

The Weekly Market View

25 May 2015

بنك أبوظبي التجاري

ADCB



Global economic data continues to disappoint, commodities takes toll

Economic data was by and large negative last week as the PMIs of the world's largest economies remained under pressure and US housing data at the margin disappointed. Most noteworthy was a concrete sign of deterioration of business confidence in Germany, as well as a further correction in industrial metal prices. Energy prices held up better, but remained also under pressure. The US dollar strengthened significantly following remarks by Mrs. Yellen that she still expects to start hiking rates this year. We also saw a switching of the roles with US Treasuries hiking up while at the same time Euro-zone yields ebbed down.

Markets are catching up with Euro-zone weakness

This week we are not expecting major data from the Euro-zone and China. This means that markets will focus on the US where expectation are, however, already low. It is thus unlikely that we will see major movements in emerging or developed markets, and that also the US dollar will remain relatively stable versus the euro. The Greek issue will continue to cloud the markets as major disagreements remain with Greece's creditors and – at the same time – the country is running out of money. While a Greek default is likely to trigger some temporary turmoil, this should be manageable as only few Greek assets are still held by private agents. We still believe that some agreement will be found, however. GCC equity markets are unlikely to have a clear direction as also the oil price will tend to move sideways.

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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	2,126.1	0.2	3.3	ICE Brent USD/bbl	65.4	-2.2	14.0
Dow Jones	18,232.0	-0.2	2.3	Nymex WTI USD/bbl	59.7	0.1	12.1
Nasdaq	5,089.4	0.8	7.5	OPEC Baskt USD/bbl	61.9	-1.4	19.0
DAX 40	11,815.0	3.2	20.5	Gold 100 oz USD/t oz	1206.2	-1.5	1.8
Nikkei 225	20,264.4	2.7	16.1	Platinum USD/t oz	1146.3	-1.9	-5.1
FTSE 100	7,031.7	1.0	7.1	Copper USD/MT	283.4	-3.9	0.3
Sensex	27,957.5	2.3	1.7	Alluminium	1741.5	-4.2	-5.0
Hang Seng	27992.8	0.6	18.6	Currencies			
Regional Markets (Sunday to Thursday)				EUR	1.1013	-3.8	-9.0
ADX	4650.7	0.4	2.7	GBP	1.5490	-1.5	-0.6
DFM	4118.6	1.1	9.1	JPY	121.54	1.9	-1.4
Tadaw ul	9768.1	0.4	17.2	CHF	0.9435	3.0	5.4
DSM	12443.5	-0.6	1.3	Rates			
MSM30	6383.35	0.3	0.6	USD Libor 3m	0.2845	2.9	11.3
BHSE	1379.7	-0.9	-3.3	USD Libor 12m	0.7376	2.0	17.3
KWSE	6332.3	-0.4	-3.1	UAE Eibor 3m	0.7386	0.0	9.1
MSCI				UAE Eibor 12m	1.0671	0.0	5.1
MSCI World	1,803.5	-0.2	5.5	US 3m Bills	0.0101	0.0	-71.5
MSCI EM	1,037.6	-0.6	8.5	US 10yr Treasury	2.2092	3.1	1.8

Please refer to the disclaimer at the end of this publication

The Weekly Market View

25 May 2015

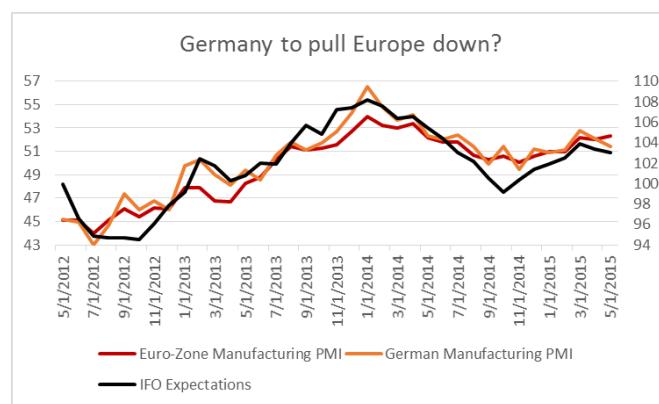
Euro-zone weakness now once more a given

Mrs. Yellen "third headwind" not fading away, increasing likelihood of global growth slump

Last week Mrs. Yellen affirmed that she still expects the US economy to improve sufficiently enough to allow the Federal Reserve to start hiking rates this year. She did mention that she saw three headwinds still restraining US growth, specifically 1) tight mortgage credit and low house prices, 2) fiscal policy austerity, and 3) weak growth abroad which is denting US exports. Whilst the second headway was "mostly behind us", she was expecting the first and third to abate. A closer look, however, at the Euro-zone growth and price dynamics – the largest trading partner of the US – puts some doubt on the Fed's Chairperson's optimism. Weak growth abroad, if anything, seems to dig in, rather than fade away.

Euro-zone growth indicators retrace

As we had mentioned in our last week's issue, the pick-up of growth in the Euro-zone is now receding. This should not come as a surprise. The weakening of the euro has determined a significant deterioration in the US trade balance and, as such, exacerbated the slowdown ongoing in the United States and China. The second order effect of the weaker euro is now backfiring on Europe: weaker demand from the United States and China is eating into the pick-up of growth in Europe itself. The preliminary Eurozone Manufacturing PMI for May picked up marginally this week. Yet, it should be pointed out that the preliminary German Manufacturing PMI for May came down more significantly and that the main engine for the Euro-zone has typically always been Germany. Even more worrying is the reduction of the IFO Expectations Index, Germany's most watched leading indicator for the business cycle.



ECB to front-load summer QE purchases

During the months of July and August liquidity tends to be less in Europe's financial markets. For that reason the ECB has indicated that it would buy more than the allotted 60 billion euro a month securities during the month of June, and less between July and August. Whilst this does not imply any change in the overall size of liquidity injection, the markets have interpreted the move as a sign that the ECB remains committed to its

ongoing QE program. As a result, the euro lost last week close to 4% against the US dollar.

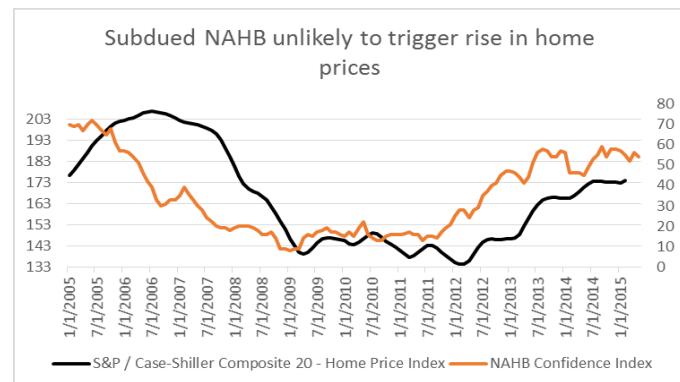
Whilst it is clear that unconventional policies are to a large extent triggering an increase in volatility, not only currency volatility but also yield volatility, the overall growth and price dynamics in the Euro-zone will keep the ECB on course with regard to its QE program. We would stress that inflation remains at very low levels and that the stabilization of the pick-up in growth, if not its reversal, are likely to keep inflation far away from the ECB's target of below – but close to – 2%.



US Existing home sales and NAHB confidence bode ill for pick-up in house prices

Mrs. Yellen's third headwind against the economic recovery, weak house prices, also doesn't look set to fade soon.

It is true that both housing starts and building permits picked up last week. Existing home sales declined, however, pushing up inventories. Not surprisingly, the leading indicator for the sector, the National Association of Homebuilders (NAHB) confidence indicator, came down again. In such circumstances house prices are unlikely to pick up significantly. Not only are weak house prices compromising a pick-up in growth, they are more directly likely to deter the Fed to hike rates. The housing sector is, in fact, amongst the most interest rate sensitive sectors. A further rise in yields will compromise mortgage costs and the resulting slump in house prices would yet transform the sector in an outright drag to growth.





Summary market outlook

Global Yields

US sovereign bond yields trended upward as Federal Reserve Chairwoman Yannet Yellen indicated that she still believes that economic growth will pick up sufficiently for the Federal Reserve to start hiking rates. Next week we will have little economic data coming out of Europe, although the Greek issue continues to hang over the markets. We are expecting bond yields to remain stable.

Stress and Risk Indicators

The VIX index continued to ebb lower. With the exception of Greece, also CDS spreads for European periphery countries remained subdued. We do not expect major changes this week.

Precious Metals

Precious metals did not move much and are also expected to remain stable

Local Equity Markets

GCC equities did not move much over the last weeks. The direction is likely to remain unclear over the coming weeks.

Global Equity Markets

Global equity markets were resilient last weeks as yields finally ebbed and European equities took advantage of renewed US dollar strength. 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 now being undone in view of the global growth slowdown, as well as the stronger US dollar.

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

The US dollar significantly regained strength as incipient Euro-zone weakness became clearer and Mrs. Yellen indicated that she still thinks to hike rates in 2015. We expect the exchange rate for now to stabilize at this level. Over time the US dollar will strengthen more as the ECB's monetary policy will remain by and large accommodating. This week, however, the euro might recoup some value after last week's close to 4% drop.

R2 - 1.1607
R1 - 1.1310
S1 - 1.0859
S2 - 1.0705

GBPUSD

Like the euro, the British pound also weakened against the US dollar. We expect the pound sterling to regain its downward trend against the US dollar, but this week it might marginally bounce back

R2 - 1.5860
R1 - 1.5675
S1 - 1.5376
S2 - 1.5262

USDJPY

General dollar strength determined that the US dollar also broke out of its range versus the yen. We do not expect a more significant outbreak as the Bank of Japan is right now satisfied with this level and the Fed will hike rates only gradually.

R2 – 123.11
R1 – 122.32
S1 – 120.00
S2 – 118.47

The Weekly Market View

25 May 2015

Forthcoming important economic data

United States

	Indicators	Period	Expected	Prior	Comments
05/26/2015	Durable Goods Orders	Apr	-0.5%	4.7%	Markets to focus on consumer confidence and durable goods orders: data to remain weak,
05/26/2015	Capital Goods Orders ex Air	Apr	0.3%	0.6%	equity markets unlikely to move a lot, but yields might come somewhat down, together with the US dollar
05/26/2015	New Home Sales	Apr	505K	481K	
05/26/2015	Consumer Confidence Index	May	95	95.2	
05/29/2015	GDP Annualized QoQ	Q1	-0.9%	0.2%	
05/29/2015	Chicago Purchasing Manager	May	53	52.3	
05/29/2015	U. of Michigan Sentiment	May F	90	88.6	

Japan

	Indicators	Period	Expected	Prior	Comments
05/28/2015	Jobless Rate	Apr	3.4%	3.4%	Markets to focus on Industrial production
05/28/2015	National CPI YoY	Apr	0.6%	2.3%	
05/28/2015	Industrial Production MoM	Apr P	1.0%	-0.8%	

Euro zone

	Indicators	Period	Expected	Prior	Comments
05/28/2015	Consumer Confidence	May F	-5.5	-5.5	Little data out Europe: European equities might do better on the back of yield stabilization and a weaker euro

China and India

	Indicators	Period	Expected	Prior	Comments
05/29/2015	GDP YoY annual estimate (India)	Q1 P	7.4%	7.4%	Focus on GDP in India

The Weekly Market View

25 May 2015

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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