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Equities and commodities lose ground, energy prices resilient

A sense that the worst of the US slowdown might be over, together with gridlock on the Greek debt issue, has kept upward pressure on the US dollar versus virtually all other currencies. The stronger US dollar has put downward pressure on US equities. It might also have been a key factor in the sharp fall in Chinese equities where, however, a correction was anyway overdue. A strong US dollar would normally have been beneficial for Euro-zone equities, but not this time, a sign that the unsolved Greek issue is starting to unnerve markets. Industrial metals came also down on the back of the strong US dollar, as well as continuing China growth concerns. Energy prices were surprisingly resilient. The big winner of the week were government bonds, with yields further coming down.

Strong dollar and Greek debt issue: equities climbing the wall of fear?

This week is likely to show that manufacturing kept well up in May across all major economies. US job creation in May is also expected to have overcome weakness in the earlier part of this year, and to maintain a monthly average of above 200'000 new jobs. Such developments are likely to keep the greenback strong and US equities under downside pressure. Global equities might well see a boost as soon as Greece manages to negotiate a comprehensive solution with its creditors. It is not at all clear that such a deal can be achieved this week. Yet, being a negotiated solution still the most likely outcome, markets could start to bet on it, thereby climbing the proverbial wall of fear. Resilient energy prices should provide some stabilization and support to local GCC equity markets. Yields are likely to remain contained.

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Past week global markets' performance

Index Snapshot (World Indices)

Index	Latest	Weekly Chg %	YTD %
S&P 500	2,107.4	-0.9	2.4
Dow Jones	18,010.7	-1.2	1.1
Nasdaq	5,070.0	-0.4	7.1
DAX 40	11,413.8	-3.4	16.4
Nikkei 225	20,563.2	1.5	17.8
FTSE 100	6,984.4	-0.7	6.4
Sensex	27,828.4	-0.5	1.2
Hang Seng	27424.2	-2.0	16.2
Regional Markets (Sunday to Thursday)			
ADX	4516.6	-2.9	-0.3
DFM	4000.5	-2.9	6.0
Tadawul	9757.1	-0.1	17.1
DSM	11902.1	-4.4	-3.1
MSM30	6390.4	0.1	0.7
BHSE	1366.4	-1.0	-4.2
KWSE	6314.8	-0.3	-3.4
MSCI			
MSCI World	1,779.3	-1.3	4.1
MSCI EM	1,004.2	-3.2	5.0

Global Commodities, Currencies and Rates

Commodity	Latest	Weekly Chg %	YTD %
ICE Brent USD/bbl	65.6	0.3	14.4
Nymex WTI USD/bbl	60.3	1.0	13.2
OPEC Baskt USD/bbl	59.3	-4.4	14.1
Gold 100 oz USD/t oz	1190.6	-1.3	0.5
Platimum USD/t oz	1112.4	-3.0	-7.9
Copper USD/MT	272.8	-3.7	-3.5
Alluminium	1708.25	-1.9	-6.8
Currencies			
EUR	1.0986	-0.2	-9.2
GBP	1.5291	-1.3	-1.8
JPY	124.15	2.1	-3.5
CHF	0.9403	-0.3	5.7
Rates			
USD Libor 3m	0.2828	-0.6	10.6
USD Libor 12m	0.7530	2.1	19.7
UAE Eibor 3m	0.7386	0.0	9.1
UAE Eibor 12m	1.0671	0.0	5.1
US 3m Bills	0.0000	-99.9	-100.0
US 10yr Treasury	2.1214	-4.0	-2.3

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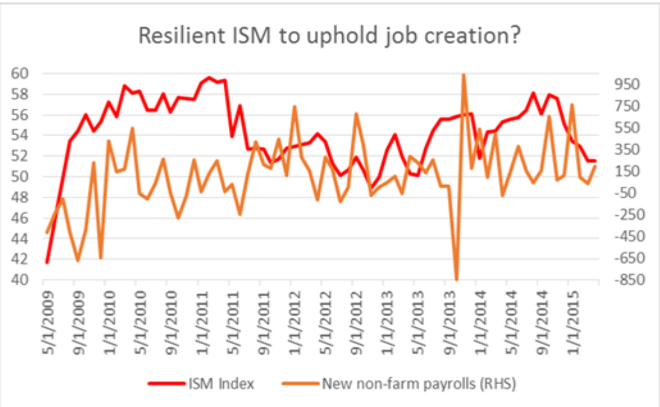
Some stabilization to the US economy provides support to the greenback

Whilst growth is likely to remain sluggish, some modest bounce-back is likely over the next months

Last week we finally saw some positive US economic data. Yet, whilst better-than-expected capital goods orders and new sales indicate that the worst of the winter slump might be over, overall growth is likely to remain sluggish. Nonetheless, the combination of some positive data relief, a bit more of hawkish language by Mrs. Yellen, as well as relatively high US Treasury yields is likely to continue supporting the US dollar in the coming weeks. Over the last weeks the US Economic Surprise Index has confirmed the ongoing economic stabilization.

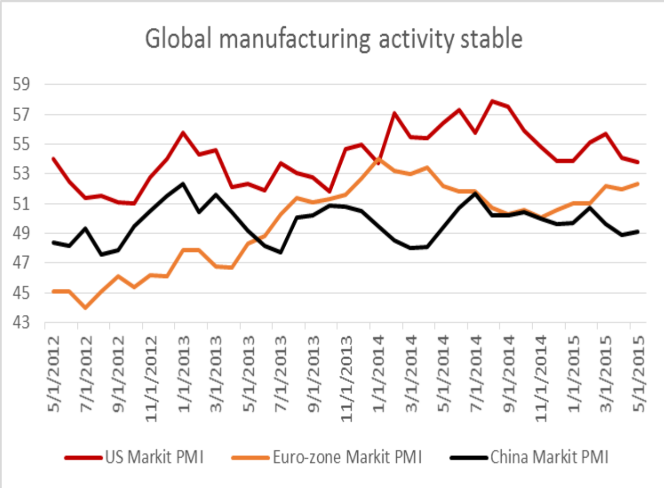
ISM Manufacturing and labour market to assess sustainability of current stabilization

Even if futures markets keep refuting the possibility of a rate hike in 2015 – and we also have some strong doubts – this week could see the usually recurring bout of speculation that the Fed will hike rates soon. This speculation is, of course, not only the result of last week's better-than-expected US economic data as well as some increase in the hawkishness of the Fed language. Markets are betting on the sustainability of better growth as the ISM Manufacturing Index is expected to stabilize after a long strike of reductions, whilst the labour market should be able to maintain its pace of more than 200'000 newly created jobs per month.



US growth stabilization and stable US dollar likely to keep up global manufacturing activity

The fact that the US economy – which is still the world's largest - appears to be stabilizing, is clearly a good omen for manufacturing globally. It is an even more bullish story because the US dollar remains at historically very high levels. If the US economy can continue to grow with a relatively strong US dollar, global manufacturing can only profit from it. We continue to believe that growth will disappoint for the whole of 2015, yet we think that after a very dismal first quarter, the US economy will somehow stabilize and global manufacturing indicators are likely to confirm that this week.



A positive solution to the Greek debt issue is still likely

Markets were a bit unnerved last week as the Greek government continued to indicate a lack of willingness to commit to more concrete reform measures, in particular in the labour market and pension system. Greece, however, seems right now able to scramble at least enough cash to reimburse an IMF loan instalment on June 5. It is not clear if Greece will also manage to make a deal with its main Euro-zone creditors this week. We still expect some sort of deal to be sealed this month. Any deal should be a comprehensive deal, and it might provide some longer lasting stability to the extent that the Greek government would subsequently put it for vote in a national referendum. Until this happens we are likely to see continuing volatility. Ultimately, however, it should trigger some boost in European equities, in particular equities of Euro-zone periphery countries.

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Summary market outlook

Global Yields	US sovereign bond yields trended slightly downward. It is an indication that markets continue to be unconvinced of the underlying strength of the US economy, as well as the extent of any prospective rate hike cycle by the Federal Reserve. In Europe German yields came down markedly, whilst yields of periphery countries remained largely stable, a sign that markets are concerned about potential implications of a Greek default. Global yields are likely to remain subdued and ECB QE will prevent long lasting contagion from Greece, such that Euro-zone spreads should further come down.
Stress and Risk Indicators	The VIX index rose, albeit not significantly. Sovereign CDS spreads remained also largely unchanged. Unless, the negotiations on the Greek debt turn into a real stalemate without any prospect of a solution, we do not expect major changes this week.
Precious Metals	Precious metals did not move much and are also expected to remain stable
Local Equity Markets	GCC equities came down last week. Local equity markets are likely to remain volatile after a massive spring rally. Yet, unless the oil price would massively correct, GCC equities still have upside.
Global Equity Markets	Global equity markets came down last week in tandem with a strong US dollar. Whilst the correction of US dollar pegged equities has some logic in view of the appreciation of the greenback, the loss in value in particular of European equities is less straightforward. It has likely to do with uncertainty about Greece and US monetary policy, in particular also for emerging markets. We expect continuing global equity volatility, but non-US dollar equities to gradually trend upward.
Energy	The significant gains in energy prices are now being undone in view of the global growth slowdown, as well as the stronger US dollar.
Industrial Metals	The recent rally in commodities has now by and large been undone in view of continuing slow growth in China

Currencies	**Commentary**	**Critical levels**
EURUSD	The US dollar remained by- and large stable against the euro, although during the week it temporarily strengthened. We could see some renewed US dollar strength this week, as US labour - and manufacturing data are likely to do well.	R2 - 1.1129 R1 - 1.1058 S1 - 1.0867 S2 - 1.0747
GBPUSD	Dollar strength against the British pound was not reversed as the US dollar appreciated against the pound, albeit a marginal 1%. We would expect the US dollar to appreciate a bit further as the BoE is likely to continue to trail the Fed in terms of hawkishness.	R2 - 1.5616 R1 - 1.5454 S1 - 1.5183 S2 - 1.5074
USDJPY	If, as we expect, the US dollar will remain strong against the euro and the GBP, then it might also gain some further points against the Japanese yen. This being our base case scenario, we could see some unexpected yen strength in case of some bad news from the US economy.	R2 – 126.36 R1 – 125.26 S1 – 122.25 S2 – 120.34

Forthcoming important economic data

United States

	Indicators	Period	Expected	Prior	Comments
06/01/2015	Personal Income	Apr	0.3%	0.0%	Markets to focus on manufacturing data, new factory orders and labour market data. Sings that worst of winter weakness might be over should keep US dollar at strong levels and yields contained.
06/01/2015	Personal Spending	Apr	0.2%	0.4%	
06/01/2015	Construction Spending MoM	Apr	0.7%	-0.6%	
06/01/2015	ISM Manufacturing Index	May	52	51.5	
06/02/2015	Factory Orders	April	-0.1%	2.1%	
06/03/2015	Trade Balance	April	-$44.0B	-$51.4B	
06/03/2015	Fed Beige Book				
06/05/2015	Change Non-Farm Payrolls	May	225K	223K	
06/05/2015	Unemployment Rate	May	5.4%	5.4%	
06/05/2015	Average Hourly Earnings YoY	May	2.2%	2.2%	

Japan

	Indicators	Period	Expected	Prior	Comments
05/31/2015	Capital Spending YoY	Q1	-0.2%	2.8%	Markets to focus on capital spending and manufacturing data.
05/31/2015	Markit Manufacturing PMI	May F		50.9	

Euro zone

	Indicators	Period	Expected	Prior	Comments
06/01/2015	Markit Manufacturing PMI	May F	52.3	52.3	Markets to focus on manufacturing data and ECB rate announcement
06/02/2015	CPI Estimate YoY	May	0.2%	0.0%	
06/02/2015	CPI Core YoY	May A	0.7%	0.6%	
06/03/2015	ECB Main Financing Rate	June 3	0.05%	0.05%	

China and India

	Indicators	Period	Expected	Prior	Comments
05/31/2015	China Manufacturing PMI	May	50.3	50.1	Manufacturing PMIs to attract most attention
05/31/2015	HSBC China Manufacturing PMI	May F	49.2	49.1	
06/01/2015	HSBC India Manufacturing PMI	May		51.3	

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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