The Weekly Market View

23 February 2015

بنك أبوظبي التجاري
ADCB

Federal Reserve remains concerned about growth

In spite of the continuing strength of the producer confidence indicator Markit US Manufacturing PMI, the Federal Reserve minutes confirm that the country's monetary authorities remain concerned about low wages impeding a pick-up to "normal" inflation levels, as well as restraining the current consumption recovery. The strong US dollar is also having a disinflationary impact, as can be seen from disappointing figures from the Housing Market. Whilst these factors will continue to keep a lid on rate hikes, as well as markets uncertain, international risks might be receding as Germany is leading a recovery in Europe, and Greece is heading towards an agreement with its partners in the Euro-zone.

Luciano Jannelli, Ph.D., CFA
Head Investment Strategy
luciano.jannelli@adcb.com

Rahmatullah Khan
Economist
rahmatullah.khan@adcb.com

China PMI and US GDP revision for the fourth quarter to drive markets

Even though we see slower growth in the US, the improving outlook in the Eurozone reduces headwinds. Greece is unlikely to break with the Eurozone, at least for now, and as a result markets will be mainly concerned with both the revision of US GDP, as well as the China HSBC Manufacturing Confidence Indicator PMI. Whilst both figures are expected to come out poorly, a major disappointment about either of them (or both) poses the biggest market risk for the week ahead.

Past week global markets' performance

Index Snapshot (World Indices)

Index	Latest	Weekly Chg %	YTD %
S&P 500	2,110.3	0.6	2.5
Dow Jones	18,140.4	0.7	1.8
Nasdaq	4,956.0	1.3	4.6
DAX 40	11,050.6	0.8	12.7
Nikkei 225	18,332.3	2.3	5.1
FTSE 100	6,915.2	0.6	5.3
Sensex	29,231.4	0.5	6.3
Hang Seng	24832.1	0.6	5.2
Regional Markets (Sunday to Thursday)			
ADX	4669.0	0.9	3.1
DFM	3857.7	-1.2	2.2
Tadawul	9300.2	0.5	11.6
DSM	12496.5	-0.9	1.7
MSM30	6638.57	-0.3	4.7
BHSE	1460.1	0.9	2.4
KWSE	6640.9	-0.8	1.6
MSCI			
MSCI World	1,768.1	0.9	3.4
MSCI EM	984.4	-0.2	2.9

Global Commodities, Currencies and Rates

Commodity	Latest	Weekly Chg %	YTD %
ICE Brent USD/bbl	60.2	-2.1	5.0
Nymex WTI USD/bbl	50.8	-4.6	-4.6
OPEC Baskt USD/bbl	56.3	0.6	8.3
Gold 100 oz USD/t oz	1201.9	-2.3	1.5
Platimum USD/t oz	1164.9	-3.5	-3.6
Copper USD/MT	259.5	-0.4	-8.2
Alluminium	1785	-2.1	-2.7
Currencies			
EUR	1.1381	-0.1	-5.9
GBP	1.5399	0.0	-1.1
JPY	119.03	0.2	0.6
CHF	0.9382	0.6	6.0
Rates			
USD Libor 3m	0.2626	2.1	2.7
USD Libor 12m	0.6744	0.1	7.3
UAE Eibor 3m	0.6914	0.0	2.1
UAE Eibor 12m	1.0129	0.0	-0.3
US 3m Bills	0.0152	-42.0	-57.2
US 10yr Treasury	2.1117	3.0	-2.7

Please refer to the disclaimer at the end of this publication.

Greece is not an issue, low growth China might become the major concern

Greece will have to accommodate

For the moment we stick to our call that Greece will not exit the Euro-zone. If Greece would have wanted to either obtain a very significant reduction on its debt, or exit the Euro-zone it should have asked for it earlier, when financial contagion to other Euro-zone periphery economies was a concrete threat, and a devalued Drachma might have been able to limit the depth of what ultimately was to become a multi-year recession.

Financial contagion no longer a threat

ECB Quantitative Easing (QE) is a stealth version of fiscal union because it allows the European Central Bank to co-ordinate the acquisition of Government bonds of all Member-Countries. Thus QE is pushing down the spreads for all other periphery economies, in spite of the Greek troubles, i.e. rising Greek debt yields, and tumbling Greek equity markets. Perhaps more importantly, European banks no longer hold significant amounts of Greek debt. This means that Greece's bargaining power is currently at its lowest since the inception of the debt crisis of the Euro-zone.

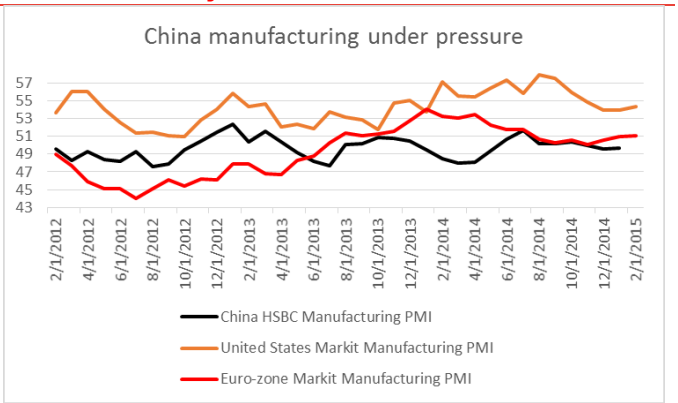
Devaluation no longer useful

Since the inception of the Euro-zone debt crisis, Greece's debt burden has significantly risen as the country had to work itself through a massive recession, while only gradually improving its competitiveness in a context of rising financing costs. If Greece would leave the single currency now, the drachma would suffer such a massive devaluation that a substantial debt haircut would be all but a forgone conclusion whilst a gain in effective competitiveness could well be erased by an increase in inflation. In such circumstances the country's Government would still be forced to maintain austerity-type policies that repress domestic wages. Hardly what it promised during the elections.

US dollar strength troubling for China

The current strength of the US dollar is favouring other advanced economies, such as the Euro-zone countries. It might still trigger some external financing problems for specific emerging markets. A key indicator for troubles would be slower growth in the United States and in China, which – unlikely any other major global economy – is pegged to the US dollar. As such, China is taking the full brunt of US dollar strengthening – induced loss of competitiveness.

We thus expect markets this week to pay particular attention to the China HSBC Manufacturing PMI, which - unlike other global PMI Indices – has been under pressure lately.

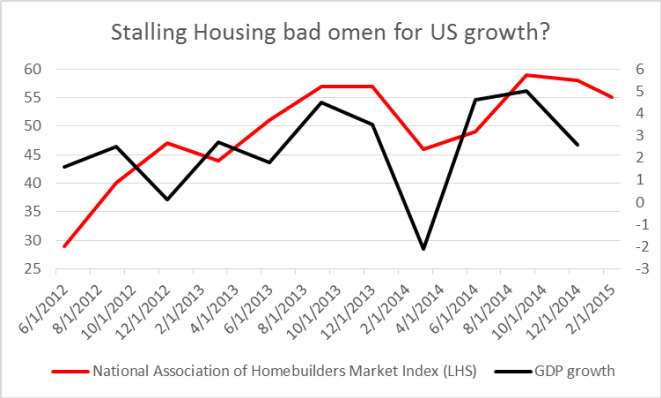


Source: Bloomberg

Markets will also closely watch how big the downward revision of fourth quarter US GDP will be

It seems likely that fourth quarter annual US GDP growth will be revised down from the first estimate of 2.6%, while markets expect consumption growth to be confirmed at 4.3%. Any revision below 2% for the overall figure, as well as any negative revision of the 4.3% consumption growth figure would be a negative for equity markets, and would trigger downward pressure on yields and on the US dollar.

This would, however, not come entirely as a surprise given recent weakness in housing, as well as rising concerns – expressed by the Federal Reserve in its January 27-28 meetings – that repressed wages might further stimulate disinflation and restrain household spending.



Summary market outlook

Global Yields	US Treasury 10yr yields have substantially moved side-wards. Improving outlooks in Japan and Europe may have kept yields at current levels, in spite not so good domestic data in the US (in particular in the housing market) and the Federal Reserve minutes expressing concern about low inflation and growth. Further negative data from the US, in particular a bigger than expected negative GDP revision for the fourth quarter, is likely to keep a lid on yields.
Stress and Risk Indicators	The VIX index came further down. We expect it to stabilize at these levels.
Precious Metals	Will remain volatile as long as the Federal Reserve will not become more explicit about rate hikes. We expect some rebound after the correction of last weeks
Local Equity Markets	Local equities were somewhat under pressure in the wake of the significant gains over the prior weeks and a stabilization of the oil price. We do not expect major movements this week.
Global Equity Markets	A relatively weaker US dollar supported US equities, whilst the improving economic outlook in the Eurozone pushed that region's equities higher. We continue to see Eurozone equity favorably while reiterating that the US equities will largely move against the US dollar index. The dovish FOMC minutes might now, however, somehow temper this trend of a stronger US dollar with weaker US equity markets.
Energy	We await volatility to stabilize before providing any view on the direction for the very near term. However, we remain of the view that prices will rebound in the medium term.
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	As the economic outlook improves in the Eurozone, the Euro is getting some support. Dovish FOMC minutes are for the moment preserving this trend. It might be reinforced if economic data from China and the US is not that good this week.	R2 - 1.1541 R1 - 1.1461 S1 - 1.1290 S2 - 1.1190
GBPUSD	Also the GBP gained strength on the dovish FOMC minutes. As for the Euro, we expect this strength to continue this week.	R2 - 1.5562 R1 - 1.5480 S1 - 1.5317 S2 - 1.5236
USDJPY	The JPY has been trading largely in a range of 118-120. Barring major changes in US monetary policy this is not likely to change soon.	R2 – 120.12 R1 – 119.57 S1 – 118.33 S2 – 117.64

Forthcoming important economic data

United States

	Indicators	Period	Expected	Prior	Comments
02/26/2015	CPI YoY	Jan	-0.1%	0.8%	Besides inflation numbers, market will keenly watch expected the downward revision in US GDP growth
02/26/2015	CPI Core YoY	Jan	1.6%	1.6%	
02/26/2015	Durable Goods Orders	Jan	1.9%	-3.3%	
02/26/2015	Durable Ex Transport	Jan	0.5%	-0.8%	
02/27/2015	GDP annualized QoQ	4Q	2%	2.6%	
02/27/2015	Univ. of Mich. Sentiment	Feb F	94	93.6	

Japan

	Indicators	Period	Expected	Prior	Comments
02/27/2015	CPI YoY	Jan	2.5%	2.4%	After a disappointing fourth quarter GDP growth, market will watch January indicators to see if further growth pick-up is still sustainable.
02/27/2015	Industrial Production MoM	Jan P	2.5%	0.8%	
02/27/2015	Retail Sales MoM	Jan	-0.4%	-0.4%	
02/27/2015	Housing Starts YoY	Jan	-11%	-14.7%	

Euro zone

	Indicators	Period	Expected	Prior	Comments
02/24/2015	CPI YoY	Jan F	NA	-0.6%	Inflation data is the Eurozone will remain under the market focus.
02/24/2015	CPI core YoY	Jan F	NA	0.6%	
02/23/2015	IFO Business Climate (Germany)	Feb	NA	106.7	
02/24/2015	GDP QoQ	4Q	NA	0.7%	
02/27/2015	CPI YoY (Germany)	Feb P	NA	-0.4%	

China and India

	Indicators	Period	Expected	Prior	Comments
02/25/2015	HSBC Mfg PMI (China)	Feb P	49.5	49.7	Manufacturing PMI in China and Infra growth in India are important releases this week
02/25/2015	Infrastructure industries YoY (India)	Jan	NA	2.4%	
02/27/2015	Fiscal Deficit (INR Crore)	Jan	NA	7247	

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

Disclaimer

*This publication is intended for general information purposes only. It should not be construed as an offer, recommendation or solicitation to purchase or dispose of any securities or to enter in any transaction or adopt any hedging, trading or investment strategy. Neither this publication nor anything contained herein shall form the basis of any contract or commitment whatsoever. Distribution of this publication does not oblige Abu Dhabi Commercial Bank PJSC ("**ADCB**") to enter into any transaction.*

The content of this publication should not be considered legal, regulatory, credit, tax or accounting advice. Anyone proposing to rely on or use the information contained in the publication should independently verify and check the accuracy, completeness, reliability and suitability of the information and should obtain independent and specific advice from appropriate professionals or experts regarding information contained in this publication.

Information contained herein is based on various sources, including but not limited to public information, annual reports and statistical data that ADCB considers accurate and reliable. However, ADCB makes no representation or warranty as to the accuracy or completeness of any statement made in or in connection with this publication and accepts no responsibility whatsoever for any loss or damage caused by any act or omission taken as a result of the information contained in this publication. This publication is intended for qualified customers of ADCB.

Charts, graphs and related data or information provided in this publication are intended to serve for illustrative purposes only. The information contained in this publication is prepared as of a particular date and time and will not reflect subsequent changes in the market or changes in any other factors relevant to their determination. All statements as to future matters are not guaranteed to be accurate. ADCB expressly disclaims any obligation to update or revise any forward looking statements to reflect new information, events or circumstances after the date of this publication or to reflect the occurrence of unanticipated events.

ADCB does and may at any time solicit or provide commercial banking, investment banking, credit, advisory or other services to the companies covered in its publications. As a result, recipients of this publication should be aware that any or all of the foregoing services may at time give rise to a conflict of interest that could affect the objectivity of this publication.

Past performance does not guarantee future results. Investment products are not bank deposits and are not guaranteed by ADCB. They are subject to investment risks, including possible loss of principal amount invested. Please refer to ADCB's Terms and Conditions for Investment Services.

This publication is being furnished to you solely for your information and neither it nor any part of it may be used, forwarded, disclosed, distributed or delivered to anyone else. You may not copy, reproduce, display, modify or create derivative works from any data or information contained in this publication.