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Dollar comes under renewed pressure

The volatility in the dollar took centre stage last week as market participants digested the conflicting communication from the Trump administration. The dollar first came under pressure as the concerns of US protectionism rose after the Trump administration imposed new tariffs on solar panels and washing machines at the beginning of last week, In addition, Treasury Secretary's Steven Mnuchin's "weaker dollar" remarks drove the dollar to its lowest level in almost three years. Even though President Trump later stepped up and in a complete reversal, advocated a stronger dollar stance, the dollar ended the week lower versus majority of the currencies. Emerging market equities were the clear winners, benefitting the most. Similarly, broad dollar weakness provided a favourable backdrop for the US equities. In contrast, equity markets in Europe and Japan both underperformed as the euro and yen strengthened versus the dollar respectively. Dollar dependent commodities also rallied with gold prices jumping higher even though US yields remained under pressure. Brent crude touched a new three-year high rising 2.8% over the week while the WTI increased by 4.4%, topping USD65/bbl for the first time since 2014. Unlike other safe-haven assets, US treasury yields were volatile for most of the week, ending the week almost unchanged. Lower than expected 4Q GDP print also failed to induce much of a rally in the treasury market.

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Heavy US week with FOMC meeting and labor market releases

The week ahead is heavy in terms of data releases with the focus on FOMC meeting and January jobs reports after the last week revealed that the US economy grew at slower pace than expected in 4Q 2017. This marks the last FOMC meeting chaired by Mrs. Janet Yellen before Mr. Jerome Powell takes over as the Fed chair in February. The Fed is expected to keep monetary policy unchanged and there will be no press conference post the meeting. Nevertheless, the statement is likely to sound upbeat on growth and inflation prospects compared to December meeting given the pick-up in inflation pressures and sustained dollar weakness since the beginning of this year. US jobs report is also due this week where non-farm payrolls are expected to have risen at a faster pace in January. However, market will be looking for any signs of pick-up in wage growth. In emerging markets, all eyes will be on China manufacturing PMI release and India union budget for the new financial year 18/19. India's union budget, the last one before 2019 election will be crucial for the bond markets which have been under pressure due to risks from higher oil prices and above-target inflation.

Past week global markets' performance

Index Snapshot (World Indices)

Index	Latest	Weekly Chg %	YTD %
S&P 500	2,872.9	2.2	7.5
Dow Jones	26,616.7	2.1	7.7
Nasdaq	7,505.8	2.3	8.7
DAX	13,340.2	-0.7	3.3
Nikkei 225	23,631.9	-0.7	3.8
FTSE 100	7,665.5	-0.8	-0.3
Sensex	36,050.4	1.5	5.9
Hang Seng	33154.1	2.8	10.8
Regional Markets (Sunday to Thursday)			
ADX	4643.5	0.2	5.6
DFM	3468.7	-1.2	2.9
Tadawul	7521.6	0.1	4.1
DSM	9459.6	3.4	11.0
MSM30	5007.77	0.6	-1.8
BHSE	1341.8	0.4	0.8
KWSE	6651.9	0.5	3.8
MSCI			
MSCI World	2,248.9	1.9	6.9
MSCI EM	1,273.1	3.3	9.9

Global Commodities, Currencies and Rates

Commodity	Latest	Weekly Chg %	YTD %
ICE Brent USD/bbl	70.5	2.8	5.5
Nymex WTI USD/bbl	66.1	4.4	9.5
Gold USD/t oz	1349.1	1.3	3.6
Silver USD/t oz	17.4	2.3	2.8
Platinum USD/t oz	1011.7	-0.2	9.0
Copper USD/MT	7063.5	-0.2	-1.3
Alluminium	2259.75	1.7	0.1
Currencies			
EUR USD	1.2427	1.7	3.5
GBP USD	1.4160	2.2	4.8
USD JPY	108.58	-2.0	-3.8
CHF USD	0.9324	-3.2	4.5
Rates			
USD Libor 3m	1.7669	1.3	4.3
USD Libor 12m	2.2459	0.8	6.6
UAE Eibor 3m	1.8492	1.0	3.0
UAE Eibor 12m	2.6038	0.2	1.0
US 3m Bills	1.4115	-1.1	2.6
US 10yr Treasury	2.6599	0.0	10.6

Please refer to the disclaimer at the end of this publication

Summary market outlook

Bonds	
Global Yields	US treasury yields ended the week unchanged but remained volatile for most of the week as markets continue to price higher inflation. Upcoming FOMC meeting will be important in driving the sentiment in the bond market. Overall, we expect long-end US treasuries to remain resilient unless inflation surprises significantly on the upside.
Stress and Risk Indicators	The VIX levels jumped during the week but ended the week almost flat. However, volatility is unlikely to stay low given the backdrop of ongoing geopolitical risks.
Equity Markets	
Local Equity Markets	GCC equity market performed well, tracking the emerging market outperformance. Rise in oil prices and weaker dollar has helped the overall sentiment. 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 onto the MSCI watch list for potential promotion into the MSCI Emerging Markets index.
Global Equity Markets	Emerging market equities outperformed the most, benefitting from the weak dollar appetite. Dollar weakness also proved favourable for the US equities. S&P 500 closed 2.2% higher touching its 14th all-time high this year. However, stronger euro and yen versus the dollar reduced appeal of European and Japanese stocks, leading to their underperformance. 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 higher, tracking the decline in dollar demand. We remain overweight on gold as a risk hedge against ongoing political and (potential) inflationary risks.
Energy	Oil prices rallied as the weakness in dollar gained further momentum. WTI prices broke past the USD65/bbl level for the first time since 2014. 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 were mixed in spite of higher gold prices and weaker dollar. Longer-term we do not recommend industrial metals exposure due to concerns around Chinese growth prospects post the Party Congress.
Currencies	
EURUSD	The euro strengthened against the dollar due to overall dollar weakness. We expect the euro to remain under pressure as the US dollar regains ground.
Critical levels	R2 1.2575 · R1 1.2501 · S1 1.2359 · S2 1.2291
GBPUSD	The pound climbed to its strongest level since Brexit talk after the U.K. economy expanded more than forecast. We expect sterling to remain under pressure due to political uncertainty, economic weakness and Brexit negotiations.
Critical levels	R2 1.4378 · R1 1.4269 · S1 1.4067 · S2 1.3974
USDJPY	The yen strengthened versus the dollar on increased expectations of BoJ monetary policy normalisation. However, we believe there will remain a bias for yen weakness given divergent monetary policies between Japan and the US.
Critical levels	R2 110.36 · R1 109.47 · S1 107.98 · S2 107.39

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
01/29/2018	PCE Core YoY	Dec	1.50%	1.50%	All eye will be on FOMC meeting. Core PCE will also be closely tracked by the market.
01/31/2018	FOMC Meeting	31-Jan	No change	-	
02/01/2018	Markit US Manufacturing PMI	Jan F	55.5	55.5	
02/02/2018	Change in Nonfarm Payrolls	Jan	180k	148k	
02/02/2018	Unemployment Rate	Jan	4.10%	4.10%	
02/02/2018	Average Hourly Earnings MoM	Jan	0.30%	0.30%	
02/02/2018	Labor Force Participation Rate	Jan	--	62.70%	
02/02/2018	Univ. of Mich. Sentiment	Jan F	95	94.4	
02/02/2018	Durable Goods Orders	Dec F	--	2.90%	

Japan

	Indicator	Period	Expected	Prior	Comments
01/30/2018	Industrial Production MoM	Dec P	1.50%	0.50%	Industrial production, and japan PMI will be the main releases.
01/31/2018	Consumer Confidence Index	Jan	44.9	44.7	
01/31/2018	Nikkei Japan PMI Mfg	Jan F	-	54.4	

Eurozone

	Indicator	Period	Expected	Prior	Comments
01/30/2018	GDP SA QoQ	4Q A	0.60%	0.60%	Attention will be on CPI, PMI, and German retail sales.
01/30/2018	Consumer Confidence	Jan F	1.3	1.3	
01/31/2018	Retail Sales YoY (GE)	Dec	2.80%	4.40%	
01/31/2018	CPI YoY	Jan P	1.20%	1.20%	
01/31/2018	CPI Core YoY	Jan A	1.00%	0.90%	
02/01/2018	Markit Manufacturing PMI	Jan F	59.6	59.6	
02/02/2018	PPI YoY	Dec	2.30%	2.80%	

United Kingdom

	Indicator	Period	Expected	Prior	Comments
02/01/2018	Markit UK PMI Manufacturing SA	Jan	56.5	56.3	UK PMI manufacturing will be the mail focus.

China and India

	Indicator	Period	Expected	Prior	Comments
01/31/2018	Manufacturing PMI (CH)	Jan	51.5	51.6	All eyes will be on china PMI.
01/31/2018	Caixin China PMI Mfg (CH)	Jan	51.5	51.5	
02/01/2018	Nikkei PMI Mfg (IN)	Jan	-	54.7	

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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