The Weekly Market View

5 January 2015

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

Greek snap elections and US ISM retracement dent confidence

Markets were slightly down during the days entering 2015, as well as on the first trading day of the new year. One should of course not try to make too much of these movements as volumes are always very thin during the festivities season. Having said so, the incapacity of the Greek parliament to elect a new president – and thus the calling of a snap election on January 25 -, as well as the slight retracement of the most closely watched leading indicator for growth in the US – the ISM – have put the markets' focus again on the key issue for 2015: is the current US growth rate sustainable?

US labor data will be critical as markets assess sustainability US growth

Surveys are expecting December job creation to have exceeded 200k for the ninth consecutive month, whilst hourly wage earnings are likely to remain anchored at a yearly growth rate of 2%. A negative reading, i.e. less than 200k, would likely determine a correction as markets are far more concerned about the sustainability of US growth than about the Federal Reserve hiking rates. The continuing strengthening of the US dollar versus the euro, if anything, exacerbates these concerns.

Past week global markets' performance

Index Snapshot (World Indices)

Index	Latest	Weekly Chg %	YTD %
S&P 500	2,058.2	-1.5	-0.0
Dow Jones	17,833.0	-1.1	0.1
Nasdaq	4,726.8	-1.7	-0.2
DAX 40	9,764.7	-1.6	-0.4
Nikkei 225	17,450.8	-1.6	0.0
FTSE 100	6,547.8	-1.3	-0.3
Sensex	27,887.9	1.8	1.4
Hang Seng	23857.8	0.4	1.1
Regional Markets (Sunday to Thursday)			
ADX	4478.2	-1.5	-1.1
DFM	3727.5	-5.3	-1.2
Tadaw ul	8409.5	-5.0	0.9
DSM	12229.9	-2.7	-0.5
MSM30	6353.5	-1.3	0.2
BHSE	1426.6	0.8	0.0
KWSE	6553.4	-2.1	0.3
MSCI			
MSCI World	1,704.7	-1.1	-0.3
MSCI EM	953.7	0.4	-0.3

Global Commodities, Currencies and Rates

Commodity	Latest	Weekly Chg %	YTD %
ICE Brent USD/bbl	56.4	-2.5	-1.6
Nymex WTI USD/bbl	52.69	-1.7	-1.1
OPEC Baskt USD/bbl	54.4	0.0	-49.6
Gold 100 oz USD/t oz	1188.4	0.4	0.3
Platimum USD/t oz	1202.1	0.1	-0.5
Copper USD/MT	281.75	-0.7	-0.3
Alluminium	1812	-1.8	-1.2
Currencies			
EUR	1.2002	-1.2	-0.8
GBP	1.5328	-1.2	-1.6
JPY	120.50	-0.1	-0.6
CHF	1.0017	1.2	-0.7
Rates			
USD Libor 3m	0.2556	0.2	0.0
USD Libor 12m	0.6328	0.6	0.6
UAE Eibor 3m	0.6771	0.0	0.0
UAE Eibor 12m	1.0157	0.0	0.0
US 3m Bills	0.0152	-42.0	-57.2
US 10yr Treasury	2.1105	-4.2	-2.8

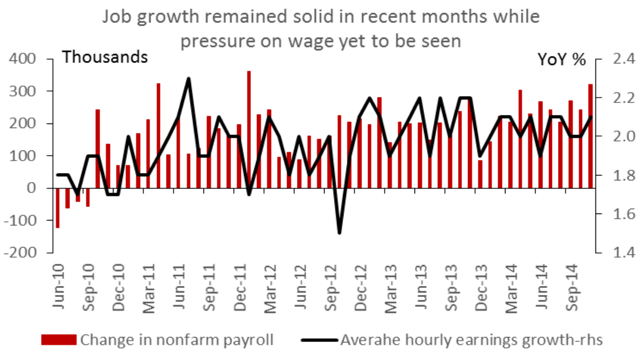
Please refer to the disclaimer at the end of this publication.

All eyes on US labor market data

Why US growth remains the main concerns

With US equity market valuations no longer cheap and the Federal Reserve increasingly unlikely to hike rates in a significant manner, it is clear that the sustainability of US growth will be the key factor in determining both the sustainability of the global business cycle and of global equity prices.

There are some very good reasons why US growth might – at least to some extent – disappoint over the next coming months. The most straightforward argument is that the household debt levels and lower labor force participation levels that have emerged following the 2008 Global Financial Crisis are simply less likely to allow the almost 4% annual real growth rate that we have seen over the last two quarters. A reflection of at least some of this secular stagflation argument can be seen in the stubbornness of the hourly wage earnings, barely budging from the 2% level, in spite of the continuing decline in the unemployment rate.

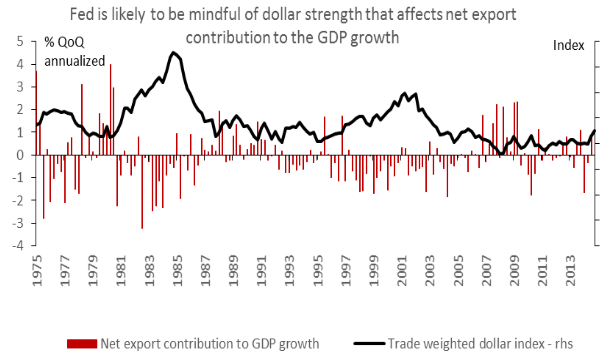


Source: Bloomberg

Whilst the lower oil price should have an overall positive impact on US growth – because it increases the real disposable income of households, in the short-term it might well deteriorate growth prospects since in recent years the bulk of US capital spending has been in the hitherto buoyant energy sector.

Another reason why growth in the US might disappoint is the continuous strengthening of the US dollar which, in turn, is the consequence of weakness in the Eurozone and in Japan, as well as in China and commodity exporting emerging markets. Last week's global Markit PMI indicators for the month of December slightly retraced from their prior levels, thereby confirming that the global cycle remains on a weak footing. Mr. Draghi's recent comments about the use of QE as a means of combatting the risk of deflation have determined a further depreciation of the euro, which remains for the US the most important trading partner currency.

Thus, while it is true that the US business cycle has – thanks to the reduction in the unemployment rate – become more broadly based, it is important to observe that even the largest economy in the world is not an island separated from the rest of the world. Indeed, as can be seen from the below chart, US net exports are significantly impacted by fluctuations in the exchange rate.

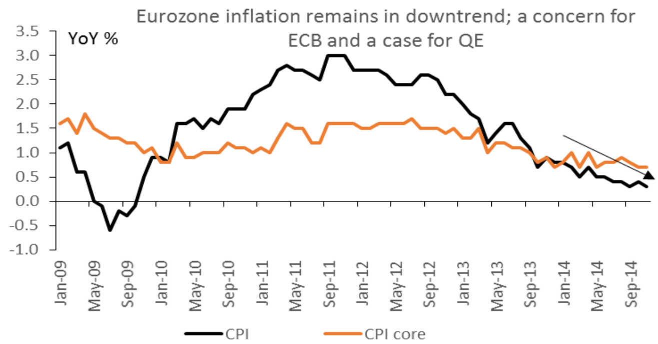


Source: Bloomberg

The United States is not indifferent to Europe's travails

Greece has now scheduled its elections on January 25, three days after the ECB will announce eventual new measures to combat the risk of deflation in the Eurozone.

This week's inflation date for the month of December is to drop for the first time below zero. Whilst it is true that this could be the only temporary effect of the drop in the oil price (in fact the core inflation rate is expected to stay at 7%), it is likely to increase the pressure on the ECB to introduce full-blown QE as a means of effectively increasing the size of its balance sheet.



Source: Bloomberg

Thus the key risk for equity markets next week is a more than expected decline in the Eurozone headline inflation rate together with a correction in the core inflation rate *combined* with a less than expected increase for US job creation in December. At any rate, we expect yields to remain subdued and the US dollar to face more upward pressure.

Summary market outlook

Global Yields	The 10-yr government bond yield trended lower last week in major developed economies. Soft inflation figure in the US and Draghi's statement on possible quantitative easing pushed sovereign yields lower across the Atlantic which is expected to continue this week. The crucial trigger for this week would be FOMC minutes on 7th Jan. If it sounds hawkish then we will see a jump in US yield. On the other hand, softer Eurozone inflation on the same day could trigger further easing in yields in the region.
Stress and Risk Indicators	VIX jumped on last day of the year as equity markets retreated. Given crucial economic events scheduled this week – we do not see VIX coming off significantly before Fed minutes. However, sovereign CDS eased across the major economies which could ease further in countries where they are still higher than recent average.
Precious Metals	Will remain volatile as long as Federal Reserve will not become more explicit about rate hikes.
Local Equity Markets	Expect a volatile week as oil has come off further towards end of the last week. Major trigger will continue to be the direction of oil price.
Global Equity Markets	Global equity markets retreated towards end of the last week probably on growth concerns. A thin volume expected this week as well, they are likely to remain volatile. FOMC minutes and Eurozone inflation are likely to be the main triggers this week.
Energy	After stabilizing for a brief period – prior to our last weekly report – oil price resumed its downtrend. Sharp dollar strength also not helping the price which is likely to continue. Hawkish FOMC minutes could further push it lower due to greenback appreciation and its impact on growth.
Industrial Metals	The China-driven secular downward trend will continue, and the pace will also depend on greenback movement. Stronger dollar will have negative effect in an environment where demand concerns remain.

Currencies	**Commentary**	**Critical levels**
EURUSD	Euro witnessed a renewed weakness against dollar on Mr. Draghi's statement on QE. We see the weakness to continue as FOMC minutes could sound hawkish. Any further signal from ECB non-monetary Governing Council meeting on 7th Jan on QE and/or weaker than expected inflation figure would be pressuring the currency lower.	R2 - 1.2160 R1 - 1.2250 S1 - 1.2000 S2 - 1.1900
GBPUSD	A general dollar strength pushed cable lower last week which is likely to continue this week. However, a technical rebound cannot be ruled out early this week after a sharp depreciation at the end of last week.	R2 - 1.5395 R1 - 1.5437 S1 - 1.5300 S2 - 1.5200
USDJPY	JPY moved largely in a range with depreciating bias over the last week. Lack of domestic data releases does not provide any trigger from domestic side this week. However, general dollar strength and BoJ policy will continue to push the currency lower (depreciate).	R2 - 121.46 R1 - 120.74 S1 - 120.07 S2 - 119.86

Forthcoming important economic data

United States

	Indicators	Period	Expected	Prior	Comments
01/06/2015	Factory Orders	Nov	-0.4%	-0.7%	Job market data expected to remain strong. FOMC minutes would be an important trigger in financial markets across the globe.
01/07/2015	FOMC Minutes	Dec meeting			
01/07/2015	Trade Balance (USD)	Nov	-42.0bn	-43.4bn	
01/08/2015	Consumer Credit (USD)	Nov	15.0bn	13.2bn	
01/08/2015	Change in nonfarm payroll	Dec	240k	321k	
01/08/2015	Unemployment rate	Dec	5.7%	5.8%	
01/08/2015	Average hourly earnings YoY	Dec	2.1%	2.2%	

China

	Indicators	Period	Expected	Prior	Comments
01/05/2015	HSBC China Composite PMI	Dec	NA	51.1	Non-mfg PMIs would give a signal for economic activities while producers' level deflation is expected to worsen.
01/05/2015	HSBC China Service PMI	Dec	NA	53.0	
01/08/2015	PPI YoY	Dec	-3.2%	-2.7%	
01/09/2015	Exports YoY	Dec	6%	4.7%	
01/09/2015	New Yuan Loans	Dec	900bn	852.7bn	

Euro zone

	Indicators	Period	Expected	Prior	Comments
01/06/2015	Markit Eurozone service PMI	Dec F	51.9	51.9	The main focus this week would on inflation number as CPI is expected to move into negative territory.
01/07/2015	Unemployment Rate	Nov	11.5%	11.5%	
01/07/2015	CPI estimates YoY	Dec	-0.1%	0.3%	
01/07/2015	CPI Core YoY	Dec A	0.7%	0.7%	

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

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.