his post-meeting press conference. US equities had a mixed week as investors digested the "hawkish" tilt in the Fed's forward guidance. The revival of dollar strength and Fed's hawkish tilt did not bode well for the emerging markets, which ended lower after seeing some recovery in the previous two weeks. European markets underperformed the most, mainly on account of the fresh concerns emerging out of Italy after the Italy's government decided on a wider-than expected fiscal deficit target. Elsewhere, oil prices rallied with the Brent crude registering a 5% gain while WTI crude rose by 3.5%, mainly on comments made by President Trump at the United Nations general assembly regarding the US sanctions against Iran. On the other hand, commodities ended mixed, as stronger dollar bias and emerging market concerns weighed on the sentiment.

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US labour market in focus

The Fed's upbeat outlook on growth and employment reaffirms that US economic growth is likely to remain on a strong footing. While the short-term yields rose and the dollar strengthened in reaction to the Fed outcome, the long-term treasury yields edged lower, thus flattening the curve. This could be on account of two reasons. Firstly, the markets were positioned for a very "hawkish" Fed outcome i.e. anticipating more rate hikes than pencilled in the Fed's dot plot. Whilst there were some tweaks in the dot plot, the FOMC stuck to its future rate hike projections which entails one rate hike of 25bp in December 2018, 3 rate hikes in 2019 and one rate hike in 2020. Secondly, even though the Fed no longer referred to its policy stance as "accommodative", the FOMC still does not expect inflation pressures to rise significantly. As a result, market's future inflation expectations as captured by the inflation linked bonds and swaps eased post the Fed meeting. As such, we expect the curve flattening bias is expected to remain. At the same time, we believe that the Fed will stick to its rate hike plan and thus surprise the markets into 2019, as markets continue to lag behind the Fed's dot projections. This should further put upward pressure on the dollar, proving detrimental for the emerging markets assets.

This week will be important, particularly in framing the future rate expectations with the labour market data due on Friday. While non-farm payrolls release will remain an important driver, the bond markets will be mainly focused on the average hourly earnings print. In emerging markets, focus will be on the RBI MPC meeting where the central bank is expected to raise policy rates.

Past week global markets' performance

Index Snapshot (World Indices)

Index	Latest	Weekly Chg %	YTD %
S&P 500	2,914.0	-0.5	9.0
Dow Jones	26,458.3	-1.1	7.0
Nasdaq	8,046.4	0.7	16.6
DAX	12,246.7	-1.5	-5.2
Nikkei 225	24,120.0	1.0	6.0
FTSE 100	7,510.2	0.3	-2.3
Sensex	36,227.1	-1.7	6.4
Hang Seng	27788.5	-0.6	-7.1
Regional Markets (Sunday to Thursday)			
ADX	4947.9	1.1	12.5
DFM	2825.8	2.3	-16.2
Tadawul	7898.7	1.7	9.3
DSM	9784.3	0.2	14.8
MSM30	4523.82	0.8	-11.3
BHSE	1348.6	-0.2	1.3
KWSE	5138.5	0.9	-
MSCI			
MSCI World	2,184.0	-0.7	3.8
MSCI EM	1,047.9	-0.3	-9.5

Global Commodities, Currencies and Rates

Commodity	Latest	Weekly Chg %	YTD %
ICE Brent USD/bbl	82.7	5.0	23.7
Nymex WTI USD/bbl	73.3	3.5	21.2
Gold USD/t oz	1190.9	-0.8	-8.6
Silver USD/t oz	14.7	2.5	-13.5
Platinum USD/t oz	816.0	-1.5	-12.1
Copper USD/MT	6180.0	-0.4	-13.7
Alluminium	2056	-0.9	-9.0
Currencies			
EUR USD	1.1604	-1.2	-3.3
GBP USD	1.3031	-0.3	-3.6
USD JPY	113.70	1.0	0.9
CHF USD	0.9817	2.4	-0.8
Rates			
USD Libor 3m	2.3984	1.1	41.6
USD Libor 12m	2.9186	0.4	38.5
UAE Eibor 3m	2.7000	3.1	50.4
UAE Eibor 12m	3.3200	0.5	28.8
US 3m Bills	2.1964	1.5	59.7
US 10yr Treasury	3.0612	-0.1	27.3

Summary market outlook

Bonds	
Global Yields	The 10-year US Treasuries yields declined while the yield curve flattened in reaction to the Fed meeting. Overall, we expect the 10-year yield to remain consolidated below 3% as further uptick in yields will only trigger a buying opportunity for long-duration fixed income investors.
Stress and Risk Indicators	The VIX remained unchanged in line with mixed equity market sentiment. However, we believe that volatility is unlikely to remain low given the backdrop of markets' fear of central bank policy normalization and trade tensions.
Equity Markets	
Local Equity Markets	GCC markets performed well as oil prices rose by 5% over the week. We remain neutral on GCC equities given the potential for further dollar strength and range-bound oil prices, but we maintain our overweight call on Saudi equities.
Global Equity Markets	Global equities came slightly under pressure as the Fed painted an upbeat growth outlook and stuck to its forward rate guidance after hiking policy rates. US equities ended mixed with industrial stocks led by Dow Jones underperforming the most. European equities were the worst hit, after Italy concerns resurfaced as the government decided on wider fiscal deficit target. Overall, we remain neutral on global stocks and underweight on emerging stocks as the global risk reward trade-off continues to deteriorate with cooling global growth, higher US rates and a stronger US dollar.
Commodities	
Precious Metals	Gold prices were lower, on account of dollar strength. We remain overweight on gold as a risk hedge against ongoing political and (potential) inflationary risks.
Energy	Oil prices rallied with the Brent crude jumping by 5% over the week on President Trump's comments on US sanctions against Iran. Overall the oil price is likely to remain sustained as the market is roughly balanced, supported by OPEC 2.0. discipline and Iran related geopolitical tensions might even trigger temporary spikes.
Industrial Metals	Industrial metals were lower with stronger dollar appetite and emerging market concerns weighing on the sentiment. We do not recommend industrial metals exposure as China reigns in demand.

Currencies								
EURUSD	The euro weakened versus the dollar. We expect the euro to remain under pressure due to the diverging monetary policies between the Fed and the ECB.							
Critical levels	**R2**	1.1719	**R1**	1.1662	**S1**	1.1559	**S2**	1.1513
GBPUSD	The pound ended flat versus the dollar. Whilst we see the pound sterling at some point recovering with the UK staying in the EU in all but name, it will for now remain under pressure due to political uncertainty, economic weakness and Brexit negotiations.							
Critical levels	**R2**	1.3145	**R1**	1.3088	**S1**	1.2987	**S2**	1.2944
USDJPY	The yen depreciated versus the dollar on account of broad dollar strength. We believe there will remain a bias for yen strength as emerging markets concerns will not abate soon.							
Critical levels	**R2**	113.96	**R1**	113.83	**S1**	113.45	**S2**	113.19

Note: R2, R1, S2 and S1 refer to Bloomberg calculated weekly technical resistance and support levels

United States

	Indicator	Period	Expected	Prior	Comments
10/01/2018	Markit US Manufacturing PMI	Sep F	55.6	55.6	Market attention will be on labour market payroll data, also PMI and goods orders will be important this week.
10/03/2018	MBA Mortgage Applications	28-Sep	--	2.90%	
10/04/2018	Initial Jobless Claims	29-Sep	213K	214K	
10/04/2018	Factory Orders	Aug	2.20%	-0.80%	
10/04/2018	Durable Goods Orders	Aug F	--	-0.80%	
10/05/2018	Change in Nonfarm Payrolls	Sep	185K	201K	
10/05/2018	Unemployment Rate	Sep	3.80%	3.90%	
1005/2018	Average Hourly Earnings YoY	Sep	2.80%	2.90%	
10/05/2018	Labor Force Participation Rate	Sep	62.70%	62.70%	

Japan

	Indicator	Period	Expected	Prior	Comments
10/01/2018	Nikkei PMI Mfg	Sep F	--	52.9	PMI data will be important.

Eurozone

	Indicator	Period	Expected	Prior	Comments
10/01/2018	Retail Sales YoY (GE)	Aug	1.60%	0.80%	All attention will be on retail sales and PPI.
10/01/2018	Markit Manufacturing PMI	Sep F	53.3	53.3	
10/02/2018	PPI YoY	Aug	3.80%	4.00%	

United Kingdom

	Indicator	Period	Expected	Prior	Comments
10/02/2018	Nationwide House Px NSA YoY	Sep	1.90%	2.00%	Eyes will be on Nationwide House.
10/05/2018	Halifax House Prices MoM	Sep	0.20%	0.10%	

China and India

	Indicator	Period	Expected	Prior	Comments
10/05/2018	RBI Rate (IN)	5-Oct	25bp hike		In China, Foreign reserves will be important. In India, RBI will be important.
10/07/2018	Foreign Reserves (CH)	Sep	$3110.00b	$3109.72b	

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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