

A strong start for risk assets

Risk assets kick started the year on a positive note, extending gains into the first week of this year amidst positive global growth sentiment. US equities reached new record highs with the Dow Jones breaking the 25,000 level. Energy stocks performed well, backed by the upsurge in oil prices while technology stocks also recorded gains. Japanese equities were the best performers with the Nikkei posting a 4.2% gain, partially driven by the yen depreciation. European equities ended the week on a positive note, tracking the rise in technology stocks. The implied volatility VIX Index - known as the "fear index" - dropped to a new record low. Safe-haven demand, however, remained resilient in the face of the risk-on sentiment. This was mainly on account of the Fed minutes, which again signaled patience in lifting rates, sticking to their gradual stance of hiking rates three times this year. In addition, nonfarm payrolls recorded a lower gain of 148K in December, putting a cap on 10yr US yields. As such, the dollar ended the week almost flat, slightly edging up from the early week lows. Elsewhere, oil prices had a stellar week, jumping to a new three-year high on concerns of possible supply disruptions due to tensions in Iran coupled with continuous decline recorded in US crude inventories.

Markets eagerly awaiting the US inflation release

While the Fed minutes did not reveal anything particularly new except for the central bank's cautious stance in raising rates too quickly, market expectations of a March rate hike further firmed up. More importantly, future inflation expectations as indicated by the 10yr US breakeven rose higher thus signaling that markets are betting on higher inflation this year. However, this is yet to be backed by economic data which still points to subdued inflation pressures. At the same time, the rise in inflation expectations does not coincide with the flattening of the yield curve. As such, the main focus this week will be the December CPI release scheduled on 12th January, Friday. The consensus is expecting a lower price gain in headline inflation while core inflation is expected to remain flat. Any further disappointment in inflation could reverse the recent jump in inflation expectations. Overall, we expect the long-term yields to remain fairly range-bound. Elsewhere, markets will also be occupied with the first set of US earning reports, due to begin this week. In emerging markets, attention will be on China economic releases, specifically inflation and exports. India CPI release will also be a key driver for the Indian equity and bond markets.

Past week global markets' performance

Index Snapshot (World Indices)

Index	Latest	Weekly Chg %	YTD %
S&P 500	2,743.2	1.8	2.6
Dow Jones	25,295.9	1.9	2.3
Nasdaq	7,136.6	1.9	3.4
DAX	13,319.6	3.5	3.1
Nikkei 225	23,714.5	4.2	4.2
FTSE 100	7,724.2	1.0	0.5
Sensex	34,153.9	1.0	0.3
Hang Seng	30814.6	1.0	3.0

Regional Markets (Sunday to Thursday)

Index	Latest	Weekly Chg %	YTD %
ADX	4548.4	2.4	3.4
DFM	3463.6	1.5	2.8
Tadaw ul	7277.1	1.5	0.7
DSM	8630.7	0.1	1.3
MSM30	5104.87	0.2	0.1
BHSE	1312.3	-0.7	-1.5
KWSE	6454.2	2.2	0.7

MSCI

Index	Latest	Weekly Chg %	YTD %
MSCI World	2,156.6	1.9	2.5
MSCI EM	1,201.0	2.0	3.7

Global Commodities, Currencies and Rates

Commodity	Latest	Weekly Chg %	YTD %
ICE Brent USD/bbl	67.6	1.6	1.1
Nymex WTI USD/bbl	61.4	1.8	1.7
Gold USD/t oz	1319.6	0.5	1.3
Silver USD/t oz	17.2	0.4	1.7
Platinum USD/t oz	969.3	2.7	4.4
Copper USD/MT	7097.0	-1.2	-0.8
Alluminium	2190.25	-2.8	-3.0

Currencies

Rate	Latest	Weekly Chg %	YTD %
EUR USD	1.2029	-0.1	0.2
GBP USD	1.3571	-0.1	0.4
USD JPY	113.05	0.7	0.3
CHF USD	0.9747	0.2	-0.0

Rates

Rate	Latest	Weekly Chg %	YTD %
USD Libor 3m	1.7039	0.4	0.6
USD Libor 12m	2.1495	1.9	2.0
UAE Eibor 3m	1.7650	-4.7	-1.7
UAE Eibor 12m	2.5617	-1.7	-0.6
US 3m Bills	1.3936	0.4	1.3
US 10yr Treasury	2.4763	0.5	2.9

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Summary market outlook

Bonds

Global Yields

10yr US treasury yield jumped higher on higher supply concerns and rise in inflation expectations. German bunds also sold off in spite of the disappointing inflation print. Overall, we expect long-end US treasuries to remain resilient unless inflation surprises significantly on the upside.

Stress and Risk Indicators

The VIX stayed low, dropping to a new record low last week in absence of any market surprises. However, volatility is unlikely to stay low given the backdrop of ongoing geopolitical risks.

Equity Markets

Local Equity Markets

GCC equity markets posted strong gains in the first short week of 2018, mainly helped by the continuous jump in oil prices. Overall, 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

Equity markets rallied going into the first week of the year, boosted by global growth optimism. Japanese markets performed the best on the back of yen depreciation. European equities were the second best performer, in spite of a flat euro, mainly helped by the rally in tech stocks. US equities also ended the week on a positive note with the S&P 500 rising by 1.8%. 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 slightly over the week, exhibiting resilience in a risk-on environment. We remain overweight on gold as a risk hedge against ongoing political and (potential) inflationary risks.

Energy

Oil prices edged higher, reaching a three year record high. Supply concerns added to the rally with the US crude inventories declining for the seventh straight week. Tensions in middle east also pushed the Brent crude prices higher. 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 had a mixed start in spite of flat 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 ended flat versus the dollar, after jumping to 4-month high early last week. We expect the euro to remain under pressure as the US dollar regains ground.

Critical levels



GBPUSD

The pound was mostly flat versus the dollar last week. We expect sterling to remain under pressure due to political uncertainty, economic weakness and Brexit negotiations.

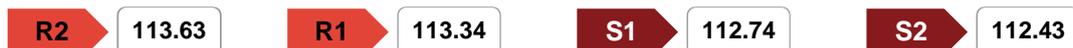
Critical levels



USDJPY

The yen weakened against the dollar amidst the risk-on environment. We believe there will remain a bias for yen weakness given divergent monetary policies between Japan and the US.

Critical levels



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
01/10/2018	MBA Mortgage Applications	5-Jan	--	0.70%
01/10/2018	Wholesale Inventories MoM	Nov F	0.70%	0.70%
01/12/2018	CPI YoY	Dec	2.10%	2.20%
01/12/2018	CPI EX Food and Energy YoY	Dec	1.70%	1.70%
01/12/2018	Retail Sales Advance MoM	Dec	0.50%	0.80%

Focus will be on CPI and retail sales advance.

Japan

Indicator	Period	Expected	Prior	Comments
01/11/2018	BoP Current Account Balance	Nov	¥1836.1b	¥2176b
01/11/2018	Trade Balance BoP Basis	Nov	¥314.1b	¥430.2b

BoP current account date and BoP trade balance will be important.

Eurozone

Indicator	Period	Expected	Prior	Comments
01/08/2018	Consumer Confidence	Dec F	0.5	0.5
01/08/2018	Retail Sales YoY	Nov	2.40%	0.40%
01/09/2018	Trade Balance	Nov	-4700m	-4956m
01/10/2018	Industrial Production YoY	Nov	2.80%	5.50%
01/10/2018	CPI YoY	Dec F	--	2.50%
01/10/2018	CPI Core YoY	Dec	2.40%	2.30%
01/11/2018	Retail Sales YoY	Dec F	1.20%	-2.10%

All eyes will be on Eurozone CPI, trade balance and retail sales.

United Kingdom

Indicator	Period	Expected	Prior	Comments
01/08/2018	Halifax House Prices MoM	Dec	0.20%	0.50%
01/10/2018	Industrial Production YoY	Nov	1.80%	3.60%
01/10/2018	NIESR GDP Estimate	Dec	0.50%	0.50%

House prices and industrial production are the main releases.

China and India

Indicator	Period	Expected	Prior	Comments
01/09/2018	CPI YoY (CH)	Dec	1.90%	1.70%
01/09/2018	Exports YoY (IN)	Dec	--	30.60%
01/12/2018	CPI YoY (IN)	Dec	--	4.88%
This week	Aggregate Financing CNY (CH)	Dec	1500.0b	1600.0b
This week	New Yuan Loans CNY (CH)	Dec	1000.0b	1120.0b
This week	Exports YoY (CH)	Dec	10.00%	12.30%

All eyes will be on china December foreign reserves, and export. In India the focus will be on CPI.

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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