The Weekly Market View

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بنك أبوظبي التجاري
ADCB

Job growth solid, but weak enough to prevent Fed to hike rates soon

Solid job growth in the US lowered Fed rate hike expectations and pushed yields back down. Thus the spike in global yields came somehow to a halt on the last day of the week. The appreciation of the euro against the US dollar, and virtually all other global currencies, also came to a halt and reversed. US equity markets are again close to all-time high. Most global equity markets recovered, whilst local GCC markets corrected somehow after the solid gains of the prior weeks. Being growth just slow enough to prevent the Federal Reserve from hiking rates soon, and given also US companies ability to surprise to the upside (albeit from rather muted earnings expectations), many wonder whether equities are again in the sweet spot. We remain cautious because we are more concerned that reduced growth might hamper equities, rather than the postponed rate hike we were anticipating before many other did.

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With little US data, expect some market consolidation this week

This week there will be little data from the US and, barring negative surprises, we are likely to hear that the Euro-zone economy recovered in the first quarter of this year. We would thus expect markets to stabilize and consolidate, in other words we expect only minor corrections, and potentially some upward movement. We will be looking particularly at China as we are now expecting some rise in industrial production and retail sales, following the enactment of Government stimulus. India is also reporting on its trade balance, industrial production and inflation. Barring major negative surprises, data should be supportive and Indian and China equities should also see some consolidation, in line with global markets.

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Past week global markets' performance

Index Snapshot (World Indices)

Index	Latest	Weekly Chg %	YTD %
S&P 500	2,116.1	0.4	2.8
Dow Jones	18,191.1	0.9	2.1
Nasdaq	5,003.5	-0.0	5.6
DAX 40	11,709.7	2.2	19.4
Nikkei 225	19,379.2	-0.8	11.1
FTSE 100	7,046.8	0.9	7.3
Sensex	27,105.4	0.3	-1.4
Hang Seng	27577.3	-2.0	16.8
Regional Markets (Sunday to Thursday)			
ADX	4553.7	-2.0	0.5
DFM	4138.6	-3.0	9.7
Tadawul	9717.9	-1.2	16.6
DSM	12282.1	1.0	-0.0
MSM30	6313.44	-0.1	-0.5
BHSE	1390.7	-0.0	-2.5
KWSE	6397.6	0.3	-2.1
MSCI			
MSCI World	1,794.7	0.4	5.0
MSCI EM	1,034.9	-1.1	8.2

Global Commodities, Currencies and Rates

Commodity	Latest	Weekly Chg %	YTD %
ICE Brent USD/bbl	65.4	-1.6	14.1
Nymex WTI USD/bbl	59.4	0.4	11.5
OPEC Baskt USD/bbl	64.0	2.8	23.0
Gold 100 oz USD/t oz	1188.4	0.8	0.3
Platimum USD/t oz	1141.5	0.8	-5.5
Copper USD/MT	293.1	-0.0	3.7
Alluminium	1862.5	-1.8	1.6
Currencies			
EUR	1.1199	0.0	-7.4
GBP	1.5455	2.0	-0.8
JPY	119.76	-0.3	0.0
CHF	0.9303	-0.2	6.9
Rates			
USD Libor 3m	0.2799	0.0	9.5
USD Libor 12m	0.7326	2.1	16.5
UAE Eibor 3m	0.7386	0.0	9.1
UAE Eibor 12m	1.0671	0.0	5.1
US 3m Bills	0.0051	45358.6	-85.6
US 10yr Treasury	2.1478	1.6	-1.1

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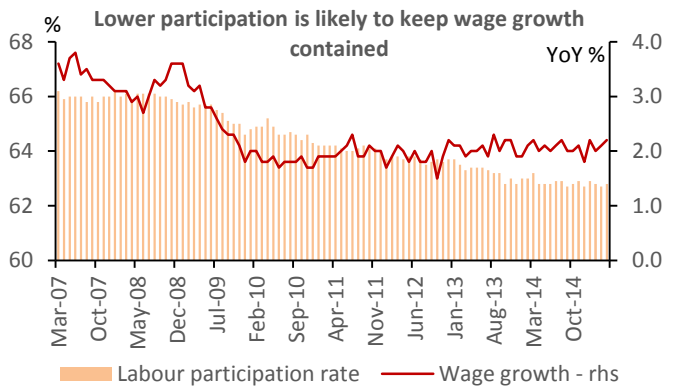
US growth just slow enough for Fed not to act soon: sweet spot for US equities once more?

US job creation shows some, but none too exciting, improvement

Friday's job data further reinforced the reversal of the correction in global bond and equity markets. In fact, US equity markets are now again close to their historical record. German equities are still about close to 5% below their peak. The less brilliant performance of European equities is equal to the appreciation of the euro against the US dollar.

The main issue, however, about which investors are pondering is another one: what is going on with bond yields. As to the rise in bond yields, in particular bond yields of the so-called core countries of the Euro-zone, first and foremost Germany, it must be said that a technical correction in bond yields was somehow inevitable. In fact, the same happened with US Treasuries and Japanese Government bond yields in the aftermath of the QE programmes launched respectively by the Federal Reserve and the Bank of Japan. Before and at the beginning of QE those yields came down, subsequently they rose back up, ultimately – when the initially undershoot was completely overcome - they tended lower. This is likely to be the case also for Euro-zone Government bond yields, although the overall picture is more complicated by the fact that there are different Government bond yields, such as German, Italian, etc. For the ECB the true parameter of success would be that the spread between periphery sovereign yields (Italy, Spain, etc.) and core yields (Germany, Finland, etc.) came down, rather than the fact that overall yields come down significantly.

As for global yields, the spike in the yields of German bunds, together with the rise in the value of the euro, inevitably also triggered a correction in the US bond market. We therefore have to ask ourselves, what will happen going forward. To us it seems that lower (given the stage of the business cycle) global (and US) growth rates, and secular deflationary pressures are likely to keep yields at bay. This is also confirmed by the latest US labour market report: whilst job creation did pick up again, the labour force participation rate is still at an historical low and wage growth remains stagnant.



Source: Bloomberg

More than anything else, whilst the recent correction in the equity markets was induced by the bond market correction, any equity market correction that is induced by concerns about future economic growth, will probably be accompanied by a significant drop in Treasury yields. As such, they remain an important hedge in any equity portfolio.

Equities again in a sweet spot?

At this stage we are not revising our moderate underweight stance in global equities, specifically in US equities. We do recognize that the postponement of Fed rate hikes is in general good for equities. Then again, we were expecting such postponement before many others did. We are, in fact, and remain concerned that a more-than-expected growth slowdown – rather than rate hikes - might trigger a sell-off in equities. So, in spite of the resilience of equities, and the capacity of companies to beat (albeit low) expectations, we prefer to remain prudent.

The Greek issue is unlikely to be solved this week

Greek bond yields remained by and large constant and, more in general, the spike in bond yields did not determine an increase in the spread between periphery and core yields.

The Greek issue will continue to hang over the markets as Greece continues to negotiate on improved conditions for getting new money from its creditors. In the absence of a rapid agreement, there is now a good likelihood that the ECB will restrict the conditions at which Greek banks have access to its liquidity. All parties involved still want a solution, and Greece is ultimately most likely to stay in the Euro-zone. Yet, when parties to a negotiation engage in brinkmanship, accidents cannot be excluded. Another reason to hold on to US Treasuries.

Summary market outlook

Global Yields	The solid job number was not strong enough to induce the Fed to hike rates soon. Thus, following the recent spike in yields, we expect yields now to stabilize. In the absence of important data out of Europe – and barring major surprises regarding Euro-zone GDP in the first quarter, as well as on the Greek debt issue – we would expect European yields to behave similarly.
Stress and Risk Indicators	The VIX index rose somehow with the turmoil in the bond markets, yet ultimately receded versus the end of the week. Except for Greece, CDS spreads were by and large stable over the week.
Precious Metals	Gold prices were mostly unchanged last week. We expect gold to continue to move sideward, long-term to drift lower.
Local Equity Markets	Local equities corrected last week, unlike most other equity markets globally. Some correction was inevitable after the very impressive gains of the prior weeks. The stabilization in the oil price might have been the trigger.
Global Equity Markets	Global equities were resilient, and recovered when bond markets stabilized towards the end of the week. We would expect some consolidation over the week as there will be no major data coming out of the US and Europe.
Energy	Energy prices stabilized after the major run in the prior weeks. Energy prices are likely to remain volatile. China economic data might be a trigger for movements.
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	In view of the relatively positive US labour market data, and consequently some renewed speculation that the Federal Reserve might hike rates, we would expect the euro to face more upward than downward pressure. Currency markets continue to be very volatile.	R2 - 1.1545 R1 - 1.1372 S1 - 1.1046 S2 - 1.0893
GBPUSD	The BoE is expected to leave interest rates unaltered this week. We would now expect the GBP to correct somehow after the post-election rally and to somehow depreciate against both USD and the euro.	R2 - 1.5790 R1 - 1.5622 S1 - 1.5188 S2 - 1.4922
USDJPY	The JPY continues to hover at a trading range close to the 120 level. JPY might marginally strengthen in view of likely improved data for the trade balance, and as long as the BoJ remains comfortable with the deteriorating inflation dynamics.	R2 – 121.23 R1 – 120.49 S1 – 119.04 S2 – 118.33

Forthcoming important economic data

United States

	Indicators	Period	Expected	Prior	Comments
05/13/2015	Retail Sales Advance MoM	Apr	0.2%	0.9%	Retail sales and sentiment indicators will show how consumers are doing while PPI will provide an idea of how pipeline inflation is faring.
05/13/2015	Retail Sales Ex Auto and Gas	Apr	0.5%	0.4%	
05/14/2015	PPI Final Demand YoY	Apr	0.1%	0.2%	
05/14/2015	PPI Ex Food, Energy YoY	Apr	1.1%	0.9%	
05/15/2015	Industrial Production MoM	Apr	0.0%	-0.6%	
05/15/2015	Univ. of Mich. Sentiment	May P	96.0	95.9	

Japan

	Indicators	Period	Expected	Prior	Comments
05/13/2015	Trade Balance BoP basis	Mar	¥528bn	- ¥143bn	Trade balance expected to improve but BoJ inflation target expected to become more elusive.
05/15/2015	PPI YoY	Apr	-2.1%	0.7%	

Euro zone

	Indicators	Period	Expected	Prior	Comments
05/13/2015	Industrial Production MoM	Mar	0.0%	1.1%	Markets will look for improved Q1 GDP figures, but industrial production might be slowing
05/13/2015	GDP Euro-zone QoQ	Q1	0.4%	0.3%	
05/13/2015	GDP Germany QoQ	Q1	0.5%	0.7%	
05/13/2015	GDP France QoQ	Q1	0.4%	0.1%	
05/13/2015	GDP Italy QoQ	Q1	0.2%	0.0%	

China and India

	Indicators	Period	Expected	Prior	Comments
05/13/2015	Retail Sales YoY (China)	Apr	10.4%	10.2%	Economic activity data from China and India will provide cues for the growth trend in the first quarter.
05/13/2015	Industrial Production YoY (China)	Apr	6.0%	5.6%	
05/13/2015	Fixed Assets Invt. YTD (China)	Apr	13.5%	13.5%	
05/11/2015	Trade Balance (India)	Apr	-$10.5B	-$11.8B	
05/12/2015	Industrial Production YoY (India)	Mar	2.9%	5.0%	
05/12/2015	CPI YoY (India)	Apr	4.9%	5.2%	

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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