The Weekly Market View

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After a period of risk-on, risk is off again

The exceptionally strong jobs numbers from the US on Friday 6 November proved not to be a precursor for further robust data last week. The combination of disappointing economic releases coupled with worries about the Federal Reserve raising interest rates mid-December weighed on global risk assets with equity markets and commodities hit especially hard. The S&P500 fell 3.6% during the week after six consecutive weeks of gains. Key European benchmarks followed suit, with the FTSE100 and the DAX shedding 3.7% and 2.5% respectively. Brent oil dropped 8% during the week, and now sits a mere $2 above its post-global financial crisis low point reached during the end of August market turmoil.

Renewed downturn or pause for breath?

We believe that last week's sell-off should be viewed in the context of the strong performance (of most financial markets) over the past month a half. Since the end of September the S&P500, the DAX and Chinese equities have risen 12%, 16% and 13% respectively, it is therefore not totally unexpected to see some consolidation take place. We believe that nothing has fundamentally changed during last week which would suggest a renewed sustained downturn. If nothing else, weaker than expected US macro data reaffirms our belief that the Federal Reserve will do everything possible to downplay the importance of their first rate hike in more than six years. We expect that when rates do go up (likely in December) that the accompanying statement will stress that the pace of hikes will be much more gradual than what was the case during previous hiking cycles, such that by the end of 2016 the policy rate would still be close to 1% "only". Coupled with the likelihood that the ECB will increase the scope of its easing measures in their December meeting suggest that for now we remain in an environment favourable for select equity markets. In particular we highlight Eurozone equities over US and Japanese equities.

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Past week global markets' performance

Index Snapshot (World Indices)

Index	Latest	Weekly Chg %	YTD %
S&P 500	2,023.0	-3.6	-1.7
Dow Jones	17,245.2	-3.7	-3.2
Nasdaq	4,927.9	-4.3	4.1
DAX	10,708.4	-2.5	9.2
Nikkei 225	19,596.9	1.7	12.3
FTSE 100	6,118.3	-3.7	-6.8
Sensex	25,610.5	-2.5	-6.9
Hang Seng	22396.1	-2.1	-5.1
Regional Markets (Sunday to Thursday)			
ADX	4200.2	-1.5	-7.3
DFM	3265.3	-5.4	-13.5
Tadawul	7083.4	1.8	-15.0
DSM	10830.3	-5.3	-11.8
MSM30	5848.41	-1.2	-7.8
BHSE	1233.9	-1.3	-13.5
KWSE	5766.4	-0.1	-11.8
MSCI			
MSCI World	1,654.3	-2.9	-3.2
MSCI EM	821.1	-3.7	-14.1

Global Commodities, Currencies and Rates

Commodity	Latest	Weekly Chg %	YTD %
ICE Brent USD/bbl	44.5	-8.0	-22.4
Nymex WTI USD/bbl	40.7	-8.0	-23.5
OPEC Baskt USD/bbl	40.2	-5.9	-22.7
Gold 100 oz USD/t oz	1083.9	-0.5	-8.5
Platimum USD/t oz	859.5	-8.7	-28.8
Copper USD/MT	216.8	-3.3	-23.3
Alluminium	1479.25	-2.2	-19.3
Currencies			
EUR	1.0773	0.3	-11.0
GBP	1.5237	1.2	-2.2
JPY	122.61	-0.4	-2.3
CHF	1.0061	0.1	-1.2
Rates			
USD Libor 3m	0.3636	6.5	42.3
USD Libor 12m	0.9361	3.9	48.9
UAE Eibor 3m	0.8289	-4.7	22.4
UAE Eibor 12m	1.2436	0.6	22.4
US 3m Bills	0.1169	53.8	229.3
US 10yr Treasury	2.2658	-2.6	4.4

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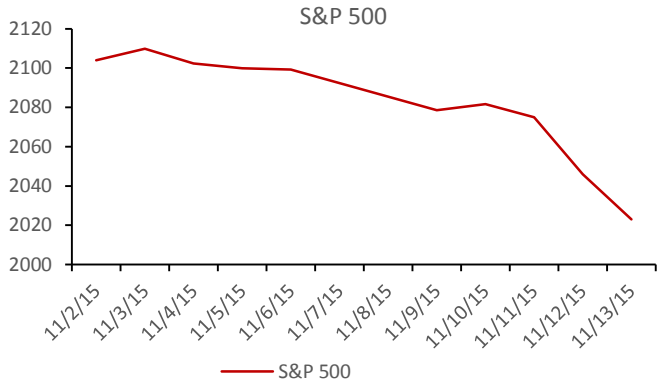
Both the Fed and the ECB increasingly likely to move in December…in opposite directions

Fed comments, not jobs data spooking the markets

It would be easy to attribute last week's poor equity market performance to the US job numbers which were released on Friday 6 November. However, on that day the S&P500 closed flat. When the market reopened on Monday the index lost 1% before finishing small up on Tuesday (+0.2%), hardly the type of moves which should suggest a jobs number related sell-off. The real downturn only happened on Thursday and Friday with the market falling 1.4% and 1.1% respectively with several voting and non-voting FOMC members lending support to the prospect of a December rate hike. New York Fed President William Dudley for example said in a speech on Thursday that an imminent rate hike was "quite possible".



Source: Bloomberg

Reaction to last week's macro data might suggest mind-set change

For a long time, US equity markets (but also other markets) have traded under the mantra "bad news is good news", i.e. disappointing macro data has boosted hopes that the Fed will postpone any monetary tightening plans, or even ease further. In this context the reaction to Friday's weaker than expected US retail sales numbers was interesting. The market had expected headline sales for the month of October to rise 0.3% from the previous month. Instead the data showed a mere 0.1% rise. Of course it is difficult to disentangle exactly what impact the retail sales number had on the equity market. However, it is possible that the Fed is gradually succeeding in convincing the market that a rate rise now really is imminent and weaker than expected data should no longer be viewed positively. This mind-set won't change from one data point to the next, nonetheless, it would be an important development.

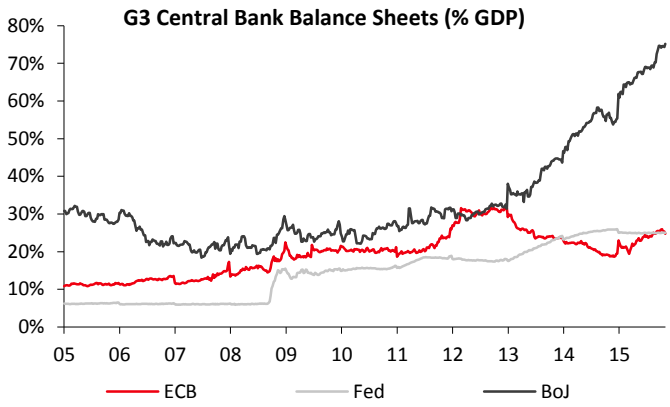
As an aside, the University of Michigan consumer sentiment gauge was also released and was stronger than expected. We have been assigning less weight to this indicator as it has remained at elevated levels for some time. The detail within the survey was arguably more interesting, it showed that income expectations reached their highest level in five-years. This comes on the back of the non-farm payrolls release which showed wage growth of 2.5% for the first time since 2009. A decent pace of wage growth in the US is a cornerstone of our view that US corporate margins are unlikely to increase further (from already very high levels currently).

European data calls for more stimulus?

Eurozone economic data released on Friday showed that growth in the common currency bloc slowed to 0.3% in Q3 from 0.5% in Q2. By country, Germany and France both grew 0.3% while Italy disappointed and grew only 0.2%. The releases largely came in below consensus expectations and were preceded by ECB President Mario Draghi stating on Thursday that the bank's governing council will "re-examine the degree of monetary policy accommodation" at the December 3 meeting. Yields on Eurozone government bonds declined as a result, although Draghi's words were not enough to prevent European equities from following US markets down.

QE in context

In the long-run we have serious worries about the repercussions of the experimental monetary policy in which many global central banks have engaged since the global financial crisis. Indeed, in the note we published recently outlining our negative view on Japanese equities (see link: Why we are UW Japanese equities) we made the point that the BoJ is the closest to reaching the "limits" of QE. However in the near-term there is still scope, especially in Europe for additional stimulus. The chart below shows that the BoJ's balance sheet at around 75% of GDP dwarfs that of the Fed and ECB. Looking at the G3 central banks in the coming few months we believe that the Fed will tighten, albeit very moderately, the BoJ will stay on hold and the ECB will expand its asset purchase program. As obvious as it sounds, this will have a significant impact on the performance of global equities in the near-to-medium term and supports our overweight Eurozone equities position.



Source: Central Banks, Bloomberg, IMF (2015 GDP estimates), Thomson Reuters Datastream, HSBC calculations

Summary market outlook

Global Yields	US sovereign yields witnessed a reversal mainly due to disappointing retail sales data. Yields could go lower a little further in the absence of any important data releases this week. European sovereign yields also reversed its trend and eased. With slower third quarter growth number, we expect yields to move further lower.
Stress and Risk Indicators	Slower growth concerns and selloff in the US equity market pushed VIX higher. Sovereign CDS spreads, particularly for EMs were largely stable with a slight upward bias. We suspect that the risk indicators will remain elevated in the very near term.
Precious Metals	Gold prices trended further lower last week with no inflation in sight and growth concerns clouding the demand outlook, especially physical demand for Jewelry and bar. We remain cautious on the precious metal space.
Local Equity Markets	GCC equity markets with exception of Saudi bourse remained under pressure due to lower oil price. A further cut in the oil price over the weekend (Thu-Fri) is likely to continue the pressure on stock prices in the region in the near term.
Global Equity Markets	Global equity markets came under pressure from the slower growth concerns and the stronger dollar. In the absence of any major data releases this week, the trend could continue if the greenback appreciates further.
Energy	Oil price came under a fresh pressure last week on global growth concerns, the stronger dollar and probably IEA statement about the oil inventory. The market reaction was sharp so we do not rule out a rebound in the very near term. However, we caution inventors for taking positions in such a volatile market.
Industrial Metals	Industrial metal prices continue to come down on the back of the strong greenback and uncertainty around the EM's growth, in particular China's.

Currencies	**Commentary**	**Critical levels**
EURUSD	The euro remained largely in a range last week after a sharp leg down in the previous week. This reflects underlying depreciating pressure on the currency. We expect the currency to be stable with downward bias in the very near term.	R2 - 1.0914 R1 - 1.0844 S1 - 1.0689 S2 - 1.0604
GBPUSD	The pound recovered some lost ground after a decline in the previous week owing to stronger job data in the US. This shows that there is no one way bet the currency pair. Having said that, the Fed taking a lead in the rate hike over BoE, the pound is likely to come under mild depreciation pressure now and then.	R2 - 1.5403 R1 - 1.5320 S1 - 1.5098 S2 - 1.4959
USDJPY	The Japanese yen also gained some ground from its recent lows. This reflects that the currency is unlikely to go significantly in either direction from the current level/range.	R2 – 124.04 R1 – 123.33 S1 – 122.17 S2 – 121.72

Forthcoming important economic data

United States

	Indicators	Period	Expected	Prior	Comments
11/17/2015	CPI Ex Food and Energy YoY	Oct	1.9%	1.9%	Wide range of data from industrial to housing to inflation will give a sense of economic momentum in the US.
11/17/2015	Industrial Production MoM	Oct	0.1%	-0.2%	
11/17/2015	Capacity Utilization	Oct	77.5%	77.5%	
11/17/2015	NAHB Housing Market Index	Nov	64	64	
11/18/2015	Housing Starts	Oct	1160k	1206k	
11/19/2015	Leading Index	Oct	0.5%	-0.2%	

Japan

	Indicators	Period	Expected	Prior	Comments
11/16/2015	GDP Annualized QoQ	3Q P	-0.2%	-1.2%	Markets will see if there is significant revision in the third quarter growth.
11/16/2015	Private Consumption QoQ	3Q P	0.4%	-0.7%	
11/19/2015	Trade Balance	Oct	-¥250 bn	-¥115 bn	
11/19/2015	Exports YoY	Oct	-2%	0.5%	
11/19/2015	All Industry Activity Index MoM	Sep	0.2%	-0.2%	

Euro zone

	Indicators	Period	Expected	Prior	Comments
11/16/2015	CPI MoM	Oct	0.1%	0.2%	Inflation and ZEW surveys are going to be the market focus.
11/16/2015	CPI Core YoY	Oct F	1.0%	1.0%	
11/16/2015	ZEW Survey Expectations (GE)	Nov	6.0	1.9	
11/17/2015	ZEW Survey Expectations	Nov	NA	30.1	

China and India

	Indicators	Period	Expected	Prior	Comments
11/16/2015	Exports YoY (India)	Oct	NA	-24.3%	With no China data release this week, market will focus on be economic releases from India.
11/16/2015	Imports YoY (India)	Oct	NA	-25.4%	
11/16/2015	Trade Balance (India)	Oct	-$11.05 bn	-$10.5 b	
11/16/2015	Wholesale Prices YoY (India)	Oct	-3.88%	-4.54%	

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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