The Weekly Market View

18 May 2015

US and China further slowdown, Euro-zone growth might have peaked

The slowdown in the US and in China is still giving no signs of abating, with retails sales and consumer confidence further receding in the US, and industrial production and investments further coming off in China. As was to be expected, the Euro-zone is now "catching up" with this slowdown. We would thus expect yields to stabilize and somehow come down. The same is to be expected for energy and commodity prices.

Markets to focus on global PMIs and US housing market

The US Housing market indicators are by-and-large likely to keep on moving side-wards. As such, markets should not be affected significantly by the upcoming US Housing figures. Since the housing indicators have, however, held up quite well over the last months, there is a concrete risk that they might disappoint on the downside. In such case we would expect US yields to drop off again. The same can be said for the global Markit Manufacturing PMIs. For the moment markets are expecting only a minor correction of the Euro-zone PMI. A bigger-than-expected drop, in particular a drop below the 50 level, would likely trigger a depreciation of the euro after its significant run-up over the last month. We expect energy- and commodity producing emerging markets to be more volatile, as the recent rally of these goods is likely to peter out.

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Past week global markets' performance

Index Snapshot (World Indices)

Index	Latest	Weekly Chg %	YTD %
S&P 500	2,122.7	0.3	3.1
Dow Jones	18,272.6	0.4	2.5
Nasdaq	5,048.3	0.9	6.6
DAX 40	11,447.0	-2.2	16.7
Nikkei 225	19,732.9	1.8	13.1
FTSE 100	6,960.5	-1.2	6.0
Sensex	27,324.0	0.8	-0.6
Hang Seng	27822.3	0.9	17.9
Regional Markets (Sunday to Thursday)			
ADX	4601.1	1.6	1.6
DFM	4061.2	-0.8	7.6
Tadawul	9731.5	0.1	16.8
DSM	12597.3	1.9	2.5
MSM30	6361.86	0.7	0.3
BHSE	1387.5	0.1	-2.7
KWSE	6375.7	-0.6	-2.4
MSCI			
MSCI World	1,807.1	0.7	5.7
MSCI EM	1,043.4	0.8	9.1

Global Commodities, Currencies and Rates

Commodity	Latest	Weekly Chg %	YTD %
ICE Brent USD/bbl	66.8	2.2	16.5
Nymex WTI USD/bbl	59.7	0.5	12.1
OPEC Baskt USD/bbl	63.1	1.1	21.4
Gold 100 oz USD/t oz	1224.8	3.1	3.4
Platimum USD/t oz	1167.9	2.3	-3.3
Copper USD/MT	294.9	0.6	4.4
Alluminium	1818.25	-2.4	-0.8
Currencies			
EUR	1.1451	2.3	-5.3
GBP	1.5727	1.8	1.0
JPY	119.25	-0.4	0.4
CHF	0.9162	-1.5	8.5
Rates			
USD Libor 3m	0.2765	-1.2	8.2
USD Libor 12m	0.7234	-1.3	15.0
UAE Eibor 3m	0.7386	-1.0	9.1
UAE Eibor 12m	1.0671	0.0	5.1
US 3m Bills	0.0101	100.0	-71.5
US 10yr Treasury	2.1424	-0.2	-1.3

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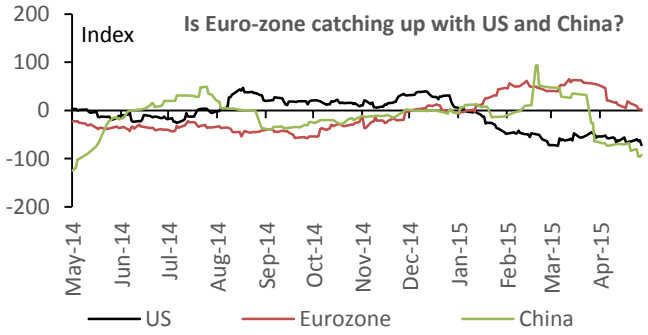
Global PMIs and US housing in focus as global slowdown more wide spread

Global weakness spreading to Europe?

The recent spike in Euro-zone bond yields is not in line with the deterioration the Euro-zone growth dynamics that seems around the corner. As such, it seems likely that that spike was nothing less than a technical, albeit violent, reaction of a massively overbought market.

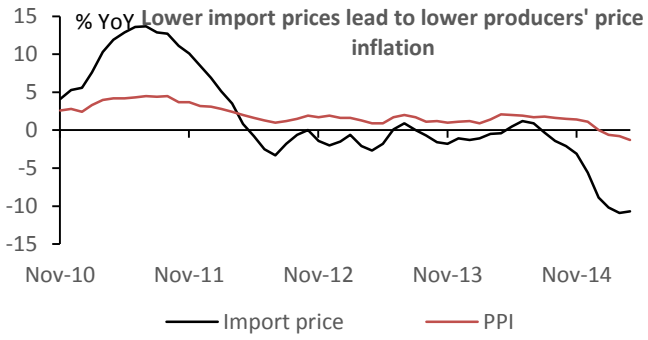
The very deterioration of the growth outlook in the Euro-zone should not come as a surprise. True, the devaluation of the Euro has been helpful for the region's exports. Yet, there is only that much that you can export if other economies are slowing down, The Euro-zone already had the largest current account surplus in the word before the euro started devaluing. From that perspective the euro would have had to appreciate. Instead the depreciation of the euro has led to a sharp increase of the US balance of trade deficit. This could not but have at some point a negative impact on growth in the Euro-zone too. We are now globally seeing a deterioration of the economic surprise indices, from China and the US, to Europe.



Source: Bloomberg

Global yields to further come down and stabilize, equities might still profit

Whilst inflation has generally recovered and stabilized in the aftermath of the oil price shock, it is not clear that the global deflationary pressures have receded. In fact, inflation is a lagging indicator. The persistent economic slowdown likely implicates that central banks will remain concerned about economies moving – like Japan – in an outright deflationary environment.

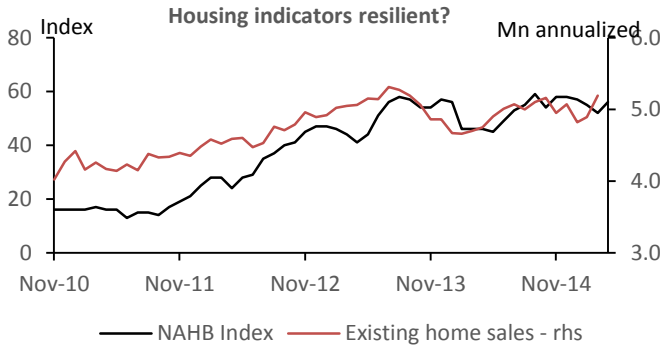


Source: Bloomberg

Thus the difficulty central banks of advanced economies are having in combatting these deflationary pressures – and the consequent prospect of continuing accommodating interest rates – tells us that yields are now more likely to come further down and stabilize. Whilst a stronger-than-expected slowdown would further undermine growth, right now the prospect of interest rates not rising further, or at least not significantly so in the near future, is good for equities.

Too good US Housing data likely to be incompatible with higher rates

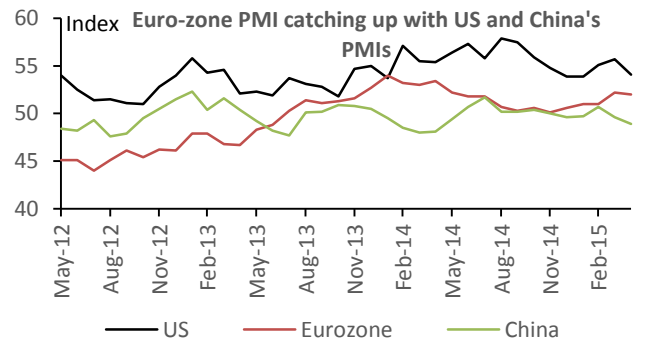
Housing data have been relatively resilient in comparison with other US economic data. We would therefore not expect either a significant pick-up in the National Association of Homebuilders Confidence Index, or in home sales. Both indicators are expected to move largely sidewards. A significant reduction in the figures would tantamount to a stronger-than expected correction. Yields would come down further, yet US equities might benefit less as markets would fear for earnings.



Source: Bloomberg

Global PMI likely to confirm Europe "catching up" with global slowdown

As mentioned, Europe cannot keep on growing if the US and China slow down. This is likely to be confirmed by the upcoming PMI Markit Manufacturing Indices. A sharper-than-expected correction of the Euro-zone indicator would trigger a natural correction of the euro after the very strong run-up of the last weeks.



Summary market outlook

Global Yields	US sovereign bond yields trended downward, as weaker US data took the spotlight. Coming week we might again see some disappointment as US Housing data and dovish FOMC minutes, together with receding growth in Europe, are likely to dominate the news flow.
Stress and Risk Indicators	VIX index and CDS spreads for European periphery countries remained subdued. They could further move up in the near term as a solution of the Greek issue seems unlikely this week, and global growth concerns might again take centre stage.
Precious Metals	Precious metals had a minor uptick last week. Signs that the growth concern might be picking up.
Local Equity Markets	GCC equities were volatile last week. The direction is likely to remain less clear over the coming weeks.
Global Equity Markets	Global equity markets were resilient last weeks as yields finally ebbed. The underperformance of Euro-zone equities was largely currency-driven. The risks for global equities have clearly risen as they remain at very high levels, while global growth continues to disappointment.
Energy	The significant gains in energy prices are likely to come to an end in view of the global growth slowdown.
Industrial Metals	The recent rally in commodities is likely to recede in view of continuing slow growth in China

Currencies	**Commentary**	**Critical levels**
EURUSD	Euro gained further in line with weaker US data. We would expect euro strength now to recede as markets start realizing that the US- and China led slowdown will inevitably affect the Euro-zone. A weaker-than-expected Euro-zone Markit PMI might be the trigger of a more significant correction (as might be the case if the Fed minutes contain some hawkish statements).	R2 - 1.1686 R1 - 1.1568 S1 - 1.1232 S2 - 1.1014
GBPUSD	Like the euro, the British pound also had a strong rally, apparently also boosted by Mr. Cameron's electoral victory. We would expect that strength to recede in line with the euro also losing ground against the US dollar.	R2 - 1.6067 R1 - 1.5897 S1 - 1.5475 S2 - 1.5223
USDJPY	The Japanese yen largely remained in its trading range. It's expected to remain in the range of 118-120 per dollar.	R2 – 120.86 R1 – 120.06 S1 – 118.67 S2 – 118.08

Forthcoming important economic data

United States

	Indicators	Period	Expected	Prior	Comments
05/18/2015	NAHB Housing Index	May	57	56	Housing sector and FOMC minutes to be in the spotlight
05/20/2015	Fed FOMC Minutes	Apr			
05/21/2015	Markit Manufacturing PMI	May P	54.5	54.1	
05/21/2015	Existing Home Sales	April	5.24M	5.19M	
05/22/2015	CPI YoY	April	-0.2%	-0.1%	
05/22/2015	CPI Core YoY	April	1.7%	1.8%	

Japan

	Indicators	Period	Expected	Prior	Comments
05/20/2015	GDP Annualized SA QoQ	1Q P	1.6%	1.5%	Growth and PMI in focus
05/21/2015	Markit Manufacturing PMI	May P	50.3	49.9	

Euro zone

	Indicators	Period	Expected	Prior	Comments
05/19/2015	Euro-zone Trade Balance SA	Mar	21.9B	22.0B	Inflationary dynamics and business cycle (Mfg PMI) in spotlight
05/19/2015	CPI YoY	Apr F	0%	0%	
05/19/2015	CPI Core YoY	Apr F	0.6%	0.6%	
05/21/2015	Markit Manufacturing PMI	May P	51.8	52	
05/22/2015	IFO Current Assessment	May	113.5	113.9	

China and India

	Indicators	Period	Expected	Prior	Comments
05/21/2015	HSBC Mfg PMI (China)	May P	49.4	48.9	PMI in focus

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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