The Weekly Market View

June 13 2016

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Risk aversion takes hold towards week-end

Early in the week Fed chair Janet Yellen managed to assuage investor concerns over an impending US rate hike by stating that new questions about the economic outlook have been raised following recent weak labour data. However, this did not prevent sentiment from souring on international markets towards the end of the week. 10-year Treasury yields rallied to 1.64%, gold shot up and equities, in particular European equities sold off sharply. The precise catalyst is always cause for speculation, but the pound sterling's reaction to a new poll showing a sharp rise in voters wanting to exit the European Union is likely to have played a major role. The "leave" campaign has gained ground in recent weeks, and in many cases (polls vary) now leads the "remain" campaign. Unsurprisingly the VIX index, also known as the "fear gauge" rose to its highest level in three months.

Rationality returns, for now at least

John Maynard Keynes famously said "The market can stay irrational longer than you can stay solvent". This has certainly proven to be the case in recent weeks and months as investors have ignored the plethora of potentials risks facing the global economy; including weak global growth, China debt, growth and currency issues, negative rates and yields as well as the upcoming Brexit referendum. All of a sudden towards the end of last week it seems that these issues began concerning investors. Have investors turned rational again? This remains to be seen, however, looking at market movements on Friday suggests that the next move in risk assets will continue to be lower. This could include oil, which has almost doubled from its lows in February as Baker Hughes rig count data showed a rise in the number of US oil rigs for the second week running. In the near-term, at least until the outcome of the Brexit Referendum on June 23rd is clear, we expect equities and other risk assets to remain under pressure.

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Past week global markets' performance

Index Snapshot (World Indices)

Index	Latest	Weekly Chg %	YTD %
S&P 500	2,096.1	-0.1	2.6
Dow Jones	17,865.3	0.3	2.5
Nasdaq	4,894.5	-1.0	-2.3
DAX	9,834.6	-2.7	-8.5
Nikkei 225	16,601.4	-0.2	-12.8
FTSE 100	6,115.8	-1.5	-2.0
Sensex	26,635.8	-0.8	2.0
Hang Seng	21042.6	0.5	-4.0
Regional Markets (Sunday to Thursday)			
ADX	4381.1	3.0	1.7
DFM	3371.0	3.3	7.0
Tadawul	6606.9	1.8	-4.4
DSM	9837.0	3.2	-5.7
MSM30	5886.06	1.1	8.9
BHSE	1119.6	0.3	-7.9
KWSE	5410.6	0.6	-3.6
MSCI			
MSCI World	1,665.2	-0.8	0.1
MSCI EM	823.8	0.9	3.7

Global Commodities, Currencies and Rates

Commodity	Latest	Weekly Chg %	YTD %
ICE Brent USD/bbl	50.5	1.8	35.6
Nymex WTI USD/bbl	49.1	0.9	32.5
OPEC Baskt* USD/bbl	48.0	4.8	53.6
Gold 100 oz USD/t oz	1274.2	2.4	20.1
Platinum USD/t oz	991.7	0.5	11.2
Copper USD/MT	4504.0	-3.9	-4.2
Alluminium	1568.75	2.0	4.2
Currencies			
EUR	1.1251	-1.0	3.6
GBP	1.4257	-1.8	-3.3
JPY	106.97	0.4	12.4
CHF	0.9649	-1.1	3.9
Rates			
USD Libor 3m	0.6556	-3.9	7.0
USD Libor 12m	1.2735	-4.3	8.1
UAE Eibor 3m	1.1249	2.9	6.6
UAE Eibor 12m	1.6980	0.0	15.2
US 3m Bills	0.2435	-12.7	49.7
US 10yr Treasury	1.6404	-3.5	-27.7

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For once Mrs Yellen not the main event

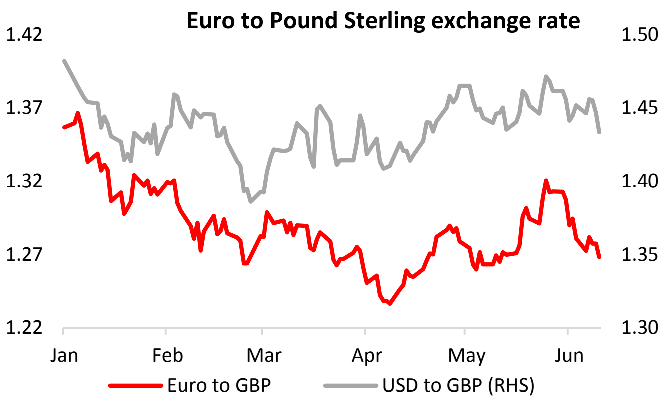
The week's key market moving event for once turned out not to be Fed Chair Yellen's speech which she held in Philadelphia on Monday, but rather it was a new Brexit poll showing a strong lead for the "leave" campaign. Investors in recent years have become used to the Fed chair, or indeed ECB governor Draghi offering markets a few soothing words in response to weak data. It was therefore little surprise that Mrs Yellen dialled down the hawkish rhetoric following May's disappointing labour data which showed the US created far few jobs than what markets had expected. For a few days it worked, markets rallied, the S&P 500 even managing to come within a whisker of last year's all-time high. However, as has been the case for much of this year, the move up happened on subdued volumes, suggesting markets were not convinced. Indeed it was only when markets started falling later in the week that volumes returned. Sector-wise it was the defensive sectors, telecoms, consumer staples and utilities which fared the best, see table below.

S&P 500 Sector	1 Week (%)	YTD (%)
Utilities	0.9	16.0
Telecoms	2.8	14.6
Energy	1.4	11.8
Materials	0.2	9.3
Consumer Staples	1.0	6.6
Industrials	0.8	5.4
S&P 500	**-0.1**	**2.6**
Technology	-0.3	0.5
Consumer Disc	-0.9	0.2
Health Care	-0.8	-0.7
Banks	-2.6	-9.3

Source: Thomson Reuters

Sterling gets pummelled as referendum approaches

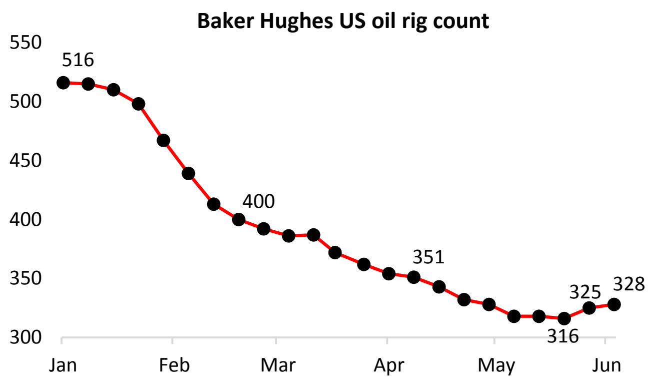
Although equity markets had already lost some ground on Thursday, it was the week's final trading session which saw the biggest rush for the exits. To a large extent it looks like Brexit fears were the catalyst, as a poll by the ORB (independent research provider) on behalf of UK newspaper the Independent showed large swing towards those favouring a Brexit. The online poll of over 2000 respondents gave the leave campaign a 55% share of the vote vs. 45% for the remain campaign. This shows that the leave campaign has achieved momentum at a critical time ahead of the vote on the 23rd of June. As has been suggested by previous polls, voter turnout will likely be crucial. The ORB poll found that 78% of leave supporters will definitely vote, vs. 66% of remain voters. The implications for the European Union of a potential Brexit are enormous. Market behaviour last week suggests investors may have been complacent in assessing Brexit risks. Whatever the outcome it does now seem likely that investors will remain in cautious mood during the next few weeks.



Source: Thomson Reuters

Inflection point in US shale market?

Since hitting its February lows oil prices have nearly doubled. Tailwinds for oil included traders covering their short bets, a belief that the global economy was stronger than initially believed and by supply disruptions, most recently out of Canada and Nigeria. However, a continuing decline in active oil rigs in the US was arguably the most powerful tailwind, as it suggested US oil production would soon slow, which it did. Data released by Baker Hughes on Friday, however, now shows the decline in US oil rigs may be finished. The last two weeks have seen an increase of 12 active rigs, as the sharp rally in oil prices have made certain US oil fields viable again. Two weeks of data do not make a trend, but this will be more closely watched as it could be a headwind for oil prices in the near-term.



Source: Baker Hughes

Summary market outlook

Bonds	
Global Yields	US Treasury 10-yr yield moved sharply lower on dovish Fed and a bit of risk aversion. A slow reversal is possible in the very short term but it's unlikely to go near 2% mark until we get clear signal from the Fed of rate hike.
Stress and Risk Indicators	The VIX index moved up sharply as risk aversion was visible in global financial markets. The major sovereign credit default swaps were also marginally higher for the week. "Brexit" is likely to play out across the global financial market in coming days.

Equity Markets	
Local Equity Markets	GCC equities bounced back last week after a two consecutive weeks of declines. Two opposing factors are playing into the regional markets – first, despite oil gaining in the recent weeks, governments' finances will remain in the consolidation mode across the region. Second, valuation has turned attractive.
Global Equity Markets	EMs remained largely resilient last week while DMs equities declined on "Brexit" issue coming onto the fore. This is likely to be main factor along with the Fed statement in coming days for the global equities.

Commodities	
Precious Metals	The gold price was the main beneficiary of the return of risk aversion on "Brexit". Considering the recent volatility in the precious metal, we remain cautious.
Energy	The oil price touched a new high of this year before coming off from that level. The rise in risk aversion and likely strength in the US dollar could ease the oil price a bit further in the short 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	Euro gave up some of its gain against the dollar last week. If risk aversion continues on "Brexit" issue, it could appreciate in the near term as the currency has shown positive correlation with the level of risk aversion in recent months. At the same time, in case "Brexit" gaining further traction, some funds could move to Eurozone, supporting the currency. Watch out for FOMC statement as well.							
Critical levels	R2	1.1474	R1	1.1363	S1	1.1193	S2	1.1134
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	1.4845	R1	1.4551	S1	1.4072	S2	1.3887
USDJPY	The Japanese yen traded largely a narrow band last week. The relative outcome of the FOMC policy meeting on 15th June and the BoJ policy meeting on 16th June will have an impact on the near term movement of the currency.							
Critical levels	R2	108.68	R1	107.83	S1	106.19	S2	105.40

Forthcoming important economic data

United States

	Indicator	Period	Expected	Prior	Comments
6/14/2016	Retail Sales Adv. MoM	May	0.3%	1.3%	All eyes will focus on the language of the FOMC statement and press conference of the Chair Mrs. Yellen.
6/15/2016	Empire Manufacturing	Jun	-4	-9.02	
6/15/2016	Industrial Production MoM	May	-0.2%	0.7%	
6/15/2016	FOMC Rate Decision	Jun 15	No change		
6/16/2016	CPI YoY	May	1.1%	1.1%	
6/16/2016	CPI core YoY	May	2.2%	2.1%	
6/17/2016	Housing Starts	May	1150k	1172k	

Japan

	Indicator	Period	Expected	Prior	Comments
6/14/2016	Industrial Production MoM	Apr F	--	0.3%	All eyes will be on the BoJ meeting
6/14/2016	Capacity Utilization	Apr	--	3.2%	
6/16/2016	BoJ Policy Meeting	Jun 16	No change		

Eurozone

	Indicator	Period	Expected	Prior	Comments
6/14/2016	Industrial Production MoM	Apr	0.8%	-0.8%	Inflation is to be the main focus of the market.
6/16/2016	CPI YoY	May F	-0.1%	-0.1%	

China and India

	Indicator	Period	Expected	Prior	Comments
This Week	New Yuan Loans (CH)	May	750B	751B	All eyes will focus on activity data from China this week.
This Week	Money Supply (CH)	May	12.5%	12.8%	
6/13/2016	Industrial Production YoY (CH)	May	6.0%	6.0%	
6/13/2016	Retail Sales YoY (CH)	May	10.1%	10.1%	
6/13/2016	Fixed Assets Investment YTD YoY (CH)	May	10.5%	10.5	
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%	
6/13/2016	CPI YoY (IN)	May	5.6%	5.39%	

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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