

EMs in line with the US for a muted first quarter growth

Activity indicators in Emerging Markets (EMs) suggest that not only US, but also major EMs are going to witness similar muted growth. Business sentiment indicators (PMIs) have largely been weak while industrial production mixed-to-weak in recent months in EMs. Exports have got little support due to anemic growth in the developed world. According to Institute of International Finance (IIF), the first quarter EM growth is likely to be slowest since early 2009. The EM group is expected to grow at 1.8% QoQ annualized (IIF forecast), almost half of the growth rate in the previous quarter. We expect the global low inflationary environment and subdued oil price will help contain domestic inflation in many EMs which in turn will induce monetary easing in those economies. India, Indonesia and Turkey, having relatively higher inflation and interest rates, are likely to see this transition.

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Earnings announcements important for equity markets

A slew of important economic data are scheduled to be released this week which will have impact on the global financial markets. Moreover, earnings announcements from major companies will also have an influence on the direction of the equity market in particular. Consumer related data releases will show if there was any recovery in household spending in the US in March after disappointing first two months. Foreign trade data from EMs will show if slower growth in developed countries continued to impact foreign demand for their goods.

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Past week global markets' performance

Index Snapshot (World Indices)				Global Commodities, Currencies and Rates			
Index	Latest	Weekly Chg %	YTD %	Commodity	Latest	Weekly Chg %	YTD %
S&P 500	2,102.1	1.7	2.1	ICE Brent USD/bbl	57.9	5.3	0.9
Dow Jones	18,057.7	1.7	1.3	Nymex WTI USD/bbl	51.6	5.1	-3.1
Nasdaq	4,996.0	2.2	5.5	OPEC Baskt USD/bbl	53.5	1.1	2.9
DAX 40	12,374.7	3.4	26.2	Gold 100 oz USD/t oz	1207.6	0.1	2.0
Nikkei 225	19,907.6	2.4	14.1	Platinum USD/t oz	1172.6	1.4	-2.9
FTSE 100	7,089.8	3.8	8.0	Copper USD/MT	273.4	0.0	-3.2
Sensex	28,879.4	2.2	5.0	Alluminium	1770.5	-0.8	-3.4
Hang Seng	27272.4	7.9	15.5	Currencies			
Regional Markets (Sunday to Thursday)				EUR	1.0604	-3.3	-12.3
ADX	4555.5	0.5	0.6	GBP	1.4632	-1.9	-6.1
DFM	3785.3	2.4	0.3	JPY	120.22	1.1	-0.4
Tadaw ul	9021.3	4.2	8.3	CHF	0.9791	2.9	1.6
DSM	11990.2	1.9	-2.4	Rates			
MSM30	6262.9	-0.3	-1.3	USD Libor 3m	0.2770	1.2	8.4
BHSE	1440.6	0.5	1.0	USD Libor 12m	0.6984	0.9	11.1
KWSE	6291.4	1.1	-3.7	UAE Eibor 3m	0.7386	-0.2	9.1
MSCI				UAE Eibor 12m	1.0629	0.3	4.6
MSCI World	1,779.5	1.7	4.1	US 3m Bills	0.0152	50.0	-57.2
MSCI EM	1,034.6	4.0	8.2	US 10yr Treasury	1.9473	5.9	-10.3

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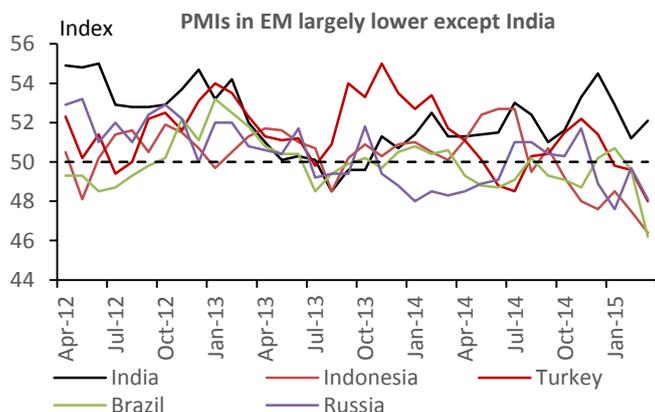
US slowdown and weak euro not good for emerging markets

EMs outlook converging with DM

We have been highlighting the slowdown in the US economic activity and expecting a muted first quarter growth in the largest economy. However, the slowdown story is not limited to the US only as economic indicators in major Emerging Markets (EMs) are also pointing towards a muted growth in the first quarter. Business sentiment indicators (PMIs) have largely been weak while industrial production mixed-to-weak in recent months. Exports have got little support due to anaemic growth in the developed world. According to Institute of International Finance (IIF), the first quarter EM growth is likely to be slowest since early 2009. The EM group is expected to grow at 1.8% QoQ annualized (IIF forecast), almost half of the growth rate in the previous quarter.

PMIs in the four out of five countries have been below 50 mark, irrespective of the country being energy/commodity exporters or importers. Only India stands out where the indicator has picked-up slightly. Having said that, we reiterate that country's growth pick-up is also likely to be modest. Reserve Bank of India stayed put during its meeting last week. At the same time, the central bank's governor hinted that high growth numbers put out with the new GDP series were likely to be revised down.

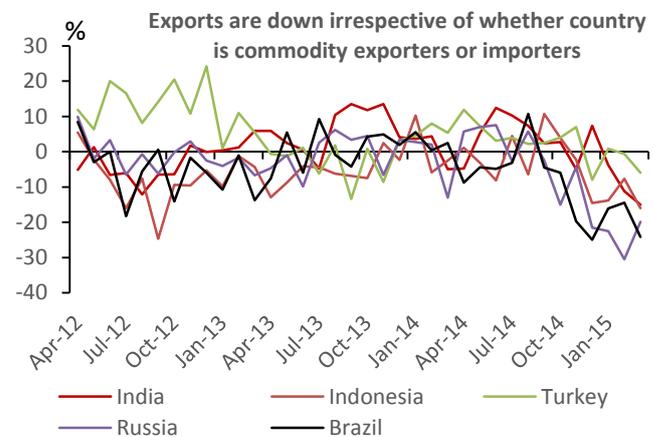
Coming back to the EM, industrial production growth numbers (released for February) in these countries have largely been in either negative territory or lower single digit, in line with survey indicators (PMIs). PMIs further moving lower below 50 mark in March suggests that the industrial production is unlikely to revive in hurry.



Source: Bloomberg

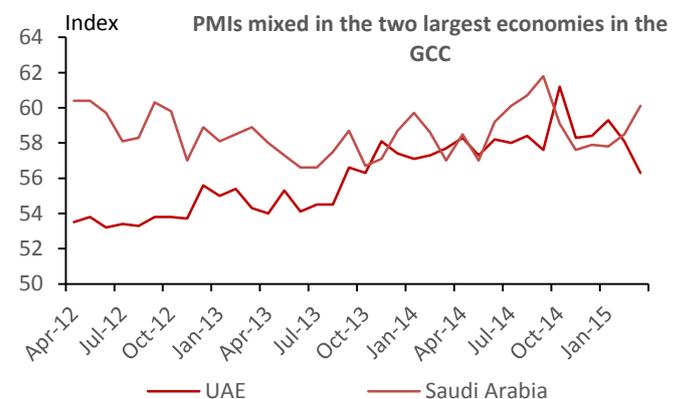
Another factor that signal slower growth in EMs is the impact of muted growth in developed countries which is filtering through trade channel. Most EMs are witnessing exports decline in the last few months, irrespective of whether the country is energy exporter or importer. Green-shoots in European economic activity, as we have pointed earlier, is unlikely to be able to pull the economic growth in the rest of world. This is more so because of significant euro depreciation against the US dollar

which has resulted into EMs currencies appreciation against the euro.



Source: Bloomberg

On the contrary, two largest economies in the GCC which are largely dependent on energy exports seem to be doing fairly well for the moment as reflected by non-oil sector PMIs. As we have noted earlier, the non-oil economic activity is well supported by the continued government spending in the region.



Source: Bloomberg

Monetary easing in EMs where interest rate is high

A secular slowdown in the largest EM – China and now a slower growth trajectory in other major EMs confirms our view that the global growth is likely to be sluggish in 2015. Lower oil price and easy monetary policy in developed economies remain the main support. We expect the global low inflationary environment and subdued oil price will help contain domestic inflation in many EMs which in turn will induce monetary easing in those economies. India, Indonesia and Turkey, having relatively higher inflation and interest rates, are likely to see this transition.

Summary market outlook

Global Yields

US sovereign bond yields trended upward especially after the FOMC minutes which revealed that some of the committee members discussed rate lift-off in June. Coming week is full of economic data releases in the US which will drive the yield. European sovereign bond yields remained close to their respective lowest levels which is likely to continue the same way as ECB QE purchases continue.

Stress and Risk Indicators

VIX index trended lower last week as equity market witnessed decent gains. It could be volatile this week and move higher with companies' earnings announcement and important economic data releases. CDS spreads for major economies remained stable.

Precious Metals

Precious metals remained largely stable after gaining on weaker economic data from the US. Further movement will largely depend on the direction of the economic releases which we expect to remain subdued. This means potential upside movement in the price.

Local Equity Markets

GCC equities were largely positive except MSM30 index. A relative stability in the oil price and easing geopolitical issues in the region are likely to be supportive to local equities in the near term. Companies' earnings announcement will also guide the market.

Global Equity Markets

Global equity markets were largely positive last week as we had expected on the adjustment of Fed hike expectation in the wake of weaker US job data. Now, earnings season coming into play, markets are going to be more reactive towards earnings announcements. We expect earnings to disappoint especially in the US and the EM pack.

Energy

We remain cautious on energy prices, as the demand- and supply dynamics do not support significant near term gains.

Industrial Metals

The China-driven secular downward trend will continue, but the pace might stall to the extent that US dollar strengthening might have a "technical" pause.

Currencies

Commentary

Critical levels

EURUSD

Contrary to our expectation, Euro lost its recently recovered ground against the US dollar. It has come down very close to the recent low of 1.0496 that can provide a support in the near term. However, stronger data in the US could put further downward pressure on the currency.

R2 - 1.1207
R1 - 1.0904
S1 - 1.0436
S2 - 1.0268

GBPUSD

Despite better economic releases, British pound depreciated especially after the FOMC minutes was released. We believe that the pound has support from better economic outlook.

R2 - 1.5127
R1 - 1.4880
S1 - 1.4486
S2 - 1.4339

USDJPY

The Japanese yen largely remained in the range with slight depreciating bias. It's expected to remain in the range of 118-120 per dollar.

R2 - 121.86
R1 - 121.04
S1 - 119.10
S2 - 117.98

Forthcoming important economic data

United States

	Indicators	Period	Expected	Prior	Comments
04/14/2015	Retail Sales Ex-Auto MoM	Mar	0.7%	-0.1%	A large number of important economic data will guide the bond market while equity market will also get influenced by the earnings announcement by companies.
04/14/2015	PPI Ex Food and Energy YoY	Mar	0.9%	1%	
04/15/2015	Industrial Production MoM	Mar	-0.3%	0.1%	
04/15/2015	Capacity Utilization	Mar	78.6%	78.9%	
04/15/2015	NAHB Housing Market Index	Apr	55	53	
04/16/2015	Building Permits	Mar	1085k	1102k	
04/17/2015	CPI Core YoY	Mar	1.7%	1.7%	
04/17/2015	Univ. of Mich. Sentiment	Apr P	94	93	

Japan

	Indicators	Period	Expected	Prior	Comments
04/13/2015	Machine Orders MoM	Feb	-2.2%	-1.7%	Economic data from Japan is expected to remain volatile.
04/13/2015	PPI YoY	Mar	0.4%	0.5%	
04/15/2015	Industrial Production MoM	Feb F	NA	-2.6%	
04/17/2015	Consumer Confidence Index	Mar	41.3	40.7	

Euro zone

	Indicators	Period	Expected	Prior	Comments
04/14/2015	Industrial Production MoM	Feb	0.4%	-0.1%	Industrial production is expected to improve in Eurozone while ECB is expected to maintain the <i>status quo</i> .
04/15/2015	Trade Balance (Euro bn)	Feb	22bn	21.6bn	
04/15/2015	ECB Policy Meeting	Apr	No Change		
04/17/2015	CPI YoY	Mar F	-0.1%	-0.1%	
04/17/2015	CPI Core YoY	Mar F	0.6%	0.6%	
04/13/2015	Industrial Production MoM (Italy)	Feb	0.5%	-0.7%	

China and India

	Indicators	Period	Expected	Prior	Comments
04/13/2015	Exports YoY (China)	Mar	9%	48.3%	Market will focus on real activity data in China while it will also focus on inflation numbers in India.
04/13/2015	Imports YoY (China)	Mar	-10%	-20.5%	
04/15/2015	Retail Sales YoY (China)	Mar	10.8%	10.7%	
04/15/2015	Industrial Production YoY (China)	Mar	6.9%	6.8%	
04/15/2015	Fixed Assets Investment YoY (China)	Mar	13.9%	13.9%	
04/10/2015*	Exports YoY (India)	Mar	NA	-15%	
04/10/2015*	Imports YoY (India)	Mar	NA	-15.7%	
04/13/2015	CPI YoY (India)	Mar	5.44%	5.37%	

*delayed

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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