

## Rally running out of steam?

Last Friday European equity markets posted large intraday gains and it all seemed that the meaning of Mr. Draghi's impressive stimulus add-on was finally sinking in? Or was it not? After all, on Friday European markets only took back what they had lost on Thursday. Not to be neglected, the euro has strengthened against the US dollar, and if there is something that we have learned about the "effectiveness" of the BoJ and ECB variants of QE, it is that currency weakness has been an essential ingredient. Mr. Draghi's move away from negative rates to revamped incentives for the banks to extend credit to the economy (essentially a beefed up version of the LTRTO program), also indicates that he is now pointing on the internal, rather than the external lever. Whilst economically and politically that makes probably most sense, it is less impressive for European equity markets. What is more, global equity markets have by now moved away from the quasi certainty of a US recession in 2016. That is in the price. Better global economic news is unlikely.

## Your turn Janet!

Together with the recent surge in equity prices, we have now also seen a significant pick-up in government bond yields and, importantly, a revision of Federal Reserve rate expectation. Fed Fund futures are now putting the chance of a rate hike in June at 50%, a dramatic shift compared to hardly a month ago when a hike in December was seriously in doubt. No wonder markets will wait anxiously to hear what Janet Yellen has to say come Wednesday. She is expected to confirm a more bullish note on the economy, which tantamount to a more hawkish stance on interest rates. The more bullish note on the economy is already priced in, continuing doubts about its sustainability might make the renewed hawkish message less digestible. It would be reasonable to see markets cool down in the next coming weeks.

## Past week global markets' performance

### Index Snapshot (World Indices)

Index	Latest	Weekly Chg %	YTD %
S&P 500	2,022.2	1.1	-1.1
Dow Jones	17,213.3	1.2	-1.2
Nasdaq	4,748.5	0.7	-5.2
DAX	9,831.1	0.1	-8.5
Nikkei 225	16,938.9	-0.4	-11.0
FTSE 100	6,139.8	-1.0	-1.6
Sensex	24,718.0	0.3	-5.4
Hang Seng	20199.6	0.1	-7.8

### Regional Markets (Sunday to Thursday)

ADX	4499.9	1.8	4.5
DFM	3355.2	3.2	6.5
Tadaw ul	6354.5	2.2	-8.1
DSM	10386.4	2.5	-0.4
MSM30	5290.74	-2.1	-2.1
BHSE	1154.6	-1.7	-5.0
KWSE	5284.9	0.8	-5.9

### MSCI

MSCI World	1,626.2	1.1	-2.2
MSCI EM	800.9	1.3	0.9

### Global Commodities, Currencies and Rates

Commodity	Latest	Weekly Chg %	YTD %
ICE Brent USD/bbl	40.4	4.3	8.3
Nymex WTI USD/bbl	38.5	7.2	3.9
OPEC Baskt USD/bbl	35.2	8.7	12.7
Gold 100 oz USD/t oz	1249.5	-0.8	17.8
Platinum USD/t oz	961.8	-1.7	7.9
Copper USD/MT	4941.0	0.5	5.1
Alluminium	1551.75	-2.0	3.1

### Currencies

EUR	1.1156	1.4	2.7
GBP	1.4382	1.1	-2.4
JPY	113.86	0.1	5.6
CHF	0.9824	-1.0	2.0

### Rates

USD Libor 3m	0.6339	0.1	3.5
USD Libor 12m	1.2245	2.6	3.9
UAE Eibor 3m	1.0344	0.2	-1.9
UAE Eibor 12m	1.5736	-0.2	6.7
US 3m Bills	0.3154	19.2	93.9
US 10yr Treasury	1.9839	5.9	-12.6

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## Draghi's bazooka is now almost empty

### He impressed again

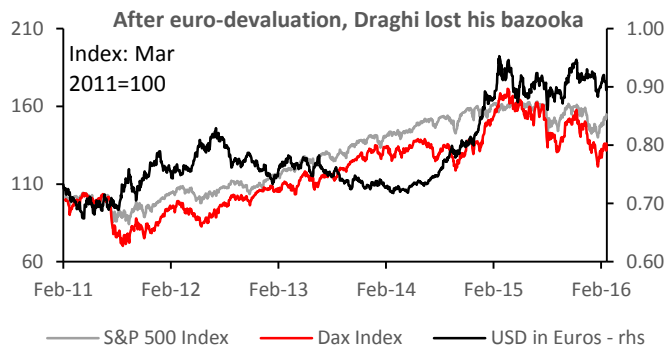
Since Mario Draghi became President of the ECB he has time and again confirmed his capacity to surprise markets on the upside. Thursday he did it again. The decision to cut rates further *and* to add 20 billion of additional monthly QE injections, including now also corporate bonds, is bold enough. But it was not enough. Mr. Draghi basically revamped the LTRO program by making it even more attractive for banks to extend credit to the economy.

### But the euro appreciates strongly, yields move up

When Draghi indicated that interest rate cuts are now more or less off the horizon, markets were quick to reverse their initial reaction. Arguably most surprising was the upward reversal of the euro, delivering a four cent intraday swing against the US dollar. Mr. Draghi's action has also pushed further upward yields on Bunds and Treasuries, even though periphery spreads have further come down. These immediate reactions on the currency and fixed income side should, of course, be taken with prudence as their direction can still be reversed (in our opinion specifically as far as government bond yields is concerned). Yet, they are counterintuitive and seem to confirm today's exhaustion of central banks' effectiveness.

### It's the currency, stupid

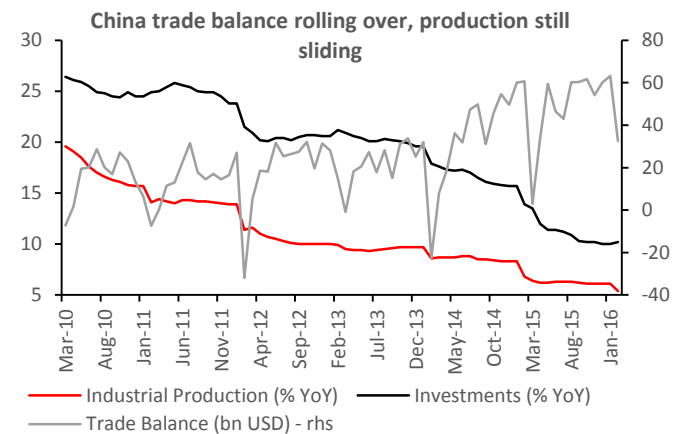
We have long argued that the massive 2014 appreciation of the US dollar largely discounted the then upcoming reversal of direction of the Fed's rate policy. Previous monetary policy cycles all confirm the forex markets capacity to anticipate central banks. From that point of view there is not much new under the sun. It simply means that we should no longer expect – barring a significant global risk-off moment – a rapid massive depreciation of the euro. To put this into the context of today's non-conventional monetary policies, the initiation of QE by the ECB (and by the BoJ for that matter) was critically accompanied by this depreciation, and it was this depreciation – together with continuing low yields – that provided the last major policy boost to European equities. It contributed significantly in providing the last leg of the global equity bull market that started in 2009.



Source: Bloomberg

### Mrs. Yellen upbeat again? China not so

Mrs. Yellen is likely to remind us this week that interest rate hikes are still on the agenda (see page 1). It will be important that she doses her words well. Whilst concerns about the US economy have dissipated, the same cannot be said for the Chinese economy. The Chinese government has now given increasingly indications that it wants to avoid a massive devaluation whilst cautiously stimulating the economy. This clearly has been a major factor in calming global markets over the last month. The question is whether the government in China is really capable of fully controlling (the sustainability of) a gradual depreciation. Over recent months industrial production has further come down, and the trade balance might continue to deteriorate, especially as (commodity) import prices stabilize. The slight increase in investments is of little relief. It is, in fact, more likely the reflection of the continuous stimulus effort that over the last years has only led to a massive increase of debts over output.



Source: Bloomberg

## Summary market outlook

Bonds					
<b>Global Yields</b>	The US Treasury 10yr yield ticked up significantly, to close to 2%. The Fed funds future market also upgraded the probability of Fed rate hikes for meetings in the H2-2016 which supported the rise in yield. This momentum might well continue and the bond market will get cues from the FOMC meeting this week. With additional stimulus from the ECB, European sovereign yields, especially from the periphery countries, are expected to trend further lower.				
<b>Stress and Risk Indicators</b>	The risk-on mood further eased risk indicators last week. The current risk rally will get cues from the FOMC statement and press conference which will determine the next move in the VIX indicator and sovereign CDS spreads.				
Equity Markets					
<b>Local Equity Markets</b>	The stabilization of the oil price over the last week provided support to GCC equity markets. Depressed valuations were another factor. Whilst we see further scope for consolidation in regional equities in the near term, the volatility of the oil price remains a risk.				
<b>Global Equity Markets</b>	The global risk rally consolidated last week, with Mr. Draghi's more dovish than expected measures ultimately giving a helping hand. Global equities are likely to further move sideways, until the FOMC statement and Mrs. Yellen's press conference provide some direction.				
Commodities					
<b>Precious Metals</b>	The gold price was a little down, but range bound during the week, trading between \$1,240/oz and \$1,280/oz. Long-term we remain cautious on gold, as global pressures are by and large deflationary.				
<b>Energy</b>	The momentum continued in the oil price last week as Brent oil price gained more than 4% over the week. We expect the prices to stabilize around the current level with an upward bias. However, given the recent volatility in the price, we caution investors against massive entries.				
<b>Industrial Metals</b>	Industrial metals prices stabilized last week after a sharp run-up in the prior weeks. We don't see any fundamental factors supporting industrial metals prices.				
Currencies					
<b>EURUSD</b>	After remaining largely flat during the week, the euro gained substantially in spite of Mr. Draghi's dovish announcement. Gains in the currency might now come under pressure amidst rising market probability of higher Fed rate this year. We expect a modest retreat in the euro in the near term.				
<b>Critical levels</b>	<table border="0"> <tr> <td><b>R2</b> → 1.1461</td> <td><b>R1</b> → 1.1309</td> <td><b>S1</b> → 1.0913</td> <td><b>S2</b> → 1.0669</td> </tr> </table>	<b>R2</b> → 1.1461	<b>R1</b> → 1.1309	<b>S1</b> → 1.0913	<b>S2</b> → 1.0669
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<b>GBPUSD</b>	The cable followed exactly the same path as the euro. That suggests the market's inability to figure independent factors for the GBPUSD cross. We believe that the currency pair will remain volatile, largely news-driven on the "Brexit" issue in the near term with a potentially upward bias.				
<b>Critical levels</b>	<table border="0"> <tr> <td><b>R2</b> → 1.4631</td> <td><b>R1</b> → 1.4507</td> <td><b>S1</b> → 1.4188</td> <td><b>S2</b> → 1.3993</td> </tr> </table>	<b>R2</b> → 1.4631	<b>R1</b> → 1.4507	<b>S1</b> → 1.4188	<b>S2</b> → 1.3993
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<b>USDJPY</b>	The Japanese yen traded in the range (112-114) over the last week. We could see relatively higher volatility leading to the BoJ meeting scheduled this week. We don't expect any significant movement in the currency in the near term, BoJ statement could influence the currency pair more likely towards the lower side.				
<b>Critical levels</b>	<table border="0"> <tr> <td><b>R2</b> → 115.73</td> <td><b>R1</b> → 114.80</td> <td><b>S1</b> → 112.58</td> <td><b>S2</b> → 111.29</td> </tr> </table>	<b>R2</b> → 115.73	<b>R1</b> → 114.80	<b>S1</b> → 112.58	<b>S2</b> → 111.29
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## Forthcoming important economic data

### United States

	Indicator	Period	Expected	Prior	Comments
3/15/2016	Retail Sales Advance MoM	Feb	-0.1%	0.2%	
3/15/2016	Retail Sales Ex Auto and Gas MoM	Feb	0.2%	0.4%	
3/15/2016	PPI Core YoY	Feb	1.2%	0.6%	
3/15/2016	NAHB Housing Market Index	Mar	59	58	
3/16/2016	Housing Starts	Feb	1150k	1099k	All eyes will focus on the language of the FOMC statement and press conference of the Chair Mrs. Yellen.
3/16/2016	Building Permits	Feb	1200k	1202k	
3/16/2016	CPI Core YoY	Feb	2.2%	2.2%	
3/16/2016	Industrial Production MoM	Feb	-0.3%	0.9%	
3/16/2016	FOMC Rate Decision	16-Mar	No change	0.25-0.5%	
3/18/2016	Univ. of Mich. Sentiment	Mar P	92.2	91.7	

### Japan

	Indicator	Period	Expected	Prior	Comments
3/15/2016	Tertiary Industry Index MoM	Jan	0.4%	-0.6%	Market will focus on the BoJ decision and external trade numbers this week.
3/15/2016	BoJ Policy Decision	15-Mar	No change		
3/17/2016	Exports YoY	Feb	-3.0%	-12.9%	
3/17/2016	Imports YoY	Feb	-15.8%	-17.8%	

### Eurozone

	Indicator	Period	Expected	Prior	Comments
3/14/2016	Industrial Production MoM	Jan	1.7%	-1.0%	No important data from the Eurozone this week.
3/17/2016	CPI Core YoY	Feb F	0.7%	0.7%	
3/17/2016	CPI YoY	Feb F	-0.2%	-0.2%	
3/18/2016	PPI YoY (GE)	Feb	-2.6%	-2.4%	

### China and India

	Indicators	Period	Expected	Prior	Comments
This week	Foreign Direct Investment YoY (CH)	Feb	1.7%	3.2%	India's external trade and inflation data will be important for the local market.
This week	Trade Balance	Feb	-\$6.8B	-\$7.6B	
This week	Exports YoY	Feb	--	-13.6%	
This week	Imports YoY	Feb	--	-11%	
3/14/2016	CPI YoY	Feb	5.52%	5.69%	

## 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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