



Global Markets Update

QNB Economics
24 September 2017

Executive Summary

Key Takeaways

- **Most global yields rose after the US Federal Reserve maintained projections for another rate hike this year despite concerns about low inflation**
- **The US dollar rose on prospects of tighter Fed policy; the Turkish lira weakened on concerns related to the Kurdish independence vote in Iraq**
- **Japanese equities rose on a weaker Yen after the Bank of Japan maintained its policy rate but some members argued for further easing**
- **Oil prices rose on firming expectations that OPEC might extend its output cuts in 2018**
- **This week, market attention will likely be focused on the Fed's most watched inflation measure – core PCE**

Most global yields rose after the US Federal Reserve maintained projections for another rate hike this year despite concerns about low inflation

Global Benchmark Yields (% , local currencies)

	Maturity	15-Sep	22-Sep	Change in Yield (bps)		
Advanced Economies				Week	MTD*	YTD*
US	10 yrs	2.20	2.25	4.8	13.3	-19.4
Germany	10 yrs	0.43	0.45	1.4	8.6	23.9
France	10 yrs	0.71	0.73	2.2	7.0	4.6
Italy	10 yrs	2.08	2.11	2.9	6.2	29.2
Japan	10 yrs	0.03	0.03	0.5	2.5	-1.2
UK	10 yrs	1.31	1.36	4.6	32.1	11.6
Emerging Markets						
Bahrain**	11 yrs	6.59	6.69	10.0	11.0	-0.4
Brazil	10 yrs	9.81	9.65	-15.6	-32.5	-175.1
China	10 yrs	3.61	3.62	1.8	-3.6	56.3
Egypt	9 yrs	5.88	6.07	19.0	-71.1	NA
India	10 yrs	6.60	6.66	6.6	13.8	14.8
Indonesia	10 yrs	6.52	6.43	-9.6	-26.8	-154.6
Nigeria	8 yrs	16.38	16.17	-21.1	-52.9	7.9
Qatar**	9 yrs	3.29	3.33	4.5	6.5	-32.7
Russia	9 yrs	7.53	7.56	3.0	-18.5	-80.0
Saudi Arabia**	9 yrs	3.30	3.41	10.9	21.2	-46.0
South Africa	10 yrs	8.41	8.46	5.3	-11.3	-46.5
Turkey	10 yrs	10.71	10.99	28.0	37.0	-40.0
Abu Dhabi**	9 yrs	2.83	2.85	2.7	-1.0	-47.8
Dubai**	3 yrs	2.46	2.56	9.6	3.7	-33.0

- Last week the Fed kept its benchmark policy rate unchanged but FOMC members surprised by maintaining projections for another rate hike in 2017
- The market probability of a December hike is now 63% versus 47% the week prior
- The Fed also announced it would begin allowing bonds purchased as part of quantitative easing to mature without reinvestment next month
- Brazilian yields dropped on expectations of monetary easing after the central bank cut inflation forecasts

Legend

> 2 standard deviation fall in yields

> 1 standard deviation fall in yields

< 1 standard deviation change in yields

> 1 standard deviation rise in yields

> 2 standard deviation rise in yields

The US dollar rose on prospects of tighter Fed policy; the Turkish lira weakened on concerns related to the Kurdish independence vote in Iraq

Global Exchange Rates vs USD

	15-Sep	22-Sep	Change (%)		
Advanced Economies			Week	MTD	YTD
US Dollar Index	91.87	92.17	0.3	-0.5	-9.8
Euro Area*	1.19	1.20	0.1	0.3	13.6
Japan	110.83	111.99	-1.0	-1.8	4.4
UK*	1.36	1.35	-0.7	4.4	9.4
Emerging Markets					
Brazil	3.11	3.13	-0.5	0.8	4.2
China	6.55	6.59	-0.6	0.0	5.4
Egypt	17.64	17.66	-0.1	-0.1	2.7
Indonesia	13,240	13,312	-0.5	0.2	1.2
India	64.08	64.80	-1.1	-1.4	4.8
Kuwait	0.30	0.30	-0.1	0.1	1.4
Nigeria	354.49	353.99	0.1	0.4	-10.9
Russia	57.53	57.50	0.1	0.9	7.0
Turkey	3.44	3.50	-1.7	-1.2	0.8
South Africa	13.16	13.25	-0.7	-1.9	3.7
UAE	3.67	3.67	PEGGED		
Bahrain	0.38	0.38			
Oman	0.39	0.39			
Qatar	3.67	3.70			
Saudi Arabia	3.75	3.75			

- The stronger dollar led to a decline in most other currencies vs USD
- Iraq's Kurdish Regional Government will hold a referendum for independence on Monday; markets are concerned about the regional fallout of a yes vote

Legend

- > 2 standard deviation strengthening of currency
- > 1 standard deviation strengthening of currency
- < 1 standard deviation change in currency
- > 1 standard deviation weakening of currency
- > 2 standard deviation weakening of currency

Japanese equities rose on a weaker Yen after the Bank of Japan maintained its policy rate but some members argued for further easing

Global Equity Indices

	15-Sep	22-Sep	Change (%)		
			Week	MTD	YTD
Advanced Economies					
US (S&P 500)	2,500	2,502	0.1	1.2	11.8
Europe (STOXX 50)	3,516	3,541	0.7	3.5	7.6
Japan (Nikkei 225)	19,807	20,296	2.5	3.3	6.2
UK (FTSE 100)	7,215	7,311	1.3	-1.6	2.3
Emerging Markets					
Bahrain (BB)	1,304	1,308	0.3	0.4	7.2
Brazil (IBOVESPA)	75,757	75,390	-0.5	6.4	25.2
China (Shanghai)	3,354	3,353	0.0	-0.2	8.0
Egypt (EGX 30)	13,611	13,695	0.6	2.1	10.9
India (CNX NIFTY)	10,085	9,964	-1.2	0.5	21.7
Indonesia (Jakarta)	5,852	5,912	1.0	0.8	11.6
KSA (Tadawul)	7,373	7,326	-0.6	0.9	1.6
Kuwait (KSE)	6,914	6,849	-0.9	-0.6	19.2
Nigeria (All Share)	35,660	35,489	-0.5	0.0	32.1
Oman (Muscat 30)	5,002	5,100	2.0	0.9	-11.8
Qatar (Doha 20)	8,409	8,361	-0.6	-5.0	-19.9
Russia (MICEX)	2,054	2,052	-0.1	1.5	-8.1
S.Africa (J'burg 40)	49,275	49,565	0.6	-0.9	12.9
Turkey (Istanbul 100)	107,742	104,123	-3.4	-5.4	33.3
UAE (Abu Dhabi)	4,481	4,455	-0.6	-0.3	-2.0
UAE (Dubai)	3,657	3,633	-0.7	-0.1	2.9

- At last week's BoJ meeting, policy was maintained on a 8-1 vote; the lone dissenter was in favour in more easing, the first dissent for further easing in years
- Geopolitical tensions and fed tightening weighed on Turkish equities

Legend

> 2 standard deviation rise in equity index

> 1 standard deviation rise in equity index

< 1 standard deviation change in equity index

> 1 standard deviation fall in equity index

> 2 standard deviation fall in equity index

Oil prices rose on firming expectations that OPEC might extend its output cuts in 2018

Commodity Prices*

	15-Sep	22-Sep	Change (%)		
Energy			Week	MTD	YTD
Brent	55.6	56.9	2.2	8.6	0.1
WTI	49.9	50.7	1.5	7.3	-5.7
Precious Metals					
Gold	1,320	1,297	-1.7	-1.8	13.1
Silver	17.6	17.0	-3.4	-3.3	6.7
Industrial					
Copper	6,507	6,457	-0.8	-4.9	16.6
Steel	625	625	0.0	-0.2	6.3
Aluminum	2,086	2,158	3.5	1.9	27.5
Wheat	449	450	0.1	9.6	10.2
Corn	355	354	-0.4	3.3	0.4
Cocoa	2,009	1,983	-1.3	0.9	-6.7

- US crude inventories rose by 4.6m barrels (3.8m expected and 5.9m in the prior week)
- US gasoline inventories declined by -2.1m barrels (-2.1m expected and -8.4m in the prior week)

Legend

- > 2 standard deviation rise in price
- > 1 standard deviation rise in price
- < 1 standard deviation change in price
- > 1 standard deviation fall in price
- > 2 standard deviation fall in price

This week, market attention will likely be focused on the Fed's most watched inflation measure – core PCE

Data Review

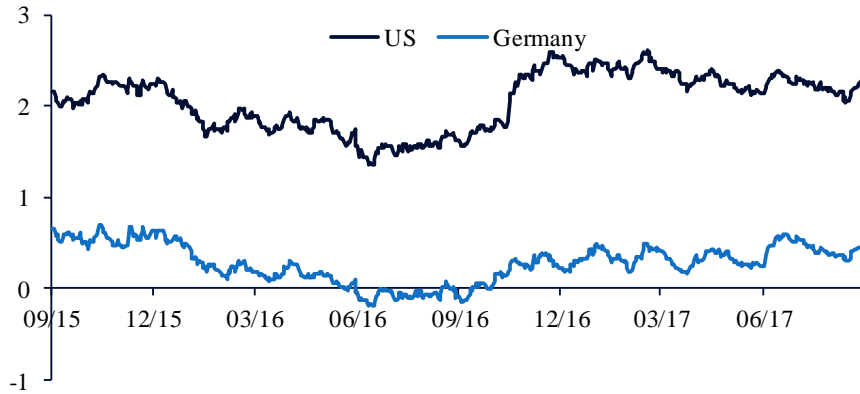
Date	Country	Event	Period	Consensus	Actual	Previous
Sep 20	UK	Retail Sales YoY	Aug	1.1%	2.4%	1.3%
Sep 22	UK	PM Theresa May Brexit Speech				
Sep 21	Japan	BoJ Policy Balance Rate	Sep	-0.10%	-0.10%	-0.10%
Sep 20	US	FOMC Rate Decision	Sep	1.25%	1.25%	1.25%
Sep 22	US	Manufacturing PMI	Sep P	53.0	53.0	52.8

Forthcoming Economic Events

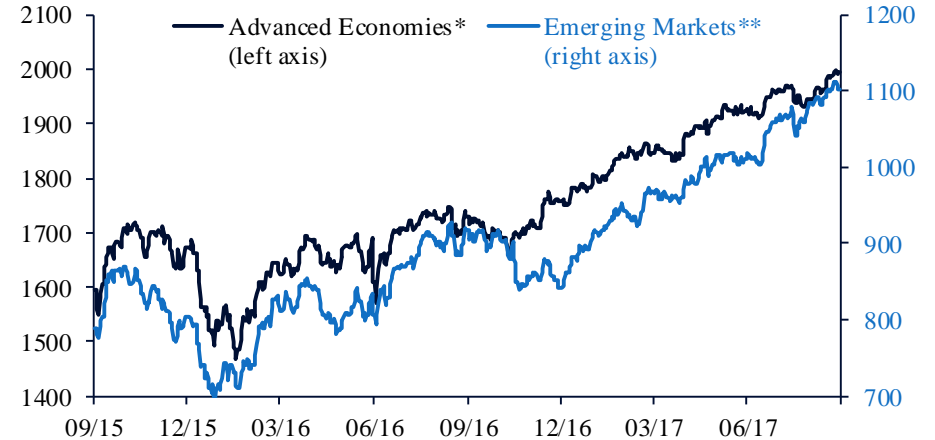
Date	Country	Event	Period	Consensus	Actual	Previous
Sep 25	Japan	Nikkei Japan PMI Manufacturing	Sep			52.2
Sep 25	Iraq	Kurdish Independence Referendum				
Sep 27	US	Durable Goods Orders	Aug	1.0%		-6.8%
Sep 28	US	Intial Jobless Claims	Sep-23	270k		259k
Sep 29	Euro Area	CPI Estimate YoY	Sep	1.6%		1.5%
Sep 29	US	Core PCE YoY	Sep	1.4%		1.4%
Sep 29	China	Caixin China PMI Manufacturing	Sep	51.7		51.7

Two-Year Performance of Major Asset Classes

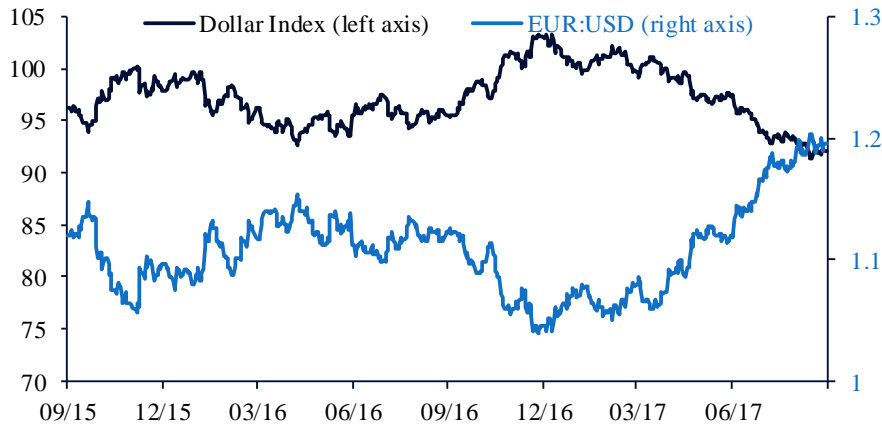
Sovereign 10-Year Bond Yields



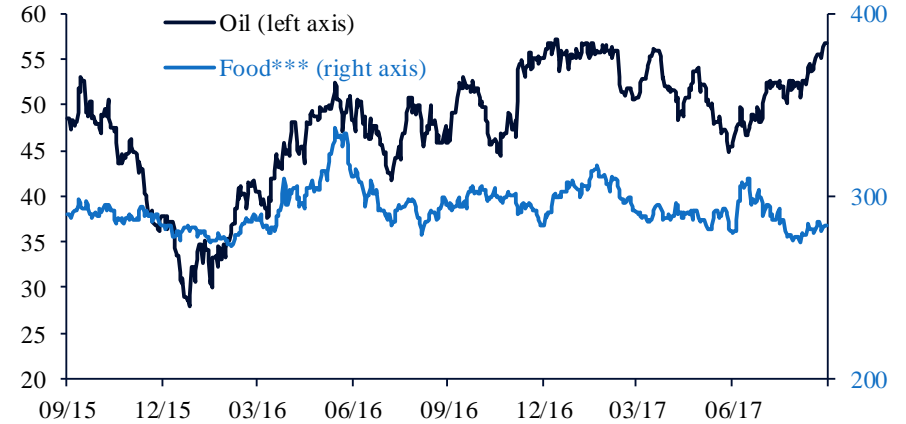
Equities



Exchange Rates



Commodities



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