The Weekly Market View

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بنك أبوظبي التجاري
ADCB

Growth concerns exacerbate, taking toll on markets

Growth concerns about the US economy were exacerbated last week as the ISM leading indicators posted a bleak picture, while factory orders and durable goods orders also came down. The January labour data definitely did not help since wages continued to increase but at the same time monthly job creation started to give signs of cooling. Labour data are lagging indicators and what we saw in January should not come as a surprise. As the unemployment rate comes down, it is only natural that fewer jobs can effectively be created, and that wage inflation should pick up. The question one should ask is the following one: is the increase in wages alone enough to lift consumer confidence and spending, and thus growth? We doubt. Higher wages might be enough to keep growth at current, sluggish, levels, but are unlikely to do more. In the meanwhile global PMI leading indicators were also anything but comforting and, China's official reserve data for January confirmed that the country has not yet resolved its ongoing balance of payments crisis. Enough to keep global markets in a risk-off mood, and enough for us to keep our underweight in risk assets.

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Europe to slow down too

We are going through a gradual, but inevitable, downward revision of global growth prospects for 2016. Amongst the large economies, the Euro-zone is in this regard the proverbial "last shoe to drop". In our last weekly we already highlighted that the enormous trade surplus that the Euro-zone has accumulated over the last years is simply not sustainable when the rest of the world (i.e. the buyers of European goods and services) is reducing spending. This also explains why markets are increasingly unwilling to buy into the ECB's efforts to stimulate the economy by keeping the euro at lower, more competitive, levels. This week's figure for Euro-zone GDP growth in the last months of 2015 is unlikely to be good, and markets will take notice.

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Past week global markets' performance

Index Snapshot (World Indices)

Index	Latest	Weekly Chg %	YTD %
S&P 500	1,880.1	-3.1	-8.0
Dow Jones	16,205.0	-1.6	-7.0
Nasdaq	4,363.1	-5.4	-12.9
DAX	9,286.2	-5.2	-13.6
Nikkei 225	16,819.6	-4.0	-11.6
FTSE 100	5,848.1	-3.9	-6.3
Sensex	24,617.0	-1.0	-5.7
Hang Seng	19288.2	-2.0	-12.0
Regional Markets (Sunday to Thursday)			
ADX	4140.8	5.9	-3.9
DFM	3058.4	7.0	-2.9
Tadawul	5973.1	1.6	-13.6
DSM	9683.6	4.4	-7.2
MSM30	5240.49	4.5	-3.1
BHSE	1177.1	0.5	-3.2
KWSE	5198.4	3.8	-7.4
MSCI			
MSCI World	1,523.9	-2.5	-8.4
MSCI EM	739.6	-0.4	-6.9

Global Commodities, Currencies and Rates

Commodity	Latest	Weekly Chg %	YTD %
ICE Brent USD/bbl	34.1	-2.0	-8.6
Nymex WTI USD/bbl	30.9	-8.1	-16.6
OPEC Baskt USD/bbl	29.9	2.7	-4.4
Gold 100 oz USD/t oz	1173.4	4.9	10.6
Platinum USD/t oz	911.6	4.6	2.2
Copper USD/MT	4669.0	2.8	-0.7
Alluminium	1495	-1.7	-0.7
Currencies			
EUR	1.1158	3.0	2.7
GBP	1.4503	1.8	-1.6
JPY	116.87	-3.5	2.9
CHF	0.9910	-3.1	1.1
Rates			
USD Libor 3m	0.6197	1.2	1.1
USD Libor 12m	1.1355	-0.4	-3.6
UAE Eibor 3m	1.0654	1.5	1.0
UAE Eibor 12m	1.5429	-0.5	4.6
US 3m Bills	0.2899	-6.6	78.2
US 10yr Treasury	1.8357	-4.4	-19.1

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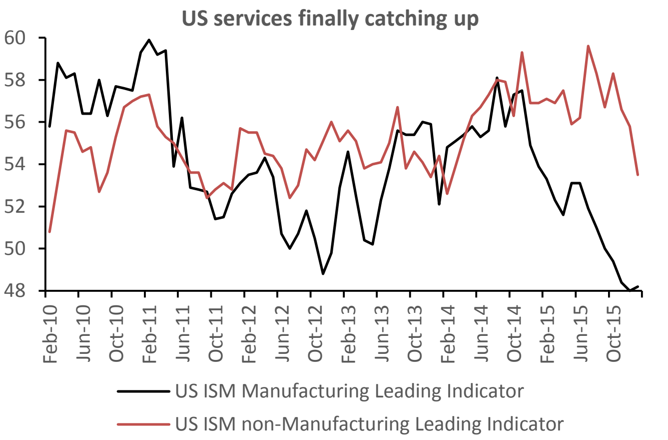
After the US and China, it's time for Europe to cool down

US ISM leading indicators confirm ongoing slowdown

As we have stressed before, in the presence of a slowdown in manufacturing, the service sector in the US was also bound to come down. We do not, in fact, agree with those who argue that the manufacturing sector being only 12% of the US economy, it cannot have an important impact on the business cycle. That figure, in fact, reflects only employment, whilst – in terms of GDP – it is significantly higher. Moreover, manufacturing represents still a very large part of the US stock market.

We would add some humility to the argument on the importance of manufacturing versus services: the manufacturing sector has been small over the last 40 years, yet the manufacturing ISM has systematically led both the services ISM and US GDP. The recent catch-up of services with manufacturing merely confirms that the current slowdown is here to stay.



Source: Bloomberg

Europe also to catch up with global slowdown reality

The Euro-zone business cycle has in a certain way been the bright spot over the last few months. Granted growth in the Euro-zone is systematically lower than in the United States (although at the same time systematically higher than in Japan). Yet, whilst these differences have not been reversed, the Euro-zone business cycle has been over the last months, one of the few that has not deteriorated. The reasons for that are manifold. First and foremost, the Euro-zone's business cycle is in a later phase, with the ECB having started Quantitative Easing relatively recently. As such financial conditions have started to improve more recently too, as can be seen by the fact that credit growth has finally turned positive. The most severe austerity measures are also a thing of the past.

Last week we pointed out, however, that a big part of Europe's recent "success" story can be attributed to export growth, which in turn can be explained in light of the weaker euro (a by-product of Quantitative Easing). Thus Europe's growth has over the last years come on the back of lower growth in the US, the UK and many emerging markets. Since all these countries are now further slowing down, they will have less money to spend on goods and services from Europe. Thus growth is bound to slow down in Europe too, as the leading PMI Indicator is already predicting.

Source: Bloomberg

China's balance of payments crisis is not over

In January 100 billion US dollars flew out of China (decline in foreign reserves). As long as Chinese citizens continue to move money out of the country at this pace, stimulus efforts by the authorities will be vain. The prospects of further renminbi depreciation (including the concrete probability of a more significant devaluation), is bound to continue to exercise deflationary pressures on the global economy, and keep global equity markets in a risk-off mood.

Central banks' recent ineffectiveness further troubling sign

We have stressed before that markets will pay more attention to real economic data as they are increasingly aware of the fact that central banks will be unable – or unwilling – to provide stimulus able to lift the economy, and thus asset prices. This has become very clear over the last weeks, as successive verbal (and concrete) interventions by Draghi, Kuroda and Dudley (of the Fed) have had an increasingly short-lived impact on equity markets. We see little reason to change our equity underweight stance at this juncture.

Summary market outlook

Global Yields	US Treasury yields continued to trend down on softer economic releases. We don't see any catalyst in the near term which could turn around the trend. European core sovereign yields eased while periphery's sovereign yields inched up with the intensification of the risk-off environment.
Stress and Risk Indicators	The VIX index trended up and might well continue to do so in the absence of positive catalysts next week. Sovereign CDS spreads, especially in Asian countries, also ticked-up due to the sell-off in global risk assets.
Precious Metals	The gold price continued to have an upward momentum last week. A further spike cannot be ruled out given the current global risk aversion. Long-term we remain bearish on gold, as global pressures are by and large deflationary.
Local Equity Markets	Decent earnings announcements by large corporates were supportive for local equity markets last week. A large part of the local equity price movements is tied up with how oil price behaves, which in turn has been extremely volatile. We remain cautious until we see signs of stabilization in the oil price.
Global Equity Markets	Central bankers' support for global equity markets turned out be rather short lived. That underlines the persisting global growth concern, and the uncertainty as to what central banks can really do about it at this stage. Economic releases also did nothing to assuage the concern. We remain cautious.
Energy	The oil price was very volatile, ultimately closing with a small decline for the Brent price while the WTI lost significantly. The widening gap between the two benchmarks signals continuing volatility.
Industrial Metals	Industrial metals prices were relatively stable during the week, and continue to lack an identifiable catalyst in our view.

Currencies	**Commentary**	**Critical levels**
EURUSD	A dovish statement from a US central banker and soft US economic data supported dollar weakness last week, i.e, euro strength. However, we believe that the euro does not have much room to strengthen from here as ECB QE is still in place.	R2 - 1.1504 R1 - 1.1331 S1 - 1.0900 S2 - 1.0642
GBPUSD	The pound closed the week with gains against the US dollar, partly reflecting broader dollar weakness and partly getting support from the relatively better economic releases. The economy continues to exhibit strength which should be positive for the currency. However, the ongoing referendum issue (with the possibility that the UK might leave the EU) will keep the currency volatile.	R2 - 1.4906 R1 - 1.4704 S1 - 1.4265 S2 - 1.4028
USDJPY	The rise in the global risk-off environment caused a reversal and strength in the yen despite the BoJ's recent action. The currency ended the week close to a year high which suggests that some resistance will kick-in for further appreciation.	R2 – 123.41 R1 – 120.14 S1 – 114.95 S2 – 113.03

Forthcoming important economic data

United States

	Indicator	Period	Expected	Prior	Comments
02/10/2016	Initial Jobless Claims	Feb 6	280k	285k	
02/12/2016	Import Prices YoY	Jan	-6.8%	-8.2%	
02/12/2016	Retail Sales MoM	Jan	0.1%	-0.1%	Retail sales and consumer sentiment will be closely looked at by the market.
02/12/2016	Retail Sales Ex Auto MoM	Jan	0.0%	-0.1%	
02/12/2016	Univ. of Mich. Sentiment	Feb P	92.5	92.0	
02/12/2016	Univ. of Mich. 5-10 Yr Inflation	Feb P	NA	2.7%	

Japan

	Indicator	Period	Expected	Prior	Comments
02/08/2016	Current Account Balance	Dec	¥1052B	¥1143B	
02/08/2016	Eco Watchers Survey Current	Jan	48.4	48.7	Bloomberg consensus expects some moderation in economic indicators to be released this week.
02/08/2016	Eco Watchers Survey Outlook	Jan	48.4	48.2	
02/10/2016	PPI YoY	Jan	-2.8%	-3.4%	

Eurozone

	Indicator	Period	Expected	Prior	Comments
02/12/2016	Industrial Production MoM	Dec	0.3%	-0.7%	The fourth quarter growth numbers in the Eurozone and the largest economy of the region (Germany) will be scrutinized.
02/12/2016	GDP QoQ	4Q A	0.3%	0.3%	
02/12/2016	GDP YoY	4Q A	1.5%	1.6%	
02/12/2016	Industrial Production MoM (GE)	Dec	0.5%	-0.3%	
02/12/2016	GDP QoQ (GE)	4Q P	0.3%	0.3%	

China and India

	Indicators	Period	Expected	Prior	Comments
02/10/2016	Money Supply M2 YoY (CH)	Jan	13.5%	13.3%	
02/10/2016	New Yuan Loans CNY (CH)	Jan	1900B	598B	
02/08/2016	GDP YoY (IN)	4Q	7.1%	7.4%	A set of important data are scheduled from India this week. Surprises in those indicators will have a bearing on the local financial markets.
02/09/2016	Local Car Sales (IN)	Jan	NA	172671	
02/10/2016	Trade Balance (IN)	Jan	-$10.9B	-$11.7B	
02/10/2016	Imports YoY (IN)	Jan	NA	-3.9%	
02/10/2016	Exports (IN)	Jan	NA	-14.8%	
02/12/2016	Industrial Production YoY (IN)	Dec	-0.4%	-3.2%	
02/12/2016	CPI YoY (IN)	Jan	5.3%	5.6%	

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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