The Weekly Market View

July 13 2015

Greek Prime Minister makes U-turn, China stocks rebound, Iran nuclear deal seems close

Prime Minister Tsipras stunned everybody by proposing the same austerity measures that he had asked the Greek people to reject in last week's referendum. As a result the chances that Greece will not leave the Euro-zone have risen once more. China stocks had an impressive rally after weeks of corrections. It remains to be seen if this will be sustainable, or merely the temporary result of government intervention. A nuclear deal between Iran and the US is now edging closer. This could determine further temporary downside pressure on the oil price.

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Equity markets to rise as Greece raises white flag when faced with new deadline

Greece is entering the third consecutive week without a normally functioning banking system. Greece's politically determined economic slowdown is now raising the country's refinancing cost. It has asked a third three year bail-out program for the staggering amount of close to 90 billion euro, in exchange for very stringent austerity measures such as pension cuts and a significant broadening of the country's tax bases. The creditor countries, this time, have however significantly hardened their stance. Negotiations for a third bailout package will only start if by Wednesday the Greek parliament approves a first batch of austerity measures. This could allow the ECB to extend liquidity financing to the Greek banks just days before the Greek banks running out of cash. Going forward, however, any new bailout package will provide Greece with only piecemeal injections of cash as it continuously implements the creditors' requests. For capital markets it is, in any case, good news.

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Past week global markets' performance

Index Snapshot (World Indices)

Index	Latest	Weekly Chg %	YTD %
S&P 500	2,076.6	0.4	0.9
Dow Jones	17,760.4	0.4	-0.4
Nasdaq	4,997.7	0.1	5.5
DAX 40	11,315.6	3.9	15.4
Nikkei 225	19,779.8	-1.7	13.3
FTSE 100	6,673.4	2.1	1.6
Sensex	27,661.4	-1.9	0.6
Hang Seng	24901.3	-1.3	5.5
Regional Markets (Sunday to Thursday)			
ADX	4707.9	-0.6	4.0
DFM	4017.3	-1.3	6.4
Tadawul	9281.8	1.3	11.4
DSM	11880.8	-1.1	-3.3
MSM30	6436.75	0.0	1.5
BHSE	1334.5	-1.1	-6.5
KWSE	6139.2	-0.8	-6.1
MSCI			
MSCI World	1,743.3	0.8	2.0
MSCI EM	932.9	-1.1	-2.5

Global Commodities, Currencies and Rates

Commodity	Latest	Weekly Chg %	YTD %
ICE Brent USD/bbl	58.7	3.9	2.4
Nymex WTI USD/bbl	52.7	0.4	-1.0
OPEC Baskt USD/bbl	55.5	-0.5	6.8
Gold 100 oz USD/t oz	1163.7	-0.6	-1.7
Platimum USD/t oz	1031.9	-3.0	-14.6
Copper USD/MT	254.6	0.1	-9.9
Alluminium	1658	0.1	-9.6
Currencies			
EUR	1.1162	1.0	-7.7
GBP	1.5517	-0.6	-0.4
JPY	122.78	0.2	-2.4
CHF	0.9387	-0.4	5.9
Rates			
USD Libor 3m	0.2858	0.5	11.8
USD Libor 12m	0.7627	0.1	21.3
UAE Eibor 3m	0.7529	0.0	11.2
UAE Eibor 12m	1.0857	0.0	6.9
US 3m Bills	0.0051	-50.0	-85.6
US 10yr Treasury	2.3972	4.9	10.4

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Tsipras raises the white flag after winning the domestic political battle

Tsipras suddenly embraces austerity

After winning the anti-austerity referendum with a landslide, Mr. Tsipras obtained the support of almost all Greek parties for new austerity measures to be proposed to the Euro-zone creditor countries. The support of 250 out of 300 Members of Parliament, even at the cost of losing some of his own MPs, has greatly strengthened his domestic position. ***It seems that the entire purpose of the referendum was not to formalize an end to austerity in Greece, rather than to beat his parliamentary opposition.***

In fact, Mr. Tsipras is now being forced to introduce even more austerity as the economic slowdown after five months of bickering with the Euro-zone partners, and a banking shutdown that is likely to last for a total of at least three weeks, has increased the country's financing needs.

Greek parliament to approve basic set of austerity measures by Wednesday as a pre-condition of starting negotiations for a third bail-out package

Unfortunately for Mr. Tsipras not only have Greece's financing requirements risen, but also his Euro-zone partners no longer trust him. They have now told the Greek government that any negotiations on a third bail-out package can only start once the Greek parliament has approved a set of basic austerity measures, mainly consisting of reductions in pension benefits and a significant widening of the tax base.

Mr. Tsipras one big miscalculation might still determine Grexit

Whilst the Prime Minister might have brilliantly won the domestic political battle, he most likely did not fully anticipate the reaction of the Euro-zone creditors to his five months of antagonism and, especially, his breaking off the negotiations and calling of a referendum two weeks ago, and the ongoing banking shutdown that followed.

Indeed, Mr. Tsipras thought that it would be enough to put again on the table the creditors' proposals as they were before he broke off negotiations. Instead the creditor countries have massively raised their requests. Critically they are insisting that an independent tax agency be set up, that international monitors (specifically the IMF) verify in Greece the working of this agency, and the very government. They are also insisting that the Greek government put approximately 50 billion euro worth of to-be-privatized assets into a Luxembourg-based investment company, which they can manage but not dispose of (at least not until they have secured the proceeds of the privatizations).

These pills may be yet too much for the Greek government to swallow. Not surprisingly, the Euro-zone creditor governments have now openly discussed the possibility that Greek leaves the Euro-zone and is allowed to restructure its debt.

Public reaction a question mark, banking system to remain paralyzed

Whilst it looks likely that Mr. Tsipras will be able to assure passage of the austerity measures in parliament, he will need to reshuffle his government, eventually enlisting also ministers from the right wing opposition. Public demonstrations and riots cannot be excluded. Moreover, even the opening up of the banking system can only be gradual as the ECB is to extend liquidity financing very gradually, and depositors risk making a run on the banks. ***Thus the possibility that any deal will still fall apart, before or after it is reached, remains concrete. A Grexit would inevitably lead to more temporary market turmoil, but it would not alter our hitherto positive stance on Euro-zone equities.***

Mr. Draghi, Mrs. Yellen, and China economic data to be in the spotlight this week.

The ECB is to meet on Thursday, the day after the Greek parliament should have approved new austerity measures. At this point people will want to ask Mr. Draghi if he is willing to inject additional liquidity in the Greek banking system. He will only be able to do that if the creditor countries will give him some indication that they are edging towards a third bailout agreement. Even so, we do not expect the Greek banks to open before next week, and capital controls will be lifted only very gradually. Mrs Yellen is to deliver her semi-annual assessment to Congress on Wednesday. She is likely to remain very cautious when it comes to giving concrete indications as to the exact date of the first interest rate hike, also in consideration of the events in Europe and China. As for China, markets will be closely watching this week's big batch of data on trade, monetary growth, investments and real GDP growth. We do not expect to see any significant indication of a stabilization in growth rates in China, let alone a pick-up. The Chinese equity market is still likely to remain under pressure.

Summary market outlook

Global Yields	Safe haven countries' yields (US and Germany) moved up while periphery countries' yields (Spain, Italy and Portugal) eased towards the end of the last week as a Greek deal became more likely. The situation will remain uncertain till a final deal is sealed between Greece and its creditors. Therefore, we do not rule out volatility and reversals in sovereign yields this week. A final deal would see further easing in the periphery yields. We remain cautious on US yields moving significantly higher from here.
Stress and Risk Indicators	The VIX index also reacted to the positive news flow regarding the Greek debt issue as it moved lower. With expectations of a volatile week ahead until a final Greek debt deal is signed, we believe that the risk indicators are also likely to remain volatile. CDS spreads are also expected to be volatile, particularly in the European periphery economies.
Precious Metals	Precious metals could benefit from the uncertainty in the Greek debt issue but we remain cautious on the potential for the prices to move significantly up.
Local Equity Markets	The recent oil price correction could weigh on the local stock prices in the near term. This week could see some further downward pressure on the oil price. However, we see limited movement either way, as activity will be low moving into festive holidays.
Global Equity Markets	Global equity markets also regained their losses of early part of the week as the positive news flow on Greece became dominant. We could see some upside, even a rally in Europe, if the Greek issue is solved, and to the extent that the Chines government will continue to put a floor on further equity market corrections.
Energy	The Brent crude price has moved below $60 per barrel mark. This week we might see some further downward pressure as a nuclear deal between Iran and the US looks now a distinct possibility. However, the main factor pushing eventually downward the oil price this time, would be a major global economic slowdown.
Industrial Metals	The recent rally in commodities has now by and large been undone in view of continuing slow growth in China

Currencies	**Commentary**	**Critical levels**
EURUSD	On Greek debt optimism, the euro gained against the dollar at the end of the week. The pair is expected to remain volatile as opposing forces are acting simultaneously. We expect the euro to resume downward bias once the Greece related volatility is over.	R2 - 1.1398 R1 - 1.1280 S1 - 1.0980 S2 - 1.0798
GBPUSD	A strong set of economic data were released from the UK last week which supported the British pound. We see a possibility of the cable gaining some ground in the near term.	R2 - 1.5791 R1 - 1.5654 S1 - 1.5355 S2 - 1.5193
USDJPY	The Japanese yen closed almost flat but witnessed a volatile week. It will move with the risk perception globally. We expect the currency pair to be relatively volatile this week.	R2 – 124.56 R1 – 123.67 S1 – 121.15 S2 – 119.52

Forthcoming important economic data

United States

	Indicators	Period	Expected	Prior	Comments
07/14/2015	Retail Sales ex- Auto	Jun	0.5%	1.0%	Important set of data, ranging from consumer side to production to investment, will be under focus this week.
07/15/2015	PPI Ex- Food and Energy YoY	Jun	0.7%	0.6%	
07/15/2015	Industrial Production MoM	Jun	0.2%	-0.2%	
07/16/2015	NAHB Housing Market Index	Jul	59	59	
07/17/2015	Building Permits	Jun	1150k	1250k	
07/17/2015	CPI YoY	Jun	0.1%	0%	
07/17/2015	Univ. of Mich. Sentiment	Jul P	96	96.1	

Japan

	Indicators	Period	Expected	Prior	Comments
07/13/2015	Industrial Production MoM	May F	NA	-2.2%	Industrial production and tertiary industry index will be important from market point of view.
07/13/2015	Tertiary Industry Index MoM	May	0%	-0.2%	
07/16/2015	Japan Buying Foreign Bonds	Jul 10	NA	¥205bn	

Euro zone

	Indicators	Period	Expected	Prior	Comments
07/14/2015	Industrial Production MoM	May	0.2%	0.1%	Industrial production and inflation data are likely to be under focus besides ECB statement.
07/14/2015	Zew Survey Expectations	Jul	NA	53.7	
07/16/2015	Trade Balance	May	22bn	24bn	
07/16/2015	CPI YoY	Jun F	0.2%	0.2%	
07/16/2015	ECB Meeting	Jul 16			
07/17/2015	Construction Output MoM	May	NA	0.3%	

China and India

	Indicators	Period	Expected	Prior	Comments
07/10-07/15	New Yuan Loans CNY (China)	Jun	1050bn	900bn	New Yuan loans in China will be important to see how central bank is using its monetary policy to support growth while second quarter growth is expected to moderate further. India's inflation data will be under scrutiny.
07/10-07/15	Money Supply M2 YoY (China)	Jun	11%	10.8%	
07/13/2015	Exports YoY (China)	Jun	1%	-2.5%	
07/13/2015	Imports YoY (China)	Jun	-15.5%	-17.6%	
07/15/2015	Retail Sales YTD YoY (China)	Jun	10.3%	10.4%	
07/15/2015	Fixed Assets Inv YTD YoY (China)	Jun	11.2%	11.4%	
07/15/2015	GDP YoY (China)	1Q	6.8%	7.0%	
07/13/2015	Exports YoY (India)	June	NA	-20.2%	
07/13/2015	Imports YoY (India)	June	NA	-16.5%	
07/13/2015	CPI YoY (India)	June	5.1%	5.01%	

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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