ADCB بنك أبوظبي التجاري

Markets still in positive mood, commodities strong

Global equities ended the week with positive gains, even if the bulk of those gains materialized at the beginning of the week, with most markets either receding or moving sideward as the week came to an end. More significantly perhaps was the spike towards the end of the week in Treasury yields. New US economic data releases were not particularly helpful in providing direction, as the housing market gave contradicting signals, with existing home sales holding up well, whilst housing starts disappointed. The US Markit PMI leading manufacturing preliminary indicator for the month of April disappointed a bit, but also not in a very significant manner. Not surprisingly, however, China's overall debt to GDP keeps on growing as the increasing stimulus – while successful in temporarily stabilizing the situation and preventing a more significant slowdown - has an increasingly limited impact on real growth.

Little movement ahead as the Fed is unlikely to unsettle markets

US capital – and durable goods orders data are unlikely to be particularly impactful in terms of the markets as they are anyway very volatile and unlikely to do much worse than the currently low expectations for the month of April. The Federal Reserve will keep things unchanged. We would also be inclined that the more dovish language of the last months is likely to be confirmed. The more important data this week might well come from Germany where the all-important IFO manufacturing leading indicator for April will be published right at the start of this week. We would not be surprised to see the markets temporarily stabilize over the coming weeks. Going forward, however, the situation will remain fragile as concerns over China remain there, and advanced economies continue to grow at a very low speed.

Luciano Jannelli, Ph.D., CFA
Head Investment Strategy
Tel: +971 (0)2 696 2340
luciano.jannelli@adcb.com

Rahmatullah Khan
Economist
Tel: +971 (0)2 696 2843
rahmatullah.khan@adcb.com

Wietse Nijenhuis
Equity Strategist
Tel: +971 (0)2 205 4923
wietse.nijenhuis@adcb.com

Visit Investment Strategy Webpage to

Past week global markets' performance

Index Snapshot (World Indices)

Index	Latest	Weekly Chg %	YTD %
S&P 500	2,091.6	0.5	2.3
Dow Jones	18,003.8	0.6	3.3
Nasdaq	4,906.2	-0.6	-2.0
DAX	10,373.5	3.2	-3.4
Nikkei 225	17,572.5	4.3	-7.7
FTSE 100	6,310.4	-0.5	1.1
Sensex	25,838.1	0.8	-1.1
Hang Seng	21467.0	0.7	-2.0
Regional Markets (Sunday to Thursday)			
ADX	4636.8	2.2	7.6
DFM	3594.1	1.0	14.1
Tadawul	6587.7	1.2	-4.7
DSM	10389.9	1.5	-0.4
MSM30	5828.45	1.0	7.8
BHSE	1122.2	-0.1	-7.7
KWSE	5357.1	0.9	-4.6
MSCI			
MSCI World	1,686.2	0.9	1.4
MSCI EM	845.2	-0.2	6.4

Global Commodities, Currencies and Rates

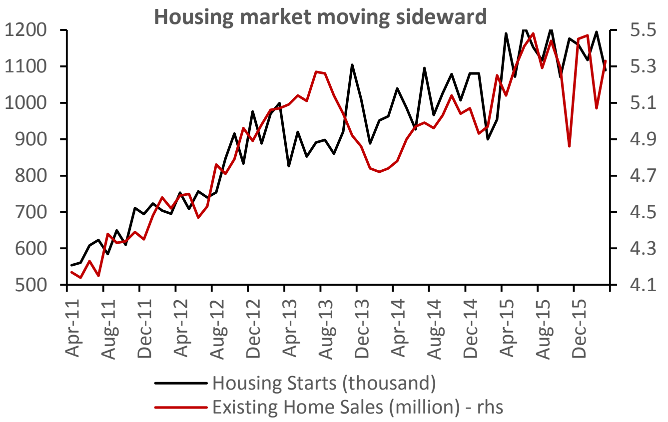
Commodity	Latest	Weekly Chg %	YTD %
ICE Brent USD/bbl	45.1	4.7	21.0
Nymex WTI USD/bbl	43.7	8.3	18.1
OPEC Baskt* USD/bbl	40.1	5.4	28.3
Gold 100 oz USD/t oz	1233.0	-0.1	16.2
Platinum USD/t oz	1008.9	2.5	13.2
Copper USD/MT	5015.5	4.2	6.7
Alluminium	1648.5	6.7	9.5
Currencies			
EUR	1.1222	-0.5	3.3
GBP	1.4403	1.4	-2.3
JPY	111.79	2.8	7.5
CHF	0.9786	1.1	2.4
Rates			
USD Libor 3m	0.6359	0.4	3.8
USD Libor 12m	1.2364	1.2	5.0
UAE Eibor 3m	1.0390	1.5	-1.5
UAE Eibor 12m	1.5947	0.4	8.1
US 3m Bills	0.2289	4.7	40.7
US 10yr Treasury	1.8878	7.8	-16.8

Please refer to the disclaimer at the end of this publication

Stability for how long, as China debt continues to grow?

US housing data point to some stability of the US economy

This week's US housing data failed to give clear indications as to how the sector will continue to contribute to the economy's growth rate. True, existing home sales were resilient, yet on the other hand new housing starts came down.

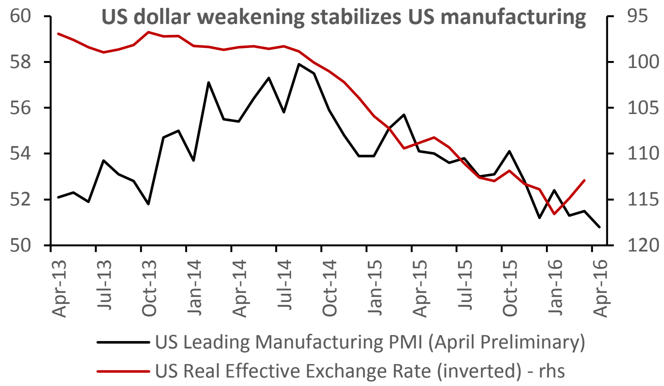


Source: Bloomberg

In our opinion the housing markets contribution to the overall economy is going to be stationary at best. There are multiple reasons for that. First and foremost the pick-up of housing in the last years has gone hand in hand with the rise in employment. This is unlikely to continue. At the same time mortgage rates are in the short- to medium term likely to remain stable. So, as long as the US economy continues to grow at a low speed, the housing market might well be resilient, but we do not expect it to significantly improve. As such its contribution to the US economy's current sluggish growth rate is likely to remain the same.

…but US manufacturing remains critically linked to the US dollar…

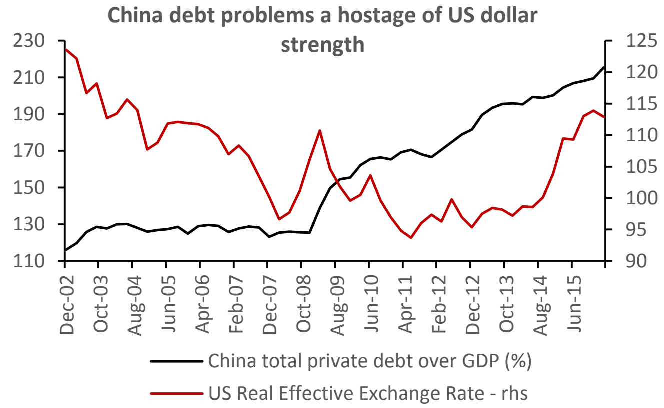
We are not sure what to make of the disappointing preliminary figure for the April PMI leading indicator. To be sure, we have already pointed out that the rebound in US manufacturing is critically linked to the weakening of the US dollar (just as the strengthening of the greenback between 2014 and 2015 determined a slowdown in the country's manufacturing activity). Having said so, we would not make too much of this preliminary figure for April. Whilst we do not see in the near term too much upside for US manufacturing, we don't see too much downside either, courtesy also the more dovish stance by the Fed.



Source: Bloomberg

…and a rising US dollar would be problematic for China

On the exchange front it is worthwhile to mention that nowhere else is exchange rate stability more important that in China. US dollar strength has gone together with decreasing returns on China's (increasingly ineffective) investments, thus the stimulus that the government is providing gives less bang for each buck spent. In other words, corporations' debt over GDP keeps on growing. This process – the expansion of total debt over GDP – is unlikely to come to a halt soon, as the government prefers to continue stimulus rather than shut down ineffective factories. Yet, if the US dollar somehow weakens the mushrooming of China's debt can somewhat be halted.



Source: Bloomberg

Conclusion

The recent stabilization of global growth concerns and capital markets has a lot to do with the shift in the Fed's policy stance, although not so much as far as its direct implications are concerned with regard to the US economic cycle. Rather the resulting US dollar weakness has – through the China channel – given some badly needed oxygen to emerging- and commodity markets. This exchange rate based equilibrium is – inherently – unstable.

Summary market outlook

Bonds	
Global Yields	US Treasury 10yr yields were up following strong existing home sales data, and also sustained by the strong jobless numbers last week. We do not expect any sharp run-up in the yields in the short term, however, a further uptick is possible if economic data continues to surprise to the upside. The European Periphery Sovereign yields' movement was also upward with a slightly less dovish tone by the ECB president. However, ECB's purchases will keep yields contained.
Stress and Risk Indicators	The VIX index closed the last week largely flattish as US equity markets gave up some of their gains. We have an upward bias for the index as global equities including US equities are unlikely to move much higher in the near term. Sovereign CDS Spreads, especially in the Asian EMs improved a bit further (lower) with the easing dollar strength. They could further improve in the very near term.

Equity Markets	
Local Equity Markets	GCC equities got support from the sustained oil price despite the failure of Doha Talks and a quick resolution of the labour issue in Kuwait. The quarterly result season is expected to have impact on the markets if oil remains stable at the current levels.
Global Equity Markets	Global equity markets seem to have run their course with solid gains over the last weeks. Now, we believe that it will need some sort of trigger to move in either direction. For the very short term, quarterly earnings will have a moderate impact on the daily movement.

Commodities	
Precious Metals	The gold price closed the last week largely flat with no significant movement either side. We believe that the price will remain volatile in the near term. Longer term we see limited upside independently of temporary risk factors.
Energy	Despite the failure of Doha talks and an early resolution of the labour issue in Kuwait, the oil price gained further. After significant gains over the past weeks, we do not rule out some volatility in the near term.
Industrial Metals	Industrial metals prices witnessed further gains last week. We don't see any fundamental factor supporting industrial metals prices in the medium term.

Currencies								
EURUSD	The euro has been moving in a tighter range of 1.12-1.15 since late March. This week, the pair is likely to be driven by economic data and the FOMC statement which we believe could push the euro lower than 1.12.							
Critical levels	R2	1.1459	R1	1.1341	S1	1.1161	S2	1.1099
GBPUSD	The cable gained last week as more and more support is coming through for "No Brexit". However, we believe that the currency pair will remain volatile, largely news-driven on the "Brexit" issue in the near term with a potential upward bias.							
Critical levels	R2	1.4649	R1	1.4526	S1	1.4206	S2	1.4009
USDJPY	A worse than expected manufacturing PMI on Friday pushed the yen further lower with rising expectations of BoJ's policy action. After a pull back from the recent highs, we believe that the currency pair could be volatile with lower bias (weakening yen).							
Critical levels	R2	114.50	R1	113.14	S1	109.10	S2	106.42

Forthcoming important economic data

United States

	Indicator	Period	Expected	Prior	Comments
4/25/2016	New Home Sales	Mar	520k	512k	The fourth quarter GDP details will be looked at by the market along with the FOMC statement's tone to get a clue about the prospects of any rate move in the June meeting.
4/25/2016	Durable Goods Orders	Mar P	1.9%	-3.0%	
4/25/2016	Capital goods orders (non-def)	Mar P	0.7%	-2.5%	
4/27/2016	FOMC Rate Decision	Apr-27	No change		
4/28/2016	GDP annualized QoQ	1Q A	0.6%	1.4%	
4/29/2016	Personal Income	Mar	0.3%	0.2%	
4/29/2016	PCE Core YoY	Mar	1.5%	1.7%	
4/29/2016	Univ. of Mich. Sentiment	Apr F	90.0	89.7	

Japan

	Indicator	Period	Expected	Prior	Comments
4/27/2016	All Industry Activity Index	Feb	-1.4%	2.0%	Markets will focus on industrial production and all industry activity data.
4/28/2016	Jobless Rate	Mar	3.3%	3.3%	
4/28/2016	CPI YoY	Mar	0.0%	0.3%	
4/28/2016	Industrial Production MoM	Mar P	2.8%	-5.2%	

Eurozone

	Indicator	Period	Expected	Prior	Comments
4/27/2016	M3 Money Supply YoY	Mar	5.0%	5.0%	First quarter growth in the Eurozone and IFO surveys will be looked at by the market.
4/28/2016	Consumer Confidence	Apr F	-9.3	-9.3	
4/29/2016	CPI Core YoY	Apr A	0.9%	1.0%	
4/29/2016	GDP SA QoQ	1Q A	0.4%	0.3%	
4/25/2016	IFO Business Climate (GE)	Apr	107.1	106.7	
4/25/2016	IFO Expectations (GE)	Apr	100.9	100	

China and India

	Indicators	Period	Expected	Prior	Comments
This Week	Leading Index (CH)	Mar	--	99	Manufacturing PMI from China is an important indicator for the market this week.
05/01/2016	Manufacturing PMI (CH)	Apr	50.2	50.2	
05/01/2016	Non-manufacturing PMI (CH)	Apr	--	53.8	
This week	Eight Infrastructure Industries	Mar	--	5.7%	

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.