The Weekly Market View

20 April 2015

بنك أبوظبي التجاري
ADCB

More soft US figures, Greek concerns rising, China stimulus of little aid

The International Monetary Fund has revised down 2015 growth for the US and the MENA region, respectively to 3.1% and 2.7% from 3.6% and 3.2%. Reduced growth prospects in the MENA region can largely be attributed to the fall in the oil price. By adjusting its US forecasts, the IMF is now aligning itself with the consensus (average) global forecast, as measured by Bloomberg. We continue to believe that even 3.1% growth in 2015 is not very likely. The key reason behind our concern is continued deleveraging by the baby-boomers generation in the presence of insufficient creation of (high-paying) jobs and still historically high household debt levels. This week's continuing soft US data, in particular retail sales and industrial production, confirm this concern. China's investment led slowdown is structural and cannot be overcome with monetary stimulus. Global growth concerns are being compounded with the fear that Greece will ultimately default on its debt and exit Europe's single currency area. Last week we saw a moderate pick-up of Portuguese, Spanish and Italian debt spreads. It was a first, plausibly insignificant, indication of financial contagion from Greece to other Euro-zone periphery economies. An additional reason, nevertheless, to stick to our prudent stance.

Luciano Jannelli, Ph.D., CFA
Head Investment Strategy
luciano.jannelli@adcb.com

Rahmatullah Khan
Economist
rahmatullah.khan@adcb.com

Equity markets to remain under pressure next week

Markets will be very carefully monitoring US economic data, in particular the preliminary Markit PMI for April, as well as new and existing home sales, and durable and capital goods orders for March. On Friday April 24 the Finance Ministers of the Euro-zone will meet. They are likely not to agree to release new money to Greece. All in all, growth and Greek concerns are more likely to drag on than fade away. As such equity markets should remain under pressure.

Visit Investment Strategy Webpage to read our other reports.

Past week global markets' performance

Index Snapshot (World Indices)

Index	Latest	Weekly Chg %	YTD %
S&P 500	2,081.2	-1.0	1.1
Dow Jones	17,826.3	-1.3	0.0
Nasdaq	4,931.8	-1.3	4.1
DAX 40	11,688.7	-5.5	19.2
Nikkei 225	19,652.9	-1.3	12.6
FTSE 100	6,994.6	-1.3	6.5
Sensex	28,442.1	-1.5	3.4
Hang Seng	27653.1	1.4	17.1
Regional Markets (Sunday to Thursday)			
ADX	4623.2	2.0	2.1
DFM	4021.5	8.7	6.6
Tadawul	9620.0	3.4	15.4
DSM	11893.0	-0.1	-3.2
MSM30	6290.22	0.0	-0.8
BHSE	1391.9	-3.1	-2.4
KWSE	6336.7	0.3	-3.0
MSCI			
MSCI World	1,769.0	-0.6	3.5
MSCI EM	1,042.7	0.8	9.0

Global Commodities, Currencies and Rates

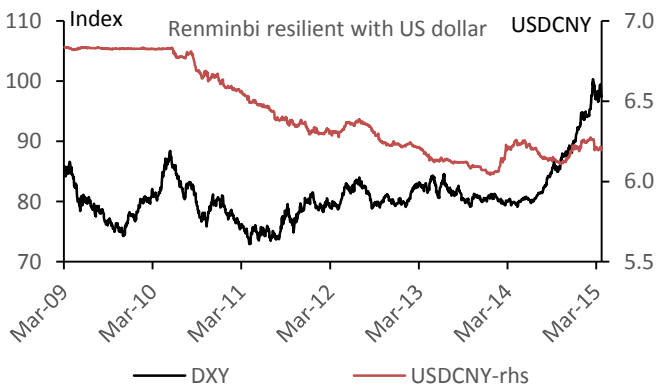
Commodity	Latest	Weekly Chg %	YTD %
ICE Brent USD/bbl	63.5	9.6	10.7
Nymex WTI USD/bbl	55.7	7.9	4.6
OPEC Baskt USD/bbl	58.9	9.0	13.2
Gold 100 oz USD/t oz	1204.2	-0.3	1.7
Platimum USD/t oz	1171.5	-0.1	-3.0
Copper USD/MT	277.4	1.5	-1.8
Alluminium	1805.25	2.0	-1.6
Currencies			
EUR	1.0806	1.9	-10.7
GBP	1.4962	2.3	-3.9
JPY	118.90	-1.1	0.7
CHF	0.9521	-2.8	4.4
Rates			
USD Libor 3m	0.2758	-0.5	7.9
USD Libor 12m	0.6847	-2.0	8.9
UAE Eibor 3m	0.7386	-1.0	9.1
UAE Eibor 12m	1.0671	0.4	5.1
US 3m Bills	0.0152	0.0	-57.2
US 10yr Treasury	1.8653	-4.2	-14.1

Please refer to the disclaimer at the end of this publication

China slowdown confirms the global perils of a strong greenback

China taking the full brunt of US dollar strength

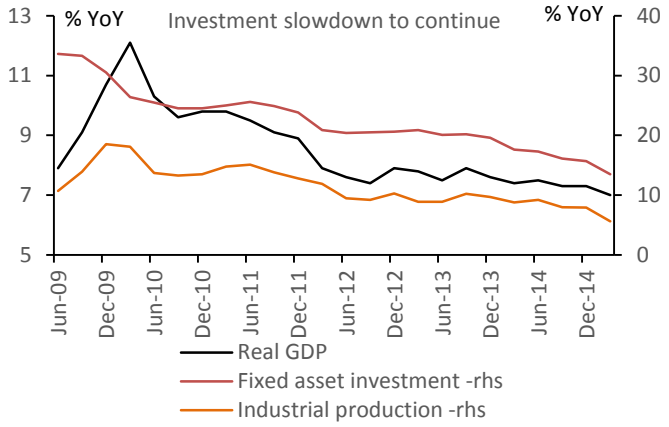
China's economic slowdown was in many ways inevitable as the country's growth model shifts from being led by labour-intensive export-oriented manufacturing to a domestically driven consumption and services economy. This very slowdown has been negatively compounded by two factors. First, the massive 2008 stimulus that was introduced in the aftermath of the Global Financial Crisis has led to an investment and property bubble, the overhang of which is still lingering on. Second, since 2008 the US dollar has significantly appreciated against almost all other currencies, except for the Chinese Renminbi. China would like to avoid a devaluation of the Renminbi since that would dent its ambition to make it a widely used international currency. Also, the devaluation of the Renminbi would aggravate the position of Chinese companies holding US dollar denominated debt. There is thus a concrete risk that continuing US dollar strength will contribute to aggravate the slowdown.



Source: Bloomberg

China slowdown reinvigorates stimulus debate

The Chinese authorities are now trying to combat the slowdown through monetary stimulus, reducing the lending and deposit rates, as well as banks' Reserve Requirement Rate to 18.5%. These measures will temporarily boost the economy. They are, however, unlikely to revert the secular slowdown of China's growth path. More specifically, Chinese investments are still close to 70% of GDP. As such, bringing down investments – a necessary measure to put the economy on a more sustainable growth path - cannot but lead to a further reduction of growth. Commodity and energy prices, in particular industrial metal prices, are likely to continue to suffer as the China slowdown is still halfway.

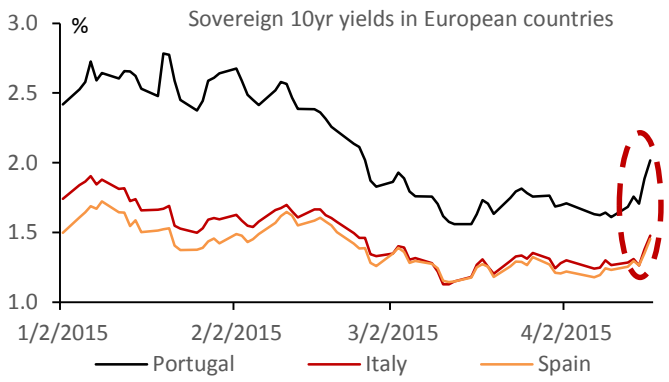


Source: Bloomberg

Greek concerns unlikely to fade away next week

On Friday April 24 the Finance Ministers of the Euro-zone are unlikely to decide on new money for Greece. The Greek government, in fact, is unlikely to come up with a set of economic measures that will be deemed sufficient by the European Commission, the IMF and the ECB. Thus the likelihood that the country will run out of cash sometime between May and June is increasing, as is the probability that the ECB will halt the Emergency Liquidity Assistance to Greek banks. We still believe that some compromise will be found between Greece and its creditors, but the odds have clearly been coming down.

Over the next weeks the uncertainty will continue as Greece and its creditors are testing who will be the first to "blink" in this nerve-breaking brinkmanship. What is more concerning is the fact that Greece's troubles might well, at least temporarily, negatively affect Europe's capital markets and periphery spreads.



Source: Bloomberg

Summary market outlook

Global Yields	US sovereign bond yields trended downward as a result of soft US data and rising Greece concerns. Coming week we might again see some disappointment as US March Capital and Durable Goods Orders are likely to be soft again and the Euro-zone Finance Ministers are unlikely to strike a deal on Greece.
Stress and Risk Indicators	VIX index ticked up towards end of the last week as equity markets turned volatile. It could be volatile this week and move higher with companies' earnings announcements and the Greek issue. CDS spreads for European periphery countries also ticked up. They could further move up in the near term as a solution of the Greek issue seems unlikely this week.
Precious Metals	Precious metals remained largely stable. They could see small tick up in the near term.
Local Equity Markets	GCC equities were largely positive except Bahrain equities. A sharp technical gain in the oil price last week supported local sentiment. A mid-June target for opening of the Saudi market for foreign investors is likely to push the local markets especially Tadawul. Companies' earnings announcement will also guide the market.
Global Equity Markets	Global equity markets were largely negative last week because of increased Greece concerns. Markets are also adjusting to subdued global growth. With the earnings season 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 and the Greek issue to keep global equity markets under pressure in the near term.
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	Euro recovered from its last week losses as US data remained weak and Fed rate hike expectations pushed ahead. It seems that the currency pair has created a range for itself between 1.05 and 1.10. It's likely to trade in this range in the near term.	R2 - 1.1053 R1 - 1.0930 S1 - 1.0602 S2 - 1.0397
GBPUSD	Like Euro, British pound also recovered some lost ground over the last week. Relatively stronger economic releases could further push the pound higher as Fed rate expectations moves further ahead.	R2 - 1.5349 R1 - 1.5149 S1 - 1.4861 S2 - 1.4373
USDJPY	The Japanese yen largely remained in the range with slight appreciating bias. It's expected to remain in the range of 118-120 per dollar.	R2 – 121.71 R1 – 120.30 S1 – 118.03 S2 – 117.17

Forthcoming important economic data

United States

	Indicators	Period	Expected	Prior	Comments
04/22/2015	Existing Home Sales	Mar	5.03mn	4.88mn	Housing sector and investment related data will be under market focus this week.
04/23/2015	Markit Mfg PMI	Apr P	55.6	55.7	
04/23/2015	New Home Sales	Mar	510k	539k	
04/24/2015	Durable Goods	Mar	0.6%	-1.4%	
04/24/2015	Cap Goods nondef Ex-Air	Mar	0.3%	-1.4%	

Japan

	Indicators	Period	Expected	Prior	Comments
04/20/2015	Tertiary Industry Index MoM	Feb	-0.7%	1.4%	Foreign trade data will be market's focus this week.
04/22/2015	Trade Balance Adjusted	Mar	-¥409bn	-¥638bn	
04/22/2015	Exports YoY	Mar	8.5%	2.5%	
04/22/2015	Imports YoY	Mar	-12.6	-3.6	

Euro zone

	Indicators	Period	Expected	Prior	Comments
04/20/2015	ZEW Survey Expectations	Apr	NA	62.4	Survey based consumer and producers' confidence indicators are expected to show further improvement in the euro area.
04/22/2015	Consumer Confidence	Apr A	-2.5	-3.7	
04/23/2015	Markit Mfg PMI	Apr P	52.6	52.2	
04/23/2015	Markit Service PMI	Apr P	54.5	54.2	

China and India

	Indicators	Period	Expected	Prior	Comments
04/23/2015	HSBC Mfg PMI (China)	Apr P	49.4	49.6	Light data week for the two largest EMs.
04/24/2015	Infra industries growth (India)	Mar	NA	1.4%	

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

Disclaimer

*This publication is intended for general information purposes only. It should not be construed as an offer, recommendation or solicitation to purchase or dispose of any securities or to enter in any transaction or adopt any hedging, trading or investment strategy. Neither this publication nor anything contained herein shall form the basis of any contract or commitment whatsoever. Distribution of this publication does not oblige Abu Dhabi Commercial Bank PJSC ("**ADCB**") to enter into any transaction.*

The content of this publication should not be considered legal, regulatory, credit, tax or accounting advice. Anyone proposing to rely on or use the information contained in the publication should independently verify and check the accuracy, completeness, reliability and suitability of the information and should obtain independent and specific advice from appropriate professionals or experts regarding information contained in this publication.

Information contained herein is based on various sources, including but not limited to public information, annual reports and statistical data that ADCB considers accurate and reliable. However, ADCB makes no representation or warranty as to the accuracy or completeness of any statement made in or in connection with this publication and accepts no responsibility whatsoever for any loss or damage caused by any act or omission taken as a result of the information contained in this publication. This publication is intended for qualified customers of ADCB.

Charts, graphs and related data or information provided in this publication are intended to serve for illustrative purposes only. The information contained in this publication is prepared as of a particular date and time and will not reflect subsequent changes in the market or changes in any other factors relevant to their determination. All statements as to future matters are not guaranteed to be accurate. ADCB expressly disclaims any obligation to update or revise any forward looking statements to reflect new information, events or circumstances after the date of this publication or to reflect the occurrence of unanticipated events.

ADCB does and may at any time solicit or provide commercial banking, investment banking, credit, advisory or other services to the companies covered in its publications. As a result, recipients of this publication should be aware that any or all of the foregoing services may at time give rise to a conflict of interest that could affect the objectivity of this publication.

Past performance does not guarantee future results. Investment products are not bank deposits and are not guaranteed by ADCB. They are subject to investment risks, including possible loss of principal amount invested. Please refer to ADCB's Terms and Conditions for Investment Services.

This publication is being furnished to you solely for your information and neither it nor any part of it may be used, forwarded, disclosed, distributed or delivered to anyone else. You may not copy, reproduce, display, modify or create derivative works from any data or information contained in this publication.