The Weekly Market View

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Markets are taking a pause

Stalling US fiscal stimulus negotiations, increasing concerns for a no-deal Brexit, as well as the US Federal Trade Commission's lawsuit against Facebook provided a perfect excuse for markets to take a pause. Not surprisingly, US Treasury yields came marginally down and the VIX Index rose. Global equity benchmark (MSCI ACWI) posted losses last week after five straight weeks of gains. Over the last week, EM outperformed DM. Within DM, Eurozone equities underperformed the most. UK equities remained flat in local currency terms. GCC equity markets ended the week mixed despite continuing strength in oil prices. UAE equities outperformed the most helped by optimism around the return of tourists and also the approval of Sinopharm vaccine. Precious metals were flat to down in a week that saw little movement on the currencies. Only the Pound Sterling lost significant ground because of the no-deal Brexit concerns. Metal prices slumped after six impressive weeks. We suspect that 2020 will still see a compromise between Republicans and Democrats on fiscal relief, sufficient to keep up consumer spending during what promises to be a tough COVID-19 winter. The acceleration in vaccinations should further boost the global economic normalization. As for Brexit, a deal looks increasingly at risk, but will be less harmful for global equity markets than for European economies, and the UK economy in particular. It should also be less disastrous for large cap UK equities since these companies are mostly exposed to the global economy.

Facebook time

The US Federal Trade Commission (FTC) – together with 48 US Attorney Generals - is now trying to force Facebook to divest Instagram and WhatsApp. This is of course no minor deal given that 50% of Facebook's 2021 advertisement revenues are expected to come from Instagram. Interestingly the price of Facebook fell less than 2% when the news broke. For one thing, the lawsuit triggered by the FTC is likely to be a long affair and the outcome far from clear. For another, any divestiture will involve Facebook shareholders receiving a stake in the newly independent Instagram and WhatsApp. Here again, this is an unprecedented anti-trust case. Not only is the final winner (FTC or Facebook) unclear, but it is also impossible to assess under what conditions the judge would order any divestiture if it were to take place. Nevertheless, the accusation that Facebook's behaviour towards rivals, forcing them to sell out of foregoing access to Facebook's platform and data, is a serious one. Such behaviour will make it easier for the FTC to argue that Facebook has been able to extract more data from the consumer because it had less competition. Moreover amongst both Democrats and Republicans there is unhappiness about how Facebook – together with other social media platforms – is managing the news, including so-called fake news. From our investors' perspective, we would argue that US anti-trust procedures have always aimed at protecting competition, i.e. the market, rather than killing it. If this is true, then any loss to Facebook might result in gains for Google, Snap, Twitter, Microsoft and potentially many others. In other words, the fact that some of the biggest social media platforms will come under pressure is not necessarily a bad sign for the overall market, or the so-called New Economy stocks. On the contrary, it might clean the air and inject some fresh blood (read competition).

Global markets' performance snapshot

Index Snapshot (World Indices)

Index	Latest	Weekly %	YTD %
S&P 500	3,663	-1.0	13.4
Dow Jones	30,046	-0.6	5.3
Nasdaq	12,378	-0.7	38.0
DAX	13,114	-1.4	-1.0
Nikkei 225	26,818	-0.4	12.7
FTSE 100	6,547	-0.1	-13.2
Sensex	46,099	2.3	11.7
Hang Seng	26,506	-1.2	-6.0
Regional Markets (Sunday to Thursday)			
ADX	5,109	2.9	0.7
DFM	2,547	5.3	-7.9
Tadawul	8,644	-0.4	3.0
DSM	10,446	-0.2	0.2
MSM30	3,607	-0.9	-9.4
BHSE	1,490	-0.4	-7.4
KWSE	5,560	0.3	-11.5
MSCI			
MSCI World	2,629	-0.7	11.2
MSCI EM	1,255	0.5	12.8

Global Commodities, Currencies and Rates

Commodity	Latest	Weekly %	YTD %
ICE Brent USD/bbl	50.0	1.5	-24.3
Nymex WTI USD/bbl	46.6	0.7	-23.7
Gold USD/t oz	1,839.9	0.1	21.3
Silver USD/t oz	24.0	-1.0	34.2
Platinum USD/t oz	1,012.8	-4.5	4.8
Copper USD/MT	7,712.0	-0.0	25.7
Alluminium	2,048.5	-1.3	12.2
Currencies			
EUR USD	1.21	-0.1	8.0
GBP USD	1.32	-1.6	-0.2
USD JPY	104.04	-0.1	-4.4
CHF USD	0.89	-0.2	8.6
Rates			
USD Libor 3m	0.22	-2.8	-88.5
USD Libor 12m	0.33	-0.7	-83.2
UAE Eibor 3m	0.46	38.4	-79.2
UAE Eibor 12m	0.76	26.7	-66.8
US 3m Bills	0.06	-13.8	-95.9
US 10yr Treasury	0.90	-7.2	-53.3

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Summary market outlook

Global Yields	US Treasury (USTs) yields slipped back down to 0.9%, as US fiscal relief negotiations dragged on. We remain long duration on USTs as overall economic outlook remains mixed and is likely to remain so with rising COVID19 infection rates.
Stress and Risk Indicators	The VIX Index jumped moderately towards the end of the week. Drivers of this move are likely the stall in US fiscal negotiations, the increasingly troublesome outlook for a Brexit deal, as well as perhaps the US Federal Trade Commission lawsuit against Facebook. We would suspect the VIX Index to continue to stabilize over the next weeks and months, but to remain at elevated levels at least as long as the US power transition is completed and some clarity emerges on US fiscal policy.
Equity Markets	
Local Equity Markets	GCC equity markets ended the week mixed despite strength in oil prices. UAE equities outperformed the most helped by optimism around the return of tourists and also the approval of Sinopharm vaccine. We remain neutral GCC equities within our global equity framework. Stable to higher oil prices, potential for revival in growth and recent underperformance are all balanced by lack of structural growth plays in the equity market.
Global Equity Markets	Global equity benchmark (MSCI ACWI) posted losses last week after five straight weeks of gains. Stimulus uncertainty in the US along with rising virus case count appear to have slowed the equity market slightly after a strong November. Over the last week, EM outperformed DM. Within DM, Eurozone equities underperformed the most. UK equities remained flat in local currency terms. With the virus rampant and the uncertainty around who gets a majority in the US Senate persisting, we remain watchful of near-term risks. However, we are constructive on the outlook over the 12-month horizon. Our equity strategy is to overweight US and UK, and underweight Eurozone and EM outside Asia. We are neutral Asia and prefer structural growth opportunities there. By sector we prefer IT and Communication services as long-term plays and energy as a cyclical play. We have also identified industry level opportunities to play the vaccine availability in the medium-term. Our preference is for large cap non-cyclical growth with focus on quality.
Commodities	
Precious Metals	Precious metals were flat to down in a week that saw little movement on the currencies. We remain overweight gold as a hedge against general risks, but we are not particularly bullish over the next weeks and months.
Energy	Oil prices kept on moving higher as increasing news of successful vaccines continues to stoke hopes for global economic normalization. Oil prices are likely to remain sustained as the market is roughly balanced in terms of demand versus supply.
Industrial Metals	Industrial metals took a breather after 6 weeks of impressive rises. We do not recommend industrial metals exposure as China structurally reigns in demand.
Currencies	
EURUSD	The EUR was broadly flat against the USD. We expect the EUR to remain stable, with some upward potential in case Congress will strike a deal on more fiscal stimulus from the US.
Critical levels	R2 1.2185 · R1 1.2148 · S1 1.2090 · S2 1.2069
GBPUSD	In an uneventful forex week cable was down as fears of a no-Brexit deal rose significantly. We still see the EU and the UK striking a deal, but admit that the chances have come down. This would be bad for the Pound Sterling.
Critical levels	R2 1.3418 · R1 1.3321 · S1 1.3131 · S2 1.3038
USDJPY	JPY was broadly flat against the USD. The risk-on context is not favourable for the JPY, which will facilitate BoJ’s intention to keep it weak if necessary through further yield curve targeting.
Critical levels	R2 104.51 · R1 104.27 · S1 103.81 · S2 103.59

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

Forthcoming important economic data/events

United States

	Indicator	Period	Expected	Prior	Comments
12/15/20	Industrial Production MoM	Nov	0.30%	1.10%	PMI Indicators will be watched as they are expected to recede with the rise in infections. Housing starts and Initial Jobless claims will be important too.
12/16/20	Retail Sales Advance MoM	Nov	-0.30%	0.30%	
12/16/20	Markit US Manufacturing PMI	Dec P	55.8	56.7	
12/16/20	Markit US Services PMI	Dec P	56.0	58.4	
12/16/20	FOMC Rate Decision	16-Dec	0.00%-0.25%	0.00%-0.25%	
12/17/20	Philadelphia Fed Business Outlook	Dec	20.0	26.3	
12/17/20	Housing Starts	Nov	1,533k	1,530k	
12/17/20	Initial Jobless Claims	12-Dec	823k	853k	

Japan

	Indicator	Period	Expected	Prior	Comments
12/14/20	Tankan Large Mfg Index	4Q	-15	-27	PMIs will be in the spotlight.
12/14/20	Industrial Production MoM	Oct F	--	3.80%	
12/16/20	Jibun Bank Japan PMI Mfg	Dec P	--	49.0	
12/16/20	Jibun Bank Japan PMI Services	Dec P	--	47.8	
12/18/20	Natl CPI YoY	Nov	-0.80%	-0.40%	
12/18/20	BOJ Policy Balance Rate	18-Dec	--	-0.10%	

Eurozone

	Indicator	Period	Expected	Prior	Comments
12/14/20	Industrial Production WDA YoY	Oct	-4.2%	-6.8%	PMIs and IFO will be in the spotlight.
12/16/20	Markit Eurozone Manufacturing PMI	Dec P	53.0	53.8	
12/16/20	Markit Eurozone Services PMI	Dec P	41.9	41.7	
12/17/20	EU27 New Car Registrations	Nov	--	-7.8%	
12/17/20	CPI YoY	Nov F	-0.3%	-0.3%	
12/18/20	Germany IFO Business Climate	Dec	90.0	90.7	

United Kingdom

	Indicator	Period	Expected	Prior	Comments
12/15/20	Jobless Claims Change	Nov	--	-29.8k	PMIs will be in the spotlight.
12/15/20	ILO Unemployment Rate 3Mths	Oct	5.1%	4.8%	
12/16/20	CPI YoY	Nov	0.6%	0.7%	
12/16/20	Markit UK PMI Manufacturing SA	Dec P	55.9	55.6	
12/16/20	Markit/CIPS UK Services PMI	Dec P	50.5	47.6	
12/17/20	Bank of England Bank Rate	17-Dec	0.1%	0.1%	
12/18/20	Retail Sales Ex Auto Fuel YoY	Nov	4.1%	7.8%	

China and India

	Indicator	Period	Expected	Prior	Comments
12/14/20	India Wholesale Prices YoY	Nov	1.70%	1.48%	China Industrial Production, Retail Sales, and Fixed Assets Formation will be key to assess the strength of the country's current cyclical upswing.
12/14/20	India CPI YoY	Nov	7.20%	7.61%	
12/15/20	China Industrial Production YoY	Nov	7.00%	6.90%	
12/15/20	China Retail Sales YoY	Nov	5.00%	4.30%	
12/15/20	China Fixed Assets Ex Rural YTD YoY	Nov	2.60%	1.80%	
12/15/20	China Surveyed Jobless Rate	Nov	5.20%	5.30%	

Sources

All information in this report has been obtained from the following sources except where indicated otherwise:

1. Bloomberg
2. Wall Street Journal
3. RTT News
4. Reuters
5. Gulfbase
6. Zawya

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