The Weekly Market View

June 6 2016

US job numbers reignite growth concerns

After a series of choppy sessions, equity markets ended the week on a downward tone following the publication of disappointing US job numbers for the month of May. Job numbers have now been below their 200'000 plus trend for two month in a row, sparking fears that the US economy is bound to slow down over the next months. US equity markets corrected on the news, but managed to recover the bulk of the losses by the end of Friday's trading session. Critically, however, both US yields and the US dollar corrected too. German bond yields corrected significantly together with equities. Japan equities have been under downward pressure for some time now as the yen is again gaining strength. Commodities and energy held ground, whilst gold jumped on the back of the US dollar depreciation.

China numbers to take centre stage

Now that it seems that growth concerns are again going to dominate rate hike concerns, it is only obvious that markets will watch China data this week with extra scrutiny. In fact of all the major economies China is the one that carries the biggest slowdown risk and a significant depreciation of the renminbi would have a meaningful deflationary impact on the global economy. On the other hand, as the US dollar is likely to remain weaker for longer, China will have some breathing space as a weak US dollar is likely to calm China capital outflows, thus allowing the authorities to maintain some stimulus while working on a gradual reduction in the overall stimulus. Other important data will be factory orders and inflation in Germany, as well as Consumer confidence in the United States.

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Past week global markets' performance

Index Snapshot (World Indices)

Index	Latest	Weekly Chg %	YTD %
S&P 500	2,099.1	0.0	2.7
Dow Jones	17,807.1	-0.4	2.2
Nasdaq	4,942.5	0.2	-1.3
DAX	10,103.3	-1.8	-6.0
Nikkei 225	16,531.6	-1.1	-13.1
FTSE 100	6,209.6	-1.0	-0.5
Sensex	26,850.2	0.7	2.8
Hang Seng	20913.0	1.8	-4.6
Regional Markets (Sunday to Thursday)			
ADX	4295.8	-0.7	-0.3
DFM	3285.3	-2.6	4.3
Tadawul	6413.0	0.1	-7.2
DSM	9570.7	-1.9	-8.2
MSM30	5818.53	-1.6	7.6
BHSE	1115.0	1.6	-8.3
KWSE	5370.9	-0.4	-4.3
MSCI			
MSCI World	1,678.6	0.1	0.9
MSCI EM	816.2	1.0	2.8

Global Commodities, Currencies and Rates

Commodity	Latest	Weekly Chg %	YTD %
ICE Brent USD/bbl	50.1	1.2	34.3
Nymex WTI USD/bbl	49.1	3.3	32.6
OPEC Baskt* USD/bbl	45.6	-0.0	45.8
Gold 100 oz USD/t oz	1242.5	-3.2	17.1
Platinum USD/t oz	985.7	-4.5	10.6
Copper USD/MT	4688.0	2.1	-0.3
Alluminium	1538	0.5	2.2
Currencies			
EUR	1.1343	-1.0	4.4
GBP	1.4395	0.8	-2.3
JPY	106.97	0.1	12.4
CHF	0.9771	0.4	2.6
Rates			
USD Libor 3m	0.6822	1.8	11.3
USD Libor 12m	1.3314	1.1	13.0
UAE Eibor 3m	1.0930	0.1	3.6
UAE Eibor 12m	1.6979	2.8	15.1
US 3m Bills	0.2790	1.7	71.5
US 10yr Treasury	1.7056	0.7	-24.8

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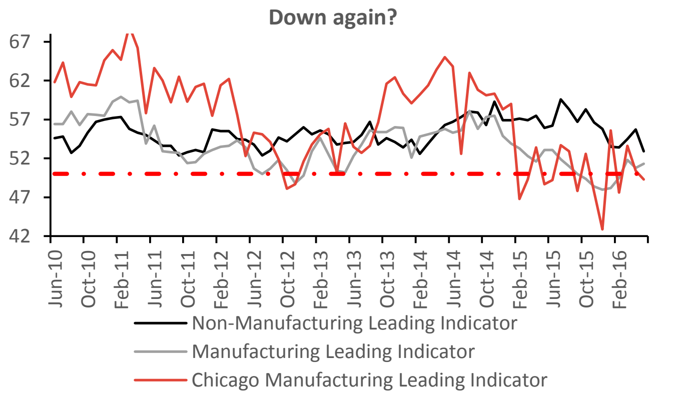
Growth concerns keep markets puzzling about the Federal Reserve's next move

Fed is data dependent

We have always been reluctant to embrace the view that the Federal Reserve was for sure going to hike rates sooner rather than later. As we have been saying throughout – specifically after the publication of the April FOMC meetings – the purpose of the Fed's more hawkish language was first and foremost a warning. The Federal Reserve is still not 100% sure whether it intends to raise rates in the coming months, but in case it would opt to do so, it wants to make sure that markets are not caught by surprise. In other words, the Fed would like to hike rates but it remains for the moment "data dependent". Hawkish language serves to remind the markets, and prevent them from becoming too complacent.

Growth concerns are not gone

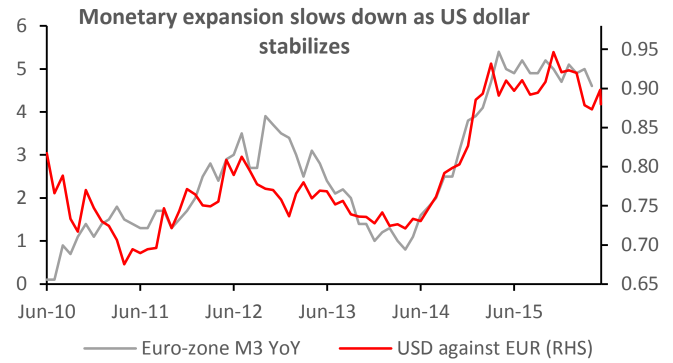
In fact, the latest US job data are a stark reminder – to the extent that that was necessary – that a growing US economy is not necessarily a booming one. At some point in time job creation was bound to slow down. Thus, with the labour force participation rate again edging down again, the apparently low 4.7% unemployment level in fact confirms that millions of US citizens that were employed before the Great Recession, are simply no longer looking for a job. Not surprisingly markets are nervous as most leading indicators are again edging down, with the sole exception of the ISM manufacturing leading indicator which however seems to have posted a better-then-expected May figure only because of the surge of the price factories pay for raw materials.



Source: Bloomberg

Europe and Japan are not helping

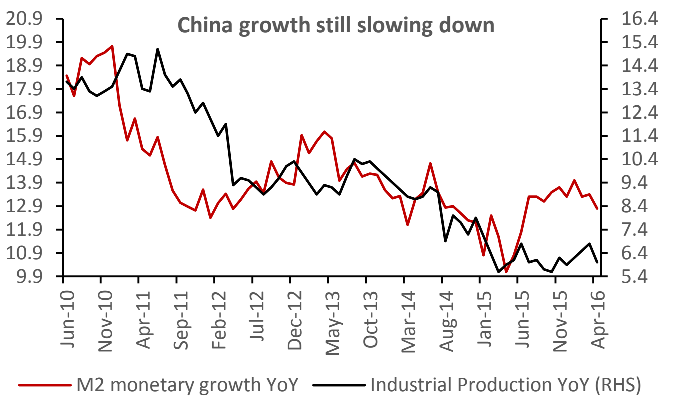
On the other side of the Pacific, growth in Japan remains very weak and the announcement by Prime Minister Abe that he would postpone for three years the enactment of the value-added tax has not determined any pick-up in sentiment. In fact, the stronger yen certifies that – short of something truly radical – markets increasingly doubt the country's fiscal and monetary policy effectiveness. On the other side of the Atlantic Europe has, true, gradually been doing better. Interestingly, however, on the eve of the start of the corporate bond buying program – announced already some time ago – Mario Draghi stroke a note of caution as he highlighted the downside risks to the economy. Europe, as the US, have still to convince when it comes to reigniting a sustainably positive wage and price dynamics. Longer term market inflation expectations remain subdued, in spite of – the case for Europe – a non-indifferent devaluation of its currency.



Source: Bloomberg

China data to take the forefront this week

The weaker US dollar is, in fact, greatly facilitating macro-management for China as it constitutes a strong disincentive for further capital outflows. Forex reserve are thus expected to have remained stable in May. Growth rates of the monetary basis, industrial output, and investments, however, are likely to have come down again over the same period. Thus, whilst the weaker US dollar allows policymakers in China, as well as other emerging markets, to continue to muddle through, data are likely to confirm a continued slowdown in real activity. Markets might thus not correct that much, yet they are likely to remain choppy, and with little sustainable upside potential.



Source: Bloomberg

Summary market outlook

Bonds	
Global Yields	US Treasury 10-yr yield moved sharply lower on disappointing job market data on Friday. A slow reversal is possible in the very short term but its unlikely to go near 2% mark until we get clear signal from the Fed of rate hike.
Stress and Risk Indicators	The risk indicators were not much moved by the disappointing job numbers from the US as VIX index remained around 13. The major sovereign credit default swaps were little changed for the week. With softer US dollar, we could see some decline in the very near term for major EM CDS spreads.

Equity Markets	
Local Equity Markets	GCC equities remained under pressure for the second consecutive weeks as reality of governments' spending cut back kicks in. Despite oil gaining in the recent weeks, governments' finances will remain in the consolidation mode across the region. However, valuation has turned attractive.
Global Equity Markets	Global equities, especially in EMs, remained resilient last week despite disappointing economic data from the US. With softer US dollar, EM equities could gain a bit further in the very short term.

Commodities	
Precious Metals	After remaining largely flat until Thursday, gold prices got boost from the disappointing US job market data and consequent decline in the dollar. Considering the recent volatility in the precious metal, we remain cautious.
Energy	The oil price remained resilient despite the conclusion of the OPEC meeting without any decision, reflecting fundamental support for the commodity. After the recent strong rally, the price could consolidate near the current levels in the near-term.
Industrial Metals	Industrials metals consolidated past week. Overall we expect downward pressure on industrial metals to remain with us for the foreseeable future on the back of concerns over the global, and especially China's economic growth (China consumes 50-60% of most industrial metals).

Currencies								
EURUSD	A broader dollar weakness on Friday, post job data, supported the euro as it gained more than 2% during the day. A sharp gain could potentially cause some reversal in the near term.							
Critical levels	R2	1.1556	R1	1.1461	S1	1.1185	S2	1.1004
GBPUSD	"Brexit" continues to play a major role in the cable movement as it lost last week despite general weakness in the dollar. The volatility is likely to continue as we move closer to the referendum.							
Critical levels	R2	1.4882	R1	1.4700	S1	1.4361	S2	1.4204
USDJPY	The Japanese yen appreciated sharply on Friday, post US job data. The current level is close to the highs touched in early May which suggests that reversal is possible in the very near term.							
Critical levels	R2	113.10	R1	109.82	S1	104.88	S2	103.22

Forthcoming important economic data

United States

	Indicator	Period	Expected	Prior	Comments
6/07/2016	Nonfarm Productivity	1Q F	-0.6%	-1.0%	Unit labour costs and productivity data will be looked at by the market for gauging the inflation risk.
6/07/2016	Unit Labor Costs	1Q F	4.0%	4.1%	
6/09/2016	Initial Jobless Claims	Jun 4	270k	267k	
6/09/2016	Wholesale Inventories MoM	Apr	0.1%	0.1%	
6/10/2016	Univ. of Mich. Sentiment	Jun P	94	94.7	

Japan

	Indicator	Period	Expected	Prior	Comments
6/08/2016	GDP SA QoQ	1Q F	0.5%	0.4%	Revision in GDP and tertiary industry index are to be main focus.
6/08/2016	GDP Annualised SA QoQ	1Q F	2.0%	1.7%	
6/08/2016	Eco Watchers Survey Current	May	43.4	43.5	
6/08/2016	Eco Watchers Survey Outlook	May	46.1	45.5	
6/09/2016	Machine Orders MoM	Apr	-3.0%	5.5%	
6/10/2016	Tertiary Industry index MoM	Apr	0.7%	-0.7%	

Eurozone

	Indicator	Period	Expected	Prior	Comments
6/06/2016	Sentix Investor Confidence	Jun	7.0	6.2	Revision in GDP is to be the main focus of the market.
6/07/2016	GDP SA QoQ	1Q F	0.5%	0.5%	
6/07/2016	Gross Fixed Cap QoQ	1Q	1.1%	1.3%	
6/07/2016	Govt Expend QoQ	1Q	0.4%	0.6%	
6/07/2016	Household Cons QoQ	1Q	0.5%	0.2%	
6/06/2016	Factory Orders (GE)	Apr	-0.5%	1.9%	
6/07/2016	Industrial Production (GE)	Apr	0.7%	-1.3%	

China and India

	Indicators	Period	Expected	Prior	Comments
6/07/2016	Exports YoY (CH)	May	-4.2%	-1.8%	Important set of data from China and India are expected this week.
6/07/2016	Imports YoY (CH)	May	-6.8%	-10.9%	
6/09/2016	CPI YoY (CH)	May	2.3%	2.3%	
This Week	New Yuan Loans (CH)	May	750B	751B	
6/07/2016	RBI Policy Decision (IN)	Jun 7	6.5%	6.5%	
6/07/2016	Industrial Production YoY (IN)	Apr	--	0.1%	
This Week	Imports YoY (IN)	May	--	-23.1%	
This Week	Exports YoY (IN)	May	--	-6.7%	

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

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