

US dollar stronger in spite of weaker US growth (and thanks to Draghi)

At 51.1, the US ISM indicator remains above the threshold level of 50 indicating that the economy is still in expansionary mode. Having said so, it had not be that low since early 2013. US job creation for the month of August was also disappointing. Yet, whilst signs of growth moderation did have a positive impact on Treasuries and a negative impact on global equities, the US dollar strengthened against the euro. The reason for US dollar strength was Mr. Draghi indicating that disappointing growth and inflation figures might yet force the ECB to increase its current QE operations.

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China's problems, equity markets volatility are here to stay, G-20 support notwithstanding

The G-20 meeting of Finance Ministers and Central Bankers acknowledged that China's government was not aiming to devalue its currency, but only taking measures to allow its free float. It expressed confidence in financial and economic reform strategy of government of China, and it also invited all governments to refrain from devaluing their currencies. We are a little bit less confident. After a similar statement by the G-20 in 2013 – inviting countries to refrain from devaluing their currencies – both the yen and the euro came massively down. Even if – going forward – these two major currencies will now stabilize versus the US dollar that would still leave the renminbi highly uncompetitive compared to just a few years ago. China's problems will not go away overnight and equity markets will remain under pressure.

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Past week global markets' performance

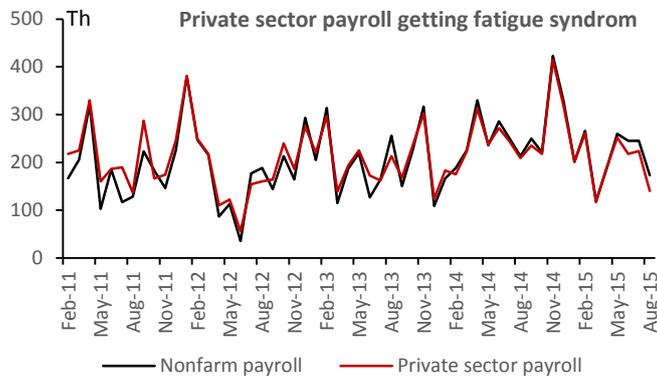
| Index Snapshot (World Indices) | | | | Global Commodities, Currencies and Rates | | | |
|----------------------------------------------|----------|--------------|-------|------------------------------------------|---------|--------------|-------|
| Index | Latest | Weekly Chg % | YTD % | Commodity | Latest | Weekly Chg % | YTD % |
| S&P 500 | 1,921.2 | -3.4 | -6.7 | ICE Brent USD/bbl | 49.6 | -0.9 | -13.5 |
| Dow Jones | 16,102.4 | -3.2 | -9.7 | Nymex WTI USD/bbl | 46.1 | 1.8 | -13.6 |
| Nasdaq | 4,683.9 | -3.0 | -1.1 | OPEC Baskt USD/bbl | 47.4 | 4.8 | -8.9 |
| DAX 40 | 10,038.0 | -2.5 | 2.4 | Gold 100 oz USD/t oz | 1121.9 | -1.0 | -5.3 |
| Nikkei 225 | 17,792.2 | -7.0 | 2.0 | Platinum USD/t oz | 990.8 | -2.7 | -18.0 |
| FTSE 100 | 6,042.9 | -3.3 | -8.0 | Copper USD/MT | 232.0 | -1.2 | -17.9 |
| Sensex | 25,201.9 | -4.5 | -8.4 | Alluminium | 1591.25 | -0.3 | -13.2 |
| Hang Seng | 20840.6 | -3.6 | -11.7 | Currencies | | | |
| Regional Markets (Sunday to Thursday) | | | | EUR | 1.1149 | -0.3 | -7.8 |
| ADX | 4378.1 | -1.9 | -3.3 | GBP | 1.5170 | -1.4 | -2.6 |
| DFM | 3570.4 | -2.1 | -5.4 | JPY | 118.99 | -2.2 | 0.7 |
| Tadaw ul | 7383.9 | -2.9 | -11.4 | CHF | 0.9714 | 0.8 | 2.4 |
| DSM | 11347.2 | 0.5 | -7.6 | Rates | | | |
| MSM30 | 5749.38 | -1.2 | -9.4 | USD Libor 3m | 0.3320 | 0.9 | 29.9 |
| BHSE | 1299.4 | -0.2 | -8.9 | USD Libor 12m | 0.8503 | 0.8 | 35.2 |
| KWSE | 5758.0 | -2.0 | -11.9 | UAE Eibor 3m | 0.8186 | 1.1 | 20.9 |
| MSCI | | | | UAE Eibor 12m | 1.1500 | 1.6 | 13.2 |
| MSCI World | 1,595.7 | -3.8 | -6.7 | US 3m Bills | 0.0254 | -50.0 | -28.5 |
| MSCI EM | 788.6 | -3.9 | -17.5 | US 10yr Treasury | 2.1244 | -2.6 | -2.2 |

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Growth and interest uncertainty keep US dollar strong, equity markets under pressure

US growth coming down

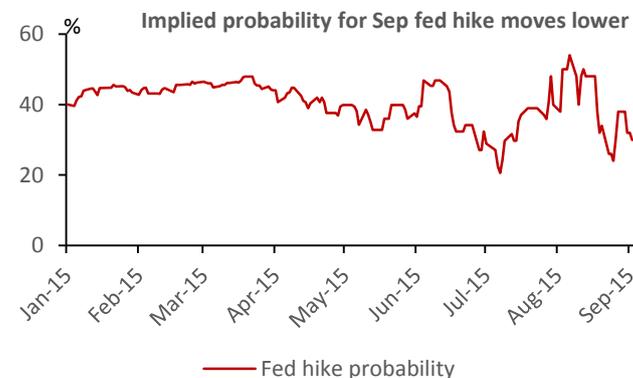
One month of disappointing job data is of course not enough to infer a significant slowdown in growth. Yet, and although monthly job data are notoriously volatile and subject to revision, the recent job market data do suggest a trend that already for the last few months has been less rosy than many depict. Private sector job addition has clearly been slowing for the last few months. A sharp swing in the manufacturing jobs from +12K in July to -17K in August corroborates the lower manufacturing ISM for August, which was lowest since early 2013. Factory orders in July grew at 0.4%, while if we exclude more volatile component of the series it actually declined 0.6%. A small tick-up in average hourly wage does not seem to be strong enough to push up inflationary expectations, especially when we look at the number in combination with the second quarter Unit Labour Cost which declined 1.4%.



Source: Bloomberg

Doubts about Fed tightening, but no doubts about the ECB further pushing QE

Global financial volatility in last weeks had already created some serious doubts about the Fed hiking in September. A weak set of job market data seems to have pushed the Fed's appointment with higher rates even further ahead in time. The implied probability from the Fed funds futures shows only a 30% chance of rate hike this month, down from 54% when the July job data was released.



Source: Bloomberg

Interestingly, increased doubts about the Fed hiking rates have not resulted in a weakening of the US dollar. In fact the US dollar has not only continued to strengthen against emerging currencies, it has now also strengthened against the euro. The reasons for this strength are quite intuitive. First, markets are still betting on some rate hike this year, the timing is in a way less relevant. More importantly Mr. Draghi has clearly stated that because of disappointing Euro-zone growth and inflation, the ECB might well increase QE sooner rather than earlier. Thus continuing monetary policy divergence is likely to keep upward pressure on the US dollar for more time to come.

Strong US dollar to keep China's problems alive, global equity markets under pressure

This weekend the G-20 meeting of Ministers of Finance and Central Bankers issued a statement asking all countries to refrain from devaluing their currencies. Recent history (see the below chart) shows that such statement does not necessarily produce the desired result. Even if the US dollar exchange rate would stabilize versus the euro and the yen, China's renminbi would still remain uncompetitive as we pointed out *in the last weekly*. China's growth issues are here to stay, and global equity markets will remain under pressure.



Source: Bloomberg

Summary market outlook

Global Yields

The US Treasury yield trended lower on largely disappointing economic data releases. It will remain volatile in the near term as we approach the FOMC meeting scheduled on 16th-17th Sep. European sovereign yields also declined on the weaker economic outlook and ECB's dovish tone last Thursday. They could further come down in the near term as economic outlook adjusts even lower.

Stress and Risk Indicators

The VIX index remains elevated, reflecting high risk levels in the US equity markets. However, sovereign CDS spreads were largely stable, confirming that markets do not see an increase in the risk of insolvency, particularly in Asian Emerging Economies.

Precious Metals

The gold price declined as global risk perceptions subsided further. Given that global risk is not completely off the table, it could benefit in the near term. However, we remain cautious on the precious metal.

Local Equity Markets

A volatile oil price last week had a negative impact on the GCC equity markets. Indeed, markets could not sustain the positive start. They are likely to remain volatile in the near term as the oil price volatility will not go away.

Global Equity Markets

Another week of disappointing growth indicators pushed major global equity markets lower last week. Even a dovish ECB could not support European equities. We remain very cautious in the near term as growth and interest rate dynamics do not bode well for equity markets.

Energy

Energy are likely to remain volatile in the near term as the dust has not yet settled on which factors – supply or demand – are likely to prevail. We do not believe in a rapid return to the 60 US dollar a barrel level.

Industrial Metals

Uncertainty around the Emerging Economies growth, in particular China's, continues to weigh heavily on the industrial metals.

Currencies

Commentary

Critical levels

EURUSD

The euro was largely stable before it gave up on the dovish tone of the ECB. The safe haven trend also seems to have diminished. The downtrend is likely to continue this week as ECB has also downgraded its growth and inflation outlook for the medium term.

R2 - 1.1434
R1 - 1.1292
S1 - 1.1047
S2 - 1.0944

GBPUSD

A clear market perception of the first rate hike coming from the US Fed kept the pound under pressure. As we get closer to the Fed meeting on September 17, the currency pair could see some volatility with changing market perceptions about the rate hike in September.

R2 - 1.5529
R1 - 1.5350
S1 - 1.5078
S2 - 1.4985

USDJPY

The Japanese yen behaved largely as a safe haven currency as it appreciated when global equity markets witnessed another week of decline. It is likely to continue to move with the global risk perception.

R2 - 122.92
R1 - 120.96
S1 - 117.82
S2 - 116.64

Forthcoming important economic data

United States

| | Indicators | Period | Expected | Prior | Comments |
|------------|----------------------------|--------|----------|---------|----------------------------------------------------------------------------------------------------------------------------------|
| 09/08/2015 | Consumer Credit | Jul | \$18.6B | \$20.7B | |
| 09/10/2015 | Import Prices YoY | Aug | -11.1% | -10.4% | After a largely disappointing set of data last week, markets will look for a trend in pipeline inflation and consumer sentiment. |
| 09/10/2015 | Wholesale Inventories MoM | Jul | 0.3% | -0.9% | |
| 09/11/2015 | PPI Ex Food and Energy YoY | Aug | 0.7% | 0.6% | |
| 09/11/2015 | Univ. of Mich. Sentiment | Sep P | 91.2 | 91.9 | |

Japan

| | Indicators | Period | Expected | Prior | Comments |
|------------|-------------------------|--------|----------|-------|-----------------------------------------------------------------------------------------|
| 09/08/2015 | Current Account Balance | Jul | ¥1750B | ¥559B | |
| 09/08/2015 | GDP Annualized QoQ | 2Q F | -1.8% | -1.6% | Markets will want to see if there is any revision in the second quarter growth numbers. |
| 09/10/2015 | Machine Orders MoM | Jul | 3.3% | -7.9% | |
| 09/10/2015 | PPI YoY | Aug | -3.3% | -3.0% | |

Euro zone

| | Indicators | Period | Expected | Prior | Comments |
|------------|--------------------------------|--------|----------|-------|-------------------------------------------------------------------------------------------------------------------------|
| 09/08/2015 | GDP SA QoQ | 2Q P | 0.3% | 0.3% | |
| 09/08/2015 | Household Consumption QoQ | 2Q P | 0.3% | 0.5% | Markets will focus on the second quarter growth revision and industrial production numbers from large member countries. |
| 09/07/2015 | Industrial Production MoM (GE) | Jul | 1.1% | -1.4% | |
| 09/08/2015 | CPI EU Harmonized YoY (GE) | Aug F | 0.1% | 0.1% | |
| 09/10/2015 | Industrial Production MoM (FR) | Jul | 0.2% | -0.1% | |

China and India

| | Indicators | Period | Expected | Prior | Comments |
|------------|-----------------------------------|--------|----------|--------|-----------------------------------------------------------------------------------------------------|
| 09/08/2015 | Exports YoY (China) | Aug | -6.7% | -8.3% | |
| 09/08/2015 | Imports YoY (China) | Aug | -8% | -8.1% | |
| 09/10/2015 | CPI YoY (China) | Aug | 1.9% | 1.6% | Foreign trade data from China and India, and industrial production will be looked at by the market. |
| 09/09/2015 | Local Car Sales (India) | Aug | NA | 162022 | |
| 09/10/2015 | Exports YoY (India) | Aug | NA | -10.3% | |
| 09/11/2015 | Industrial Production YoY (India) | Jul | NA | 3.8% | |

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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