The Weekly Market View

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US dollar and Treasuries strenghten as equities take a pause

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This edition of the Weekly Market View comes out in a shorter version as we are on the road to present our Quarterly Investment View to our clients. Last week we saw a further strengthening of the greenback and US Treasuries, as equity markets continued to struggle to gain momentum. Key events were the disappointing US labor market data and the publication of the FOMC minutes revealing that the Federal Reserve is seriously contemplating reducing its balance sheet sooner rather than later. The meeting between the presidents of the United States and China turned out to be sort of a non-event. The fact, however, that the two presidents managed to pull off precisely such non-event, after months of heavy anti-China rhetoric by Mr. Trump might be considered an achievement in itself! That is even more so given that the US attack on Syria took place during the summit itself, something that must have somewhat irritated the Chinese delegation. We continue to believe that some pragmatic agreement on China-US trade relations is still likely.

Reflation not going global

Whilst we think that fiscal stimulus and deregulation, combined with a Fed who will (again) increase rates less rather than more will keep the US economy growing steadily during 2017 and a significant part of 2018, we see real US GDP growth capped at 2.5% year over year. Low productivity growth combined with limited potential to increase labor supply, and a resilient US dollar, are unlikely to allow for stronger growth. At the same time neither Japan nor the Euro-zone will be able to maintain their current pace of growth if their currencies appreciate significantly. The ensuing US dollar strength is bad for the global economy and will prevent the so-called reflation trade from "going global". It forces us to take an increasingly cautious stance on equities. For sure it makes sense to continue to overweight US equities over other equities, and to steer clear from most emerging equity markets. And whilst we continue to approach emerging bond markets with increasing selectivity, both US Treasuries and gold remain important risk hedges in our portfolios. In this stationary growth environment, the upside for energy and commodity prices remains capped too.

Past week global markets' performance

Index Snapshot (World Indices)

Index	Latest	Weekly Chg %	YTD %
S&P 500	2,355.5	-0.3	5.2
Dow Jones	20,656.1	-0.0	4.5
Nasdaq	5,877.8	-0.6	9.2
DAX	12,225.1	-0.7	6.5
Nikkei 225	18,664.6	-1.3	-2.4
FTSE 100	7,349.4	0.4	2.9
Sensex	29,706.6	0.3	11.6
Hang Seng	24267.3	0.6	10.3
Regional Markets (Sunday to Thursday)			
ADX	4615.2	3.9	1.5
DFM	3566.4	2.5	1.0
Tadawul	7075.6	1.1	-1.9
DSM	10456.0	0.6	0.2
MSM30	5613.35	1.1	-2.9
BHSE	1353.4	-0.2	10.9
KWSE	7029.8	0.0	22.3
MSCI			
MSCI World	1,845.5	-0.4	5.4
MSCI EM	961.6	0.3	11.5

Global Commodities, Currencies and Rates

Commodity	Latest	Weekly Chg %	YTD %
ICE Brent USD/bbl	55.2	4.6	-2.8
Nymex WTI USD/bbl	52.2	3.2	-2.8
Gold USD/t oz	1254.5	0.4	9.3
Silver USD/t oz	18.0	-1.3	13.2
Platinum USD/t oz	954.6	0.4	5.7
Copper USD/MT	5770.0	-1.4	4.9
Alluminium	1948.5	-0.3	15.0
Currencies			
EUR USD	1.0591	-0.6	0.7
GBP USD	1.2371	-1.4	0.3
USD JPY	111.09	-0.3	5.3
CHF USD	1.0091	0.6	1.0
Rates			
USD Libor 3m	1.1576	0.7	16.0
USD Libor 12m	1.7990	-0.2	6.7
UAE Eibor 3m	1.4653	-0.2	-0.7
UAE Eibor 12m	2.2010	-1.0	5.1
US 3m Bills	0.8127	8.1	63.4
US 10yr Treasury	2.3822	-0.2	-2.5

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Summary market outlook

Bonds	
Global Yields	10yr Treasuries fell to the lowest level since December 2016 on an intraday basis as markets sought safe haven assets amidst the rise in geopolitical concerns. However, yields backed up a bit on increased prospects of Fed shrinking its balance sheet. We expect US bond yields to remain supported given the lack of US fiscal policy clarity. In Europe, bond yields fell following the decline in US Treasury yields. French-German spreads are likely to remain under pressure in the run-up to the French elections.
Stress and Risk Indicators	The VIX jumped higher as equity markets sold off with the jump in geopolitical tensions. Current levels of volatility are still low and don't look reasonable amidst rising geopolitical risks.
Equity Markets	
Local Equity Markets	GCC equity markets ended the week higher in line with upward normalisation in oil prices. We remain neutral on GCC equities given the potential for further dollar strength and limited upside in oil prices.
Global Equity Markets	Global equities were mixed last week as the surge in geopolitical tension hurt investor sentiment. Nevertheless, after fluctuating between gains and losses, US equities ended the week flat. Japanese equities underperformed the most as the yen remained fairly resilient versus the dollar. While a pullback in the equity rally is likely, policy momentum is expected to remain skewed towards a fiscal boost, proving a still favourable environment for the equity market.
Commodities	
Precious Metals	Gold prices jumped as investors rushed to safe-haven assets amidst the latest political developments. We stick to gold as a risk hedge against the ongoing political and inflationary risks.
Energy	Energy prices rose higher amidst the rise in tensions in the middle east post the US airstrike on Syria. While we expect some upward normalisation to take place, we argue against any significant jump as rising US rig counts and downbeat China demand should weigh on energy prices.
Industrial Metals	Industrial metals ended the week lower, weighed down by the rise in dollar demand. We do not expect this trend to continue given the ongoing concerns on China demand.

Currencies								
EURUSD	The euro weakened against the greenback mainly on account of broad dollar strength. We expect the euro to remain under pressure given the upcoming election calendar in key Eurozone countries.							
Critical levels	R2	1.0697	R1	1.0644	S1	1.0559	S2	1.0528
GBPUSD	The pound depreciated versus the dollar on the back of disappointing manufacturing PMI release. With Brexit risks likely to linger in the near term, cable is likely to stay weak versus the dollar.							
Critical levels	R2	1.2517	R1	1.2444	S1	1.2332	S2	1.2293
USDJPY	The yen was resilient to the broad dollar strength and ended the week almost flat, benefitting from upbeat consumer confidence data. However, this trend is unlikely to sustain given the potential for dollar strength.							
Critical levels	R2	112.10	R1	111.59	S1	111.36	S2	109.63

Forthcoming important economic data

United States

	Indicator	Period	Expected	Prior	Comments
04/11/2017	NFIB Small Business Optimism	Mar	104.9	105.3	CPI print and retail sales number will be important.
04/13/2017	PPI Final Demand YoY	Mar	2.40%	220%	
04/13/2017	U. of Mich. Sentiment	Apr P	96.5	96.9	
04/14/2017	CPI YoY	Mar	2.60%	2.70%	
04/14/2017	CPI Core YoY	Mar	2.30%	2.20%	
04/14/2017	Retail Sales Advance MoM	Mar	-0.10%	0.10%	

Japan

	Indicator	Period	Expected	Prior	Comments
04/10/2017	Eco Watchers Survey Current SA	Mar	49.8	48.6	Focus will be on PPI and machine orders data. .
04/12/2017	Machine Orders MoM	Feb	3.70%	-3.20%	
04/12/2017	PPI YoY	Mar	1.40%	1.00%	
04/14/2017	Industrial Production YoY	Feb F		4.80%	

Eurozone

	Indicator	Period	Expected	Prior	Comments
04/11/2017	Industrial Production WDA YoY	Feb	1.90%	0.60%	ZEW surveys will be tracked by the market.
04/11/2017	ZEW Survey Expectations	Apr	-	25.6	
04/11/2017	ZEW Survey Expectations (GE)	Apr	14.5	12.8	

United Kingdom

	Indicator	Period	Expected	Prior	Comments
04/11/2017	CPI YoY	Mar	2.30%	2.30%	Attention will be on the inflation data.
04/11/2017	CPI Core YoY	Mar	1.90%	2.00%	
04/11/2017	RPI YoY	Mar	3.20%	3.20%	
04/13/2017	RICS House Price Balance	Mar	22%	24%	

China and India

	Indicator	Period	Expected	Prior	Comments
This week	New Yuan Loans CNY (CH)	Mar	1200bn	1170bn	A large set of economic data including foreign trade and inflation will be important for the markets.
This week	Aggregate Financing CNY (CH)	Mar	1500bn	1148bn	
04/12/2017	CPI YoY (CH)	Mar	1.00%	0.80%	
04/12/2017	CPI YoY (IN)	Mar	3.90%	3.65%	
04/13/2017	Exports YoY (CH)	Mar	3.40%	-1.30%	
04/13/2017	Exports YoY (IN)	Mar	-	17.50%	

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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