The Weekly Market View

May 30 2016

بنك أبوظبي التجاري
ADCB

Markets rally despite Yellen joining the chorus calling for a hike

For some time there has been a clear lack of direction in global equity markets. Markets have been vacillating between worrying about growth as well as US monetary tightening. Less than two weeks ago markets were taken aback by the hawkishness of April's FOMC minutes, fearing that a US rate increase would come in June or July already, much sooner than expected. However, these fears were firmly cast aside last week. Equity markets rallied strongly, underpinned by strong economic data out of the US. European equities in particular performed well, having received an additional boost as EU finance ministers successfully kicked the can down the road with another Greek debt deal. US treasuries remained more or less flat, oil flirted with the $50/bbl level while gold suffered another bad week, falling by 3.2%.

Large equity fund withdrawals not reflected in prices

What a difference a week makes. After struggling for most of May, equity markets stormed back last week, and in many cases are now showing positive gains for the month. The exact catalyst for the rally is easy to identify, but the rationale much less so. On balance, global economic data disappointed, the main bright spot coming from very strong new homes sales in the US which rose almost 100,000 units more than expected. This, coupled with an upward revision to Q1 US GDP growth likely lifted investors' confidence that the US economy is able to withstand the next impending rate increase. The rally, however, as has been the case for the past few months has been on low volume. This is supported by fund flow data which showed outflows from equity funds amounted to $9.2bn last week (according to the FT citing EPFR data). It marks the seventh consecutive week of outflows from global equities and means that this year's withdrawals have surpassed the $100bn level. We still believe that weak top-down and bottom-up fundamentals will ultimately lead to lower equity prices, especially when considering the plethora of potentials risks (think Brexit referendum, US elections, China slowdown). We therefore maintain our underweight recommendation on global equities.

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

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

Rahmatullah Khan
Economist
Tel: +971 (0)2 696 2843
rahmatullah.khan@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	2,099.1	2.3	2.7
Dow Jones	17,873.2	2.1	2.6
Nasdaq	4,933.5	3.4	-1.5
DAX	10,286.3	3.7	-4.3
Nikkei 225	16,834.8	0.6	-11.6
FTSE 100	6,270.8	1.9	0.5
Sensex	26,653.6	5.3	2.1
Hang Seng	20576.8	3.6	-6.1
Regional Markets (Sunday to Thursday)			
ADX	4292.1	1.1	-0.4
DFM	3361.7	3.8	6.7
Tadawul	6475.9	-3.2	-6.3
DSM	9679.5	-1.0	-7.2
MSM30	5906.87	-0.3	9.3
BHSE	1099.0	-0.3	-9.6
KWSE	5362.3	1.4	-4.5
MSCI			
MSCI World	1,676.1	2.2	0.8
MSCI EM	808.3	2.9	1.8

Global Commodities, Currencies and Rates

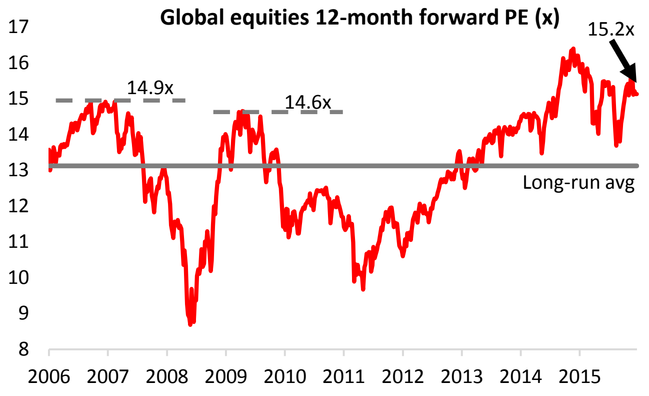
Commodity	Latest	Weekly Chg %	YTD %
ICE Brent USD/bbl	49.3	1.2	32.3
Nymex WTI USD/bbl	49.3	3.3	33.2
OPEC Baskt* USD/bbl	45.4	1.5	45.3
Gold 100 oz USD/t oz	1212.4	-3.2	14.3
Platinum USD/t oz	976.4	-4.5	9.5
Copper USD/MT	4725.5	2.1	0.5
Alluminium	1547.25	0.5	2.8
Currencies			
EUR	1.1115	-1.0	2.3
GBP	1.4623	0.8	-0.8
JPY	110.31	0.1	9.0
CHF	0.9947	0.4	0.7
Rates			
USD Libor 3m	0.6731	1.8	9.8
USD Libor 12m	1.3167	1.1	11.8
UAE Eibor 3m	1.1044	0.1	4.7
UAE Eibor 12m	1.7143	2.8	16.3
US 3m Bills	0.3103	1.7	90.7
US 10yr Treasury	1.8510	0.7	-18.4

Please refer to the disclaimer at the end of this publication

Despite large outflows from equity funds, markets remain well supported

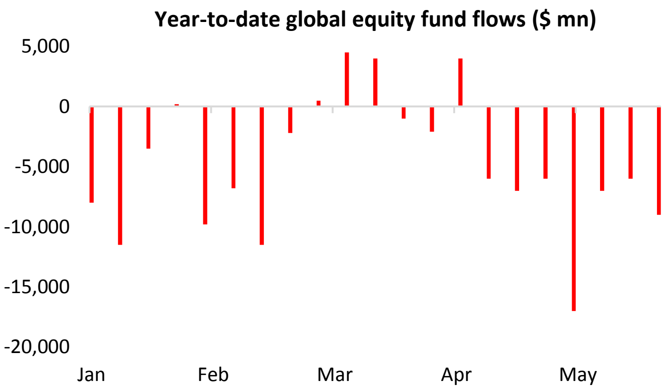
Mind the gap

Last week's strong equity market performance once again highlighted the burgeoning gap between fundamentals and equity prices. The Q1 earnings season has confirmed that corporates globally are facing a challenging environment in which to grow earnings. Not only that but at above 15x forward PE, global equities are considerably more expensive than their long-run average. In fact equities are currently more expensive than in the run up to the global financial crisis (see chart below). In addition to this, global macro data continues to underwhelm, with consensus estimates for global growth still seeing downward revisions. It seems therefore that markets are successfully ignoring the fundamental backdrop and are managing to remain at elevated levels.



Source: Thomson Reuters

Ultimately, the gap between fundamentals and prices will narrow, either by an improvement in fundamentals or by equity prices coming down. Volumes as an indicator suggest equity markets have been supported by increasingly fewer buyers. EPFR data shows that investors have been scaling back their equity exposure meaningfully this year, outflows this year have exceeded $100bn according to EPFR data.

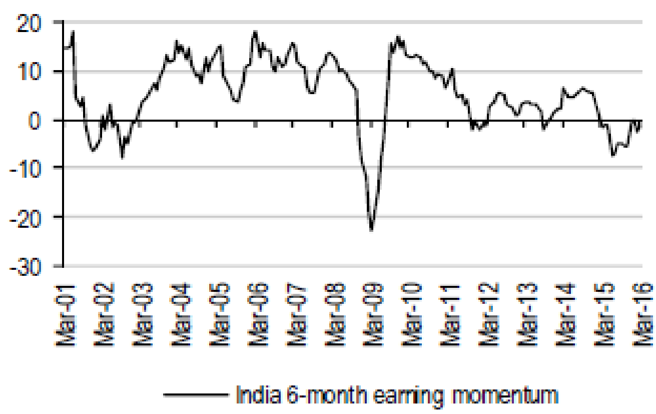


Source: FT. EPFR

Indian equities shine

The dollar continued its recent mini-strengthening cycle last week, nevertheless this did not prevent EM equities from posting healthy gains. It was Indian equities which stood out, rallying 5.3%, an outperformance of 2.4% over the broader EM index. We maintain our overweight recommendation on Indian equities believing that the market has broad-based support from the following factors:

- **Valuations:** Indian equities valuations have moderated following a period of underperformance this year, and are now more fairly valued.
- **Positioning:** EM funds have meaningfully scaled back their Indian exposure from record high levels.
- **Dividend yield:** Although at around 2% in absolute terms Indian dividend yields are not particularly high, they have been growing consistently ever since the global financial crisis relative to broader EM. This signals corporates are optimistic about the outlook.
- **Monetary policy:** India is one of the emerging markets capable of running independent monetary policy. Given the lack of a deflationary threat, further rate cuts in India are possible and will support equity performance.
- **Earnings:** Earnings have been under pressure globally, yet earnings momentum in India is likely to turn positive, potentially boosting sentiment (see chart below).
- **Insulated:** In addition to the above, the main reason for our preference for Indian equities is its low beta nature, and relative insulation from China and commodity related concerns which plague the vast majority of the EM space.



Note: Earnings momentum = 6-month change in 12-month forward consensus EPS
Source: Thomson Reuters

بنك أبوظبي التجاري ADCB

Summary market outlook

Bonds	
Global Yields	10-year US Treasury yields were little changed on the week, at 1.85% remaining comfortably below the 2% level. A hawkish Fed is likely to put upward pressure on yields in the near term. However, a sharp move up in longer-dated yields is unlikely, US treasuries continue to yield significantly more than European and Japanese government bonds.
Stress and Risk Indicators	Investors put aside fears over US monetary tightening which translated into a sharp rally in global risk assets. The result was that the VIX fell back towards the 13 level.

Equity Markets	
Local Equity Markets	Local equities have ceased to derive further benefit from higher oil prices. We think this is because higher oil is now counter acted by a more hawkish Fed and stronger dollar, which is bad for local equities. Especially given that local markets import US monetary policy.
Global Equity Markets	Global equities were sharply higher over the course of the week, recouping much of the lost ground from the recent dip from end of April highs. Fundamentals, both bottom up and top down continue to sit uneasily with the strength of equities.

Commodities	
Precious Metals	Gold followed up a bad week with a terrible one, losing another 3%. At the time of writing the gold price remains a fraction above the $1200 support. The metal has made strong gains this year, albeit virtually all the gains came in Q1. Some profit taking is therefore inevitable. Risks to the global economy remain aplenty, this will continue to underpin precious metals in the near term. However, long-term we remain cautious as global pressures are by and large deflationary.
Energy	The oil price rally appears to be slowing around the psychological $50/bbl level, having almost doubled in 3 months. There are signs that US oil production is coming down which has underpinned more positive sentiment. OPEC meets later this week but new measures to support oil prices will most likely be deemed unnecessary.
Industrial Metals	Industrials metals managed to partake in the risk rally this 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	The change in the US dollar's direction in recent weeks (from weak to strengthening) continued on the back of better than expected US macro data, thereby supporting the US rate hike case. The euro weakened 1.0% against the dollar, we believe it is likely to move lower still in the coming weeks and months.							
Critical levels	R2	1.1288	R1	1.1202	S1	1.1070	S2	1.1024
GBPUSD	The British pound reversed last week's losses against the dollar which were driven by Fed policy minutes. The currency pair is likely to be volatile with a downward bias (GBP) due to the overhang of "Brexit" referendum in under one month's time.							
Critical levels	R2	1.4899	R1	1.4761	S1	1.4464	S2	1.4305
USDJPY	The Japanese yen was flat against the dollar, remaining around the 110 level. The next move in the yen will most likely be determined by monetary policy, in particular investors' perceptions of what the Bank of Japan can still do to encourage a weaker yen. It is likely to remain range-bound near-term in our view.							
Critical levels	R2	111.30	R1	110.80	S1	109.46	S2	108.62

Forthcoming important economic data

United States

	Indicator	Period	Expected	Prior	Comments
5/31/2016	PCE Core YoY	Apr	1.60%	1.60%	A huge week for data in the shortened US trading week. Non-farm payrolls on Friday will be key, as well ISM and inflation data.
5/31/2016	Consumer Confidence Index	May	96.3	94.2	
6/1/2016	Markit US Manufacturing PMI	May F	50.5	50.5	
6/1/2016	ISM Manufacturing	May	50.4	50.8	
6/2/2016	ADP Employment Change	May	175k	156k	
6/2/2016	Initial Jobless Claims	28-May	270k	268k	
6/3/2016	Change in Nonfarm Payrolls	May	160k	160k	
6/3/2016	Average Hourly Earnings YoY	May	2.50%	2.50%	
6/3/2016	Markit US Services PMI	May F	51.4	51.2	
6/3/2016	Markit US Composite PMI	May F	--	50.8	
6/3/2016	ISM Non-Manf. Composite	May	55.4	55.7	
6/3/2016	Factory Orders	Apr	1.80%	1.10%	
6/3/2016	Durable Goods Orders	Apr F	--	3.40%	

Japan

	Indicator	Period	Expected	Prior	Comments
5/29/2016	Retail Trade YoY	Apr	-1.20%	-1.10%	PMI and Industrial production are top of the agenda in Japan.
5/30/2016	Overall Household Spending YoY	Apr	-1.10%	-5.30%	
5/30/2016	Industrial Production MoM	Apr P	-1.50%	3.80%	
5/31/2016	Nikkei Japan PMI Mfg	May F	--	47.6	
6/2/2016	Nikkei Japan PMI Services	May	--	49.3	
6/2/2016	Nikkei Japan PMI Composite	May	--	48.9	

Eurozone

	Indicator	Period	Expected	Prior	Comments
5/30/2016	Consumer Confidence	May F	-7	-7	The ECB meets on June 2nd, no new measures are expected but does not preclude investors from closely watching what Mr Mario Draghi has to say.
5/31/2016	CPI Estimate YoY	May	-0.10%	-0.20%	
6/1/2016	Markit Eurozone Manufacturing PMI	May F	51.5	51.5	
6/2/2016	ECB Main Refinancing Rate	2-Jun	0.00%	0.00%	
6/3/2016	Markit Eurozone Services PMI	May F	53.1	53.1	
6/3/2016	Markit Eurozone Composite PMI	May F	52.9	52.9	
6/3/2016	Retail Sales MoM	Apr	0.40%	-0.50%	

China and India

	Indicators	Period	Expected	Prior	Comments
5/31/2016	Manufacturing PMI (China)	May	50	50.1	China PMI will be an important indicator for risk assets.
5/31/2016	Caixin China PMI Mfg (China)	May	49.2	49.4	
5/31/2016	GDP YoY (India)	1Q	7.50%	7.30%	
6/1/2016	Nikkei India PMI Mfg (India)	May	--	50.5	

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.