The Weekly Market View

June 15 2015

بنك أبوظبي التجاري
ADCB

Largely a peaceful week after a stormy period

Sanity seems to be restored in European sovereign bond market last week after a period of upheaval in the prior week. Sovereign yields in Germany, Italy, Spain and other Eurozone members eased from their respective recent peaks but remained significantly above their respective recent lows. US Treasury 10yr yields closed the week on a flattish note after touching this year's high. The impact of the European yields readjustment was limited on the regional and the global equity markets. GCC equity markets were mixed – DFM being the only major gainer while TASI and DSM were on the losing side.

FOMC statement and its economic and interest rate projections key for the market

The Federal Open Market Committee (FOMC) meeting is the most important event for global financial markets this week. This is even more so important as it would be the first meeting in the last many years when FOMC is not bound by any self-imposed condition such as "extended period" and "patient" on the policy rate decision. It will also be important to see if the central bank changes its economic assessment and members of the committee change their rate projections. Besides the FOMC meeting, the ongoing negotiations between Greece and its creditors are also important for the market.

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Past week global markets' performance

Index Snapshot (World Indices)			
Index	**Latest**	**Weekly Chg %**	**YTD %**
S&P 500	2,094.1	0.1	1.7
Dow Jones	17,898.8	0.3	0.4
Nasdaq	5,051.1	-0.3	6.7
DAX 40	11,196.5	-0.0	14.2
Nikkei 225	20,407.1	-0.3	16.9
FTSE 100	6,784.9	-0.3	3.3
Sensex	26,425.3	-1.3	-3.9
Hang Seng	27280.5	0.1	15.6
Regional Markets (Sunday to Thursday)			
ADX	4567.1	-0.7	0.8
DFM	4099.5	1.0	8.6
Tadawul	9518.4	-1.5	14.2
DSM	11846.4	-1.8	-3.6
MSM30	6483.18	0.3	2.2
BHSE	1367.6	0.0	-4.1
KWSE	6287.1	-0.6	-3.8
MSCI			
MSCI World	1,770.2	0.6	3.5
MSCI EM	979.5	-0.3	2.4

Global Commodities, Currencies and Rates			
Commodity	**Latest**	**Weekly Chg %**	**YTD %**
ICE Brent USD/bbl	63.9	0.9	11.4
Nymex WTI USD/bbl	60.0	1.4	12.6
OPEC Baskt USD/bbl	62.1	6.0	19.5
Gold 100 oz USD/t oz	1181.6	0.8	-0.2
Platimum USD/t oz	1095.1	-0.1	-9.3
Copper USD/MT	267.8	-0.5	-5.2
Alluminium	1702	-0.9	-7.2
Currencies			
EUR	1.1266	1.4	-6.9
GBP	1.5561	1.9	-0.1
JPY	123.39	-1.8	-2.9
CHF	0.9288	-1.2	7.1
Rates			
USD Libor 3m	0.2861	1.7	11.9
USD Libor 12m	0.7908	5.6	25.8
UAE Eibor 3m	0.7457	1.0	10.1
UAE Eibor 12m	1.0743	0.7	5.8
US 3m Bills	0.0051	-66.7	-85.6
US 10yr Treasury	2.3918	-0.7	10.2

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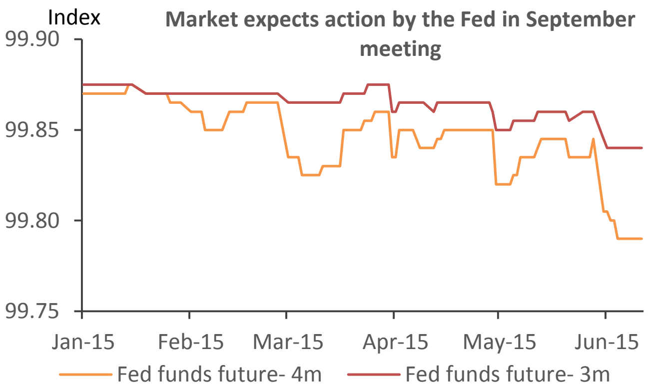
All eyes on the FOMC meeting this week

Markets expect no action until September

The Federal Open Market Committee (FOMC) is scheduled to meet on 16-17th June to decide on the appropriate monetary policy for the US. This will be the first meeting in the last many years when the FOMC is not bound by any self-imposed precondition such as "extended period" and "patient" on the policy rate decision. Therefore, the central bank is completely under no obligation to act in a predetermined manner. Having said so, markets do not expect any action by the Fed in this meeting as the economy has just started showing signs of recovery from the winter sluggishness, and the central bank needs more time to be convinced that the recovery is sustainable. Markets are not expecting any action in the next meeting in July as well, as they think that that meeting is not scheduled to be followed by a press conference and the Fed needs to explain the first rate hike (if it does) after almost a decade. So, for the market the September FOMC meeting seems to be the appropriate time for a rate hike as by that time the Fed will have had sufficient time to judge the sustainability of the recovery, as well as the opportunity to explain eventual action (the September meeting is scheduled to be followed by a press conference).



Source: Bloomberg

Changing tone of the Federal Reserve

Many FOMC members, including Chair Yellen, have voiced their opinion in public in favour of a rate hike this year. However, official FOMC statements have changed stance (from our perspective) over the last three-four meetings.

In the January statement, Federal Reserve described the expansion of economic activity as "solid" while retaining the word "patient" in hiking interest rate, a self-imposed restraint which it had interpreted as "no hike for the next two meetings". The central bank had introduced the word in the December statement. The upgrade in economic assessment ("solid") was on the back of an aggressive projection of rate hikes by the FOMC members through December. Members had expected four rate hikes of 25 bps each in 2015. This led to expectations in the market that the Fed could start hiking rates (the socalled lift-off) by the middle of this year.

However, in its March statement the central bank downgraded its economic assessment by saying that the economic growth "moderated somewhat". The accopanying economic assessment and rate projections by the members were also muted. Members expected only two rate hikes in 2015 as against the four rate hikes they had expected in December. However, it dropped the word "patient" which opened the possibility of rate hike in June.

In the April statement, the Federal Reserve remained slightly dovish by stating that "economic growth slowed during the winter months". Market also discounted weaker economic indicators and the expected timing of the rate hike was pushed further ahead.

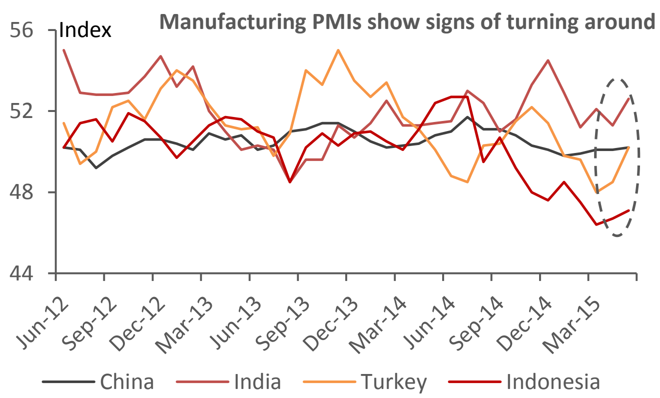
Economic assessment and Dot projections matter

Along with the FOMC statement, the Committee will also release its economic assessment and members' Fed funds rate projections (the so called dot projections). It will be important to see if there is any change in the economic assessment as compared to the assessment in March, especially in the wake of weak first quarter growth. If the economic projection does not change then it would be interpreted as the Federal Reserve expecting stronger growth in the remaining quarters of 2015.

Even more important are the members' Federal Funds rate projections through the Dots. It will be important to see if they continue to see two rate hikes this year, or they reduce the expectation to one rate hike only.

Some signs of stabilization in Emerging Markets

Early signs of stabilization were visible in recently released economic data from Emerging Markets. China's trade data were better than expected while a modest uptick was seen in PMIs and industrial production. The same is true for India as well where both PMI and industrial production witnessed a remarkable jump. Turkey's HSBC manufacturing PMI jumped almost two points while first quarter growth was better than expected.



Source: Bloomberg

Summary market outlook

Global Yields	Sovereign yields in major developed economies, especially in the US and Germany, subsided last week after sharp spikes in the previous days. Markets seem to be readjusting their growth and inflation expectations in major economies. Similarly we have seen a dampening of the uncertainty created by the Greek issue which had also caused volatility in yields in recent weeks. The FOMC statement and its economic assessment are likely to play a major role this week, as well as progress in the Greek debt negotiations.
Stress and Risk Indicators	The VIX index ended lower as compared to its closing level a week ago. It is likely to move in a similar range (12-15) with upward bias in the near term. CDS spreads also stabilized with small tick-ups. The Greek issue could still push these risk indicators higher in the very near term.
Precious Metals	Precious metals remained largely stable last week. Rising risk perceptions in recent weeks have not supported the metal price, mainly due to the stronger dollar. We expect the same dynamics to unfold in the near term.
Local Equity Markets	GCC equities were mixed last week, with only the DFM gaining around 1%. This week is the last one before Ramadan starts and relatively lull trading activity sets in. We expect a sideways movement in the near term due to lack of any significant macro-trigger.
Global Equity Markets	Global equity markets were largely flat last week after a correction in the previous weeks. Readjustments in monetary policy expectations along with the Greek issue are likely to continue to create volatility in coming days. Having said that, improved economic data releases could provide some support.
Energy	The Brent crude price has continued to hover around the $65 per barrel mark for over more than a month now. It seems to have stabilized at this level and has created a trading range around it.
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 euro had an appreciating bias last week due to recent adjustments in European sovereign yields. We could see the common currency losing some ground this week if the FOMC turns a little hawkish.	R2 - 1.1549 R1 - 1.1407 S1 - 1.1103 S2 - 1.0941
GBPUSD	The British Pound benefitted from the readjustment in the medium term inflation expectations in the UK as the market now believes the slowing inflationary trend to turnaround sooner. However, we believe that the likely hawkish tone from the FOMC this week could stymie the appreciation in the cable.	R2 - 1.5836 R1 - 1.5699 S1 - 1.5323 S2 - 1.5084
USDJPY	Renewed rate hike expectations in the US and the weaker recovery momentum in Japan are playing a key role in the USDJPY cross. Yet, the Bank of Japan seems to be unwilling to push the Japanese yen further lower in order to push domestic inflationary expectation higher.	R2 – 127.06 R1 – 125.23 S1 – 122.01 S2 – 120.62

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Forthcoming important economic data

United States

	Indicators	Period	Expected	Prior	Comments
06/15/2015	Industrial Production MoM	May	0.2%	-0.3%	Market will focus on the FOMC statement and press conference by the Chair Yellen to get a clue about the timing of the rate hike
06/15/2015	NAHB Housing Market Index	June	56	54	
06/15/2015	Housing Permits	May	1100k	1135k	
06/17/2015	FOMC Rate Decision	May		No change	
06/18/2015	CPI YoY	May	0%	-0.2%	
06/18/2015	CPI Core YoY	May	1.8%	1.8%	

Japan

	Indicators	Period	Expected	Prior	Comments
06/17/2015	Trade Balance (Bn ¥)	May	-256.8	-55.8	External trade data will provide a sense of how growth in Japan is getting support from net exports
06/17/2015	Export YoY	May	3%	8%	
06/17/2015	Imports YoY	May	-7.5%	-4.2%	

Euro zone

	Indicators	Period	Expected	Prior	Comments
06/16/2015	Zew Survey Expectations	June	NA	61.2	Amid improving economic outlook, inflation data will be under scrutiny.
06/17/2015	CPI YoY	May F	0.3%	0.3%	
06/17/2015	CPI Core YoY	May F	0.9%	0.9%	

China and India

	Indicators	Period	Expected	Prior	Comments
06/18/2015	FDI YoY (China)	May	8%	10.5%	India's external trade and trade balance data will be under focus from currency perspective.
06/12/2015*	Exports YoY (India)	May	NA	-14%	
06/12/2015*	Imports YoY (India)	May	NA	-7.5%	
06/12/2015*	Trade Balance (India)	May	-$11bn	-$11bn	

***Delay in release of the data**

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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