The Weekly Market View

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When markets get complacent

As always when the unexpected hits complacent markets - in this case the victory of the UK "leave" campaign - the corrections and volatility hit back with a vengeance. EU markets lost in a range between 6% and 12%. The UK market managed to limit losses to 3%, yet that needs to be put into context with the fact that the pound sterling lost almost 6% against the euro. In real terms (i.e. taking into account the devaluation of the pound sterling) UK shares did better than euro periphery markets, but worse than euro core markets. US markets corrected as expected, but this time did not manage to recover at least some of the losses, as they often do as the trading session comes to an end. The most positive note of the day was the fact that currency markets remained relatively stable, as the appreciation of the US dollar, and other safe haven currencies, was relatively contained. Behind the "contained" currency movement there is, however, no doubt the action of the central banks. In the presence of continuing uncertainty in Europe, it is not clear for how long that is truly sustainable.

Watch out for global spill-overs of the Brexit vote

As we pointed out in our special ***Strategy Note****, Brexit is not an isolated incident. Rather it is a by-product, a symptom, of continuing (median) wage stagnation in advanced economies, as well as generally disappointing economic growth. Secular stagnation is not something that will go away easily. Also, the risk premium on UK and European assets has now been permanently raised. In the short-term, it will be important to see how central banks manage to stabilize global markets. Critical, in particular, will be currency stabilization. If the US dollar does not appreciate significantly against the other majors, especially against the euro, then China and other emerging markets might for the moment be able to absorb the shock. Alternatively Renminbi devaluation would again enter the markets' radar screen. Thus – barring massively bad news – this week's focus will be on the central banks' actions, rather than the (limited) upcoming economic data. Amongst the latter, we will particularly watch the China leading manufacturing indices, to be published on Friday.*

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Past week global markets' performance

Index Snapshot (World Indices)

Index	Latest	Weekly Chg %	YTD %
S&P 500	2,037.4	-1.6	-0.3
Dow Jones	17,400.8	-1.6	-0.1
Nasdaq	4,708.0	-1.9	-6.0
DAX	9,557.2	-0.8	-11.0
Nikkei 225	14,952.0	-4.2	-21.4
FTSE 100	6,138.7	2.0	-1.7
Sensex	26,397.7	-0.9	1.1
Hang Seng	20259.1	0.4	-7.6
Regional Markets (Sunday to Thursday)			
ADX	4404.0	4.1	2.2
DFM	3271.8	1.8	3.8
Tadawul	6384.8	0.1	-7.6
DSM	9792.7	1.8	-6.1
MSM30	5768.91	-0.2	6.7
BHSE	1119.0	0.2	-8.0
KWSE	5408.0	0.2	-3.7
MSCI			
MSCI World	1,608.8	-1.6	-3.2
MSCI EM	805.9	-0.0	1.5

Global Commodities, Currencies and Rates

Commodity	Latest	Weekly Chg %	YTD %
ICE Brent USD/bbl	48.4	-1.5	29.9
Nymex WTI USD/bbl	47.6	-0.7	28.6
OPEC Baskt* USD/bbl	46.2	4.5	47.6
Gold 100 oz USD/t oz	1315.8	1.3	24.0
Platinum USD/t oz	985.4	1.6	10.5
Copper USD/MT	4663.0	3.1	-0.8
Alluminium	1611.25	0.2	7.0
Currencies			
EUR	1.1117	-1.4	2.3
GBP	1.3679	-4.7	-7.2
JPY	102.22	-1.9	17.6
CHF	0.9720	1.3	3.1
Rates			
USD Libor 3m	0.6236	-3.2	1.8
USD Libor 12m	1.2052	-2.9	2.3
UAE Eibor 3m	1.1286	-0.8	7.0
UAE Eibor 12m	1.6637	-0.6	12.8
US 3m Bills	0.2485	-2.3	52.7
US 10yr Treasury	1.5599	-3.0	-31.3

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Summary market outlook

Bonds	
Global Yields	US Treasury 10-yr yield moved sharply lower on the Brexit news, only to recover partly. US yields are likely to remain contained for three very simple reasons. First, uncertainty in Europe will not fade away soon. US yields are already significantly higher than in Europe and Japan. Third, the Fed will increasingly backtrack from its hiking intentions.
Stress and Risk Indicators	The VIX index – arguably the best measure of equity markets' fear – spiked but at 25 remains still well below the 40+ level it reached last August. Over the next months it might well continue to move up.

Equity Markets	
Local Equity Markets	GCC equities are coming under pressure again in line with all international equity markets and global growth concerns. The latter have now also determined a further drop in the oil price. To the extent that the US dollar and the oil price remain relatively stable, GCC markets could be relatively (i.e. compared to under global equity markets) resilient over the next months.
Global Equity Markets	Equity markets will remain extremely volatile over the next months. We maintain a bearish outlook. We are particularly concerned about European equities, Japanese equities, as well as emerging equities of commodity exporting countries. Whilst this week currency stabilization by the central banks might indirectly somewhat mitigate equity volatility, it is reasonable to expect that European equities in particular will remain under pressure.

Commodities	
Precious Metals	Gold jump sharply on Friday, and ultimately stabilized with a 4% gain over the US dollar. We are adding a gold call to our asset allocation, as global risks have sharply increased.
Energy	Oil came naturally under pressure as the US dollar jumped against the euro and global growth concerns spread. The oil market is much more balanced today, but the resilience of the oil price will critically depend on the stability of the US dollar, in particular versus the euro.
Industrial Metals	So far the correction of industrials metals has been contained. Industrial metals are bound to remain under pressure over the next months, possibly years.

Currencies								
EURUSD	Given the extremely uncertain and volatile context, one could argue that the euro's losses – within 3% on Friday - have remained contained. We still think that at least for now central banks will manage to prevent a further big depreciation of the euro. We would expect the euro to remain stable this week.							
Critical levels	R2	1.1668	R1	1.1392	S1	1.0877	S2	1.0638
GBPUSD	The British pound's correction – on Friday close to 10% - is of course more impressive. Again, over the next week we expect increased efforts to stabilize currencies, thus we do expect the pound sterling to remain relatively stable, if need be on the back of the reactivation of swap lines between the Fed and the BoE.							
Critical levels	R2	1.5764	R1	1.4722	S1	1.2933	S2	1.2186
USDJPY	This week it would be reasonable to expect that the BoJ will directly intervene to prevent the Japanese yen from appreciating against the US dollar. Thus we expect it likewise to remain relatively stable							
Critical levels	R2	110.51	R1	106.37	S1	98.55	S2	94.87

Forthcoming important economic data

United States

Date	Indicator	Period	Expected	Prior	Comments
6/27/2016	Markit Service PMI	Jun P	51.9	51.3	Amid turbulent market conditions, manufacturing PMIs will be important to watch out.
6/27/2016	GDP Annualized QoQ	1Q T	1.0%	0.8%	
6/27/2016	Personal Consumption	1Q T	2.0%	1.9%	
6/29/2016	Personal Income	May	0.3%	0.4%	
7/01/2016	Markit Mfg PMI	Jun F	51.4	51.4	
7/01/2016	ISM Mfg	Jun	51.4	51.3	

Japan

Date	Indicator	Period	Expected	Prior	Comments
7/01/2016	Jobless Rate	May	3.2%	3.2%	Market will look at details of the tankan surveys.
7/01/2016	Job-to-Applicant ratio	May	1.35	1.35	
7/01/2016	CPI YoY	May	-0.5%	-0.3%	
7/01/2016	Tankan Large Mfg Index	2Q	4	6	
7/01/2016	Nikkei mfg PMI	Jun F	--	47.8	

Eurozone

Date	Indicator	Period	Expected	Prior	Comments
6/27/2016	M3 Money Supply YoY	May	4.8%	4.6%	Market is likely to remain focused on the political response to the Brexit vote.
6/29/2016	Consumer Confidence	Jun F	-7.3	-7.3	
6/30/2016	CPI Core YoY	Jun A	0.8%	0.8%	
7/01/2016	Markit Mfg PMI	Jun F	52.6	52.6	
7/01/2016	Unemployment Rate	May	10.1%	10.2%	

China and India

Date	Indicator	Period	Expected	Prior	Comments
7/01/2016	Mfg PMI (CH)	Jun	50.0	50.1	PMIs from these countries will be looked at by markets.
7/01/2016	Non-mfg PMI (CH)	Jun	--	53.1	
7/01/2016	Caixin Mfg PMI (CH)	Jun	49.1	49.2	
7/01/2016	Nikkei Mfg PMI (IN)	Jun	--	50.7	

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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