The Weekly Market View

March 28 2016

بنك أبوظبي التجاري ADCB

Dollar weakness fades, pushing down risk assets

A big positive surprise from the ECB and a dovish Fed bought the equity rebound an extra week or two, but the momentum has now faded. Equity markets finished the shortened trading week down, snapping a five-week winning streak during which they managed to recover most of their year-to-date losses. Other risk assets also faded as FOMC-inspired dollar weakness turned to dollar strength thanks to hawkish comments from Fed officials during the week. The stronger dollar weighed on oil and other commodities which in turn halted the emerging markets revival as well. Benefitting from the stronger dollar were the euro and Japanese yen, both of which enjoyed some welcome weakness.

Recent market strength offers an opportunity

Since the start of the New Year we have advised investors to expect sharp sell-offs and violent rebounds in financial markets, in particular in equities. This has proven to be correct as markets have swung to big losses only to recover most of them over the past month. Even then, we admit that the longevity of the most recent market rebound has taken us by surprise. We still believe that unless fundamentals improve meaningfully, any market rally should eventually fade. Corporate earnings are the key to a more sustainable move up in equities, and the signs don't look good on this front. Friday's revised US GDP figures confirmed the weakness in the corporate sector which we have been highlighting for some time. Although headline Q4 15 GDP growth was revised up to 1.4% y-o-y (from 1%), corporate profits fell by 11.5% y-o-y; the largest drop since 2008 at the height of the financial crisis. History shows that when corporate profits fall, the economy is usually not able to fully decouple. The upcoming Q1 2016 earnings season should therefore be monitored with great interest.

Wietse Nijenhuis
Equity Strategist
Tel: +971 (0)2 205 4923
wietse.nijenhuis@adcb.com

Rahmatullah Khan
Economist
Tel: +971 (0)2 696 2843
rahmatullah.khan@adcb.com

Luciano Jannelli, Ph.D., CFA
Head Investment Strategy
Tel: +971 (0)2 696 2340
luciano.jannelli@adcb.com

Visit Investment Strategy Webpage to read our other reports.

Past week global markets' performance

Index Snapshot (World Indices)

Index	Latest	Weekly Chg %	YTD %
S&P 500	2,035.9	-0.7	-0.4
Dow Jones	17,515.7	-0.5	0.5
Nasdaq	4,773.5	-0.5	-4.7
DAX	9,851.4	-1.0	-8.3
Nikkei 225	17,002.8	1.7	-10.7
FTSE 100	6,106.5	-1.3	-2.2
Sensex	25,337.6	1.5	-3.0
Hang Seng	20345.6	-1.6	-7.2
Regional Markets (Sunday to Thursday)			
ADX	4331.9	-3.3	0.6
DFM	3318.7	-1.9	5.3
Tadawul	6350.9	-0.7	-8.1
DSM	10285.5	-1.3	-1.4
MSM30	5533.58	3.9	2.4
BHSE	1158.9	-0.3	-4.7
KWSE	5268.5	0.1	-6.2
MSCI			
MSCI World	1,623.7	-1.3	-2.4
MSCI EM	812.3	-1.7	2.3

Global Commodities, Currencies and Rates

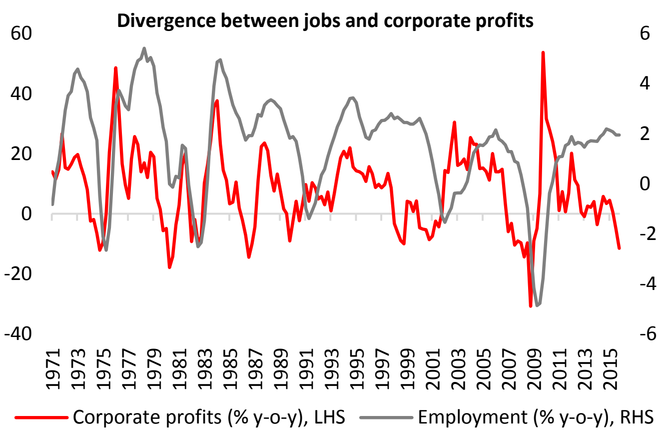
Commodity	Latest	Weekly Chg %	YTD %
ICE Brent USD/bbl	40.4	-1.8	8.5
Nymex WTI USD/bbl	39.5	0.1	6.5
OPEC Baskt USD/bbl	36.2	-1.1	15.7
Gold 100 oz USD/t oz	1217.1	-3.1	14.7
Platinum USD/t oz	947.9	-2.5	6.3
Copper USD/MT	4931.0	-3.4	4.9
Alluminium	1469.25	-2.7	-2.4
Currencies			
EUR	1.1167	-0.9	2.8
GBP	1.4132	-2.4	-4.1
JPY	113.08	1.4	6.3
CHF	0.9776	0.8	2.5
Rates			
USD Libor 3m	0.6286	0.7	2.6
USD Libor 12m	1.2312	1.6	4.5
UAE Eibor 3m	1.0256	1.5	-2.8
UAE Eibor 12m	1.5766	0.7	6.9
US 3m Bills	0.2798	-1.8	72.0
US 10yr Treasury	1.9000	1.4	-16.3

Please refer to the disclaimer at the end of this publication

Global data continues to point to softness

US GDP revision; the devil is in the detail

Along with concerns over Chinese growth, the main reason for financial market stress during the first month and a half of the year were concerns over US growth, with investors having fretted that the Fed made a mistake in raising rates in December. Data in the subsequent month and a half has been more encouraging and has to a large extent allayed these fears. In this context Friday's data showing that US economic performance in Q4 last year was stronger than previously thought on the surface carries on the trend of receding tail risks for the US economy. Q4 2015 US GDP growth was revised up to 1.4% annualized from the previous 1%. **As always, however, the devil is in the detail, with the detail showing a worrying deterioration in US corporate profits.**



Source: Bloomberg

The chart above shows a large and rather worrying gap between jobs growth and corporate profits. Until now jobs growth in the US has been strong as the economy has returned to full employment. **However, history shows that when earnings fall then more often than not the economy follows as companies inevitably cut back on hiring and investment.** Corporate profits in Q4 2015 plunged 11.5% y-o-y, marking the largest fall since the global financial crisis in 2008. A large part of the drop can be explained by the big decline in oil prices which hit commodity sector profits especially hard as well as the strong dollar hurting manufacturers. **Overall though, the data reflects a squeeze on margins which we have been highlighting for some time.**

In the absence of any major central bank meetings until the end of April when the Fed meets again, markets will likely focus on macro data as well as the start of the Q1 2016 earnings season which kicks off with Alcoa reporting on April 11. The consensus is currently forecasting a fourth consecutive quarter of negative earnings growth in the US.

FOMC speakers push dollar up

Last week we made the point that dollar weakness was unlikely to persist given that the Eurozone and Japanese economies are in fundamentally much weaker shape than the US and that the Fed would be unable to keep up its dovish rhetoric in the face of rising inflation. Indeed, last week saw a reversal of the FOMC inspired dollar weakness with several FOMC members publicly arguing for tighter monetary policy. Four of the 17 FOMC members have recently voiced their disagreement over the Fed's dovish March press conference, signalling that further rate hikes were now due, if not overdue.

What is clear is that not all FOMC members support Chair Janet Yellen's dovish assessment, and the risk to US policy from current expectations is the upside. The diverging views are likely to persist and will keep major currency crosses trading within the ranges we have previously identified (€1.05-1.15 and ¥110-120). Periods of dollar strength will likely be paired with commodity and equity market weakness and vice versa.

The Bad Goldilocks

With corporate profits pointing to weakness and the Fed still determined to hike (albeit less), what does it mean for equities? Much has been made of the "Goldilocks" scenario in the years following the global financial crisis where growth was improving but not enough to warrant tighter financial conditions. On top of this the Fed used forward guidance to signal very clearly that monetary conditions would remain extremely loose for a long time. This was a great environment for risk assets. The current scenario is arguably the reverse of this, where growth is not strong enough to inspire confidence in the recovery but it is not weak enough to prompt more easing. Indeed the Fed is now using forward guidance to signal tighter financial conditions ahead. This is negative for risk assets and unless this changes, should eventually get reflected in asset prices.

A number of key data releases this week

The week ahead will deliver some very important macro data releases. The dominant release as always will be non-farm payrolls data on Friday, but core PCE inflation from the US on Monday and final March PMI readings from across the globe will also be closely watched.

Summary market outlook

Bonds	
Global Yields	The US Treasury 10yr yield remained largely flat during the holiday truncated last week. The current week is full of important economic data which would guide the bond market. Any positive surprises on the back of largely hawkish statements made by Fed officials last week could push the yield close to 2% or even higher. Not much movement in expected in the European Sovereign yields.
Stress and Risk Indicators	Expectations for volatility in US equities over the next month (as measured by the VIX) have fallen to the lowest level since November, underscoring the more positive sentiment which has prevailed. With no major central bank meetings on the agenda, and with equity markets and oil prices having rallied strongly of late, a change in sentiment could see the VIX rise once more. Rise in the US dollar could push sovereign CDS especially for EMs higher.

Equity Markets	
Local Equity Markets	Sharp gains earlier and a relatively stability over the last week in the oil price has been supportive to the GCC equity markets in the recent weeks. However, any possible return of the oil price volatility could be negative for the local equities, especially in the wake of recent strong gains.
Global Equity Markets	After a good rally over the few weeks, global equity markets took a breather last week with small corrections. The current weeks could be volatile as a set of important economic data is expected from the US which could play either way. Even positive surprises could result into equity correction through stronger dollar and adjustment in the Fed expected action.

Commodities	
Precious Metals	The gold price corrected more than 3% last week as risk-off sentiments remained at bay. Moreover, long-term we remain cautious on gold, as global pressures are by and large deflationary.
Energy	The oil price remained largely flat over the last week with small decline at the end. A large part of the gains of late can be explained by short covering on hopes of a broader output agreement at a meeting of key producers in Doha on April 17. However, given the recent volatility in the price, we caution investors against massive entries.
Industrial Metals	Industrial metals prices resumed their downtrend for strength in the dollar. We believe that there is hardly any improvements in the fundamental outlook for metals, which remains bleak in our view.

Currencies								
EURUSD	The euro trended lower last week as the economic data from the US showed a relatively strength for the economy. We maintain that the currency will trade in our earlier stated range of 1.05-1.15 in the medium term.							
Critical levels	R2	1.1344	R1	1.1255	S1	1.1111	S2	1.1056
GBPUSD	The British pound suffered again due to the Brexit issue coming to the fore last week along with some strength in the US dollar. The currency pair is likely to be volatile with the downward bias (GBP) due to the overhang of "Brexit" and important economic data scheduled to release in the US.							
Critical levels	R2	1.4631	R1	1.4382	S1	1.3970	S2	1.3807
USDJPY	The Japanese yen eased last week as global risk sentiments stabilized, moving back towards the lower end of its recent range (111-114). If and when sentiment reverses, the yen may rally further as a safe haven currency.							
Critical levels	R2	114.64	R1	113.86	S1	111.76	S2	110.44

Forthcoming important economic data

United States

	Indicator	Period	Expected	Prior	Comments
3/28/2016	Personal Income	Feb	0.1%	0.5%	The most closely watched US data releases this week will likely be job market and ISM data.
3/28/2016	Personal Spending	Feb	0.1%	0.5%	
3/28/2016	PCE Core MoM	Feb	1.8%	1.7%	
4/01/2016	Change in Nonfarm Payroll	Mar	208k	242k	
4/01/2016	Unemployment Rate	Mar	4.9%	4.9%	
4/01/2016	Average Hourly Earnings YoY	Mar	2.2%	2.2%	
4/01/2016	Markit Mfg PMI	Mar F	51.5	51.4	
4/01/2016	ISM Manufacturing	Mar	50.7	49.5	
4/01/2016	Univ. of Mich. Sentiment	Mar F	90.5	90.0	

Japan

	Indicator	Period	Expected	Prior	Comments
3/29/2016	Jobless Rate	Feb	3.2%	3.2%	Tankan surveys are likely to be the most watched indicators from Japan.
3/29/2016	Job-To-Applicant Ratio	Feb	1.29	1.28	
3/29/2016	Retail Sales MoM	Feb	-0.9%	-0.4%	
3/29/2016	Industrial Production MoM	Feb P	-6%	3.7%	
4/01/2016	Tankan Large Mfg Index	1Q	8	12	

Eurozone

	Indicator	Period	Expected	Prior	Comments
3/29/2016	M3 Money Supply YoY	Feb	5%	5%	Core CPI and manufacturing PMI will be watched closely.
3/30/2016	Consumer Confidence	Mar F	-9.7	-9.7	
3/31/2016	CPI Core YoY	Mar A	0.9%	0.8%	
4/01/2016	Markit Manufacturing PMI	Mar F	51.4	51.4	
4/01/2016	Unemployment Rate	Feb	10.3%	10.3%	

China and India

	Indicators	Period	Expected	Prior	Comments
4/01/2016	Manufacturing PMI (China)	Mar	49.3	49	Market will focus on manufacturing PMI.
4/01/2016	Caixin Manufacturing PMI (China)	Mar	48.3	48.0	

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

Disclaimer

*This publication is intended for general information purposes only. It should not be construed as an offer, recommendation or solicitation to purchase or dispose of any securities or to enter in any transaction or adopt any hedging, trading or investment strategy. Neither this publication nor anything contained herein shall form the basis of any contract or commitment whatsoever. Distribution of this publication does not oblige Abu Dhabi Commercial Bank PJSC ("**ADCB**") to enter into any transaction.*

The content of this publication should not be considered legal, regulatory, credit, tax or accounting advice. Anyone proposing to rely on or use the information contained in the publication should independently verify and check the accuracy, completeness, reliability and suitability of the information and should obtain independent and specific advice from appropriate professionals or experts regarding information contained in this publication.

Information contained herein is based on various sources, including but not limited to public information, annual reports and statistical data that ADCB considers accurate and reliable. However, ADCB makes no representation or warranty as to the accuracy or completeness of any statement made in or in connection with this publication and accepts no responsibility whatsoever for any loss or damage caused by any act or omission taken as a result of the information contained in this publication. This publication is intended for qualified customers of ADCB.

Charts, graphs and related data or information provided in this publication are intended to serve for illustrative purposes only. The information contained in this publication is prepared as of a particular date and time and will not reflect subsequent changes in the market or changes in any other factors relevant to their determination. All statements as to future matters are not guaranteed to be accurate. ADCB expressly disclaims any obligation to update or revise any forward looking statements to reflect new information, events or circumstances after the date of this publication or to reflect the occurrence of unanticipated events.

ADCB does and may at any time solicit or provide commercial banking, investment banking, credit, advisory or other services to the companies covered in its publications. As a result, recipients of this publication should be aware that any or all of the foregoing services may at time give rise to a conflict of interest that could affect the objectivity of this publication.

Past performance does not guarantee future results. Investment products are not bank deposits and are not guaranteed by ADCB. They are subject to investment risks, including possible loss of principal amount invested. Please refer to ADCB's Terms and Conditions for Investment Services.

This publication is being furnished to you solely for your information and neither it nor any part of it may be used, forwarded, disclosed, distributed or delivered to anyone else. You may not copy, reproduce, display, modify or create derivative works from any data or information contained in this publication.