The Weekly Market View

April 3 2017

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

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

Prerana Seth
Fixed Income Strategist
Tel: +971 (0)2 696 2878
prerana.seth@adcb.com

Visit Investment Strategy Webpage to read our other reports

Markets stabilize in spite of rising US policy concerns

Politics has been a main positive driver for financial markets since the November election of Donald Trump to the US presidency. Last week we urged our readers not to read too much in the failure of the new administration to repeal and replace "Obamacare". Indeed markets have in the meanwhile stabilized as equities recouped losses together with commodity and energy prices. The global "fear" index – the VIX – has also receded, indicating that markets remain constructive even as doubts about the policy effectiveness of the new president and the republican majority in the US Congress are rising (and not only because of its incapacity to tackle healthcare reform). Reasonably good global economic data, with the exception perhaps of inflation figures from the Euro-zone, have helped of course. Whilst we believe that the current reflation trade has still some legs to go, in the short-term caution is warranted as policy hiccups might well be the trigger for further technical pull-backs. The fact that Treasury yields remain contained, and that the gold price has not come down significantly, are a reminder of the fact that markets continue to be wary.

Washington – and Mar-a-Lago - will remain in the spotlight

After the US dollar regaining lost territory together with commodities, markets might well remain stationary in anticipation of Friday's US labor data. The recent strength with the US dollar fits well with the recent inflation data coming out of the US and the Euro-zone. While in the US, prices are on the rise across the board, in the Euro-zone they seem already to be stabilizing as core prices in particular remain extremely contained. It seems reasonable therefore that the markets will continue to emphasize a relatively hawkish Fed versus a relatively dovish ECB, unless of course Friday's US labor data will be so disappointing as to casts some doubts about the Fed's hawkishness, something we deem unlikely. Yet, for the largest part of the week, US politics – and not data – will take the bulk of the markets' attention: will the "Russia affair continue to haunt the Trump administration and jeopardize its (tax) policy reform capacity? What to make of the president's recent executive orders instructing a "review" of trade relations? What will he say to China's president Xi Jinping as they have their first bilateral summit at his private resort in Mar-a-Lago, Florida?

Past week global markets' performance

Index Snapshot (World Indices)

Index	Latest	Weekly Chg %	YTD %
S&P 500	2,362.7	0.8	5.5
Dow Jones	20,663.2	0.3	4.6
Nasdaq	5,911.7	1.4	9.8
DAX	12,312.9	2.1	7.2
Nikkei 225	18,909.3	-1.8	-1.1
FTSE 100	7,322.9	-0.2	2.5
Sensex	29,620.5	0.7	11.2
Hang Seng	24111.6	-1.0	9.6
Regional Markets (Sunday to Thursday)			
ADX	4443.5	-1.2	-2.3
DFM	3480.4	0.5	-1.4
Tadawul	7001.6	1.8	-2.9
DSM	10390.6	-0.5	-0.4
MSM30	5550.6	-1.5	-4.0
BHSE	1356.0	-1.4	11.1
KWSE	7029.4	-0.2	22.3
MSCI			
MSCI World	1,853.7	0.4	5.9
MSCI EM	958.4	-1.1	11.1

Global Commodities, Currencies and Rates

Commodity	Latest	Weekly Chg %	YTD %
ICE Brent USD/bbl	53.5	4.0	-5.8
Nymex WTI USD/bbl	50.6	5.5	-5.8
Gold USD/t oz	1249.2	0.5	8.9
Silver USD/t oz	18.3	2.8	14.7
Platinum USD/t oz	950.4	-1.5	5.2
Copper USD/MT	5849.0	1.2	6.3
Alluminium	1954.75	1.0	15.4
Currencies			
EUR USD	1.0652	-1.4	1.3
GBP USD	1.2550	0.6	1.7
USD JPY	111.39	0.0	5.0
CHF USD	1.0026	1.1	1.6
Rates			
USD Libor 3m	1.1496	-0.1	15.2
USD Libor 12m	1.8018	-0.1	6.9
UAE Eibor 3m	1.4673	3.4	-0.6
UAE Eibor 12m	2.2202	3.4	6.0
US 3m Bills	0.7516	-1.3	51.1
US 10yr Treasury	2.3874	-1.0	-2.3

Please refer to the disclaimer at the end of this publication

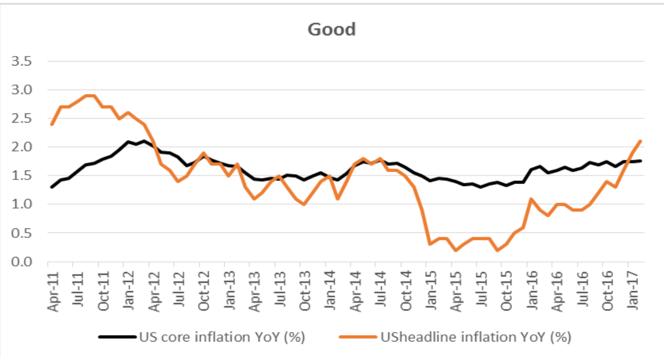
Politics still driving markets, but weaker Euro-zone prices pre-empt weakening of US dollar

Trump reflation reluctant to go global

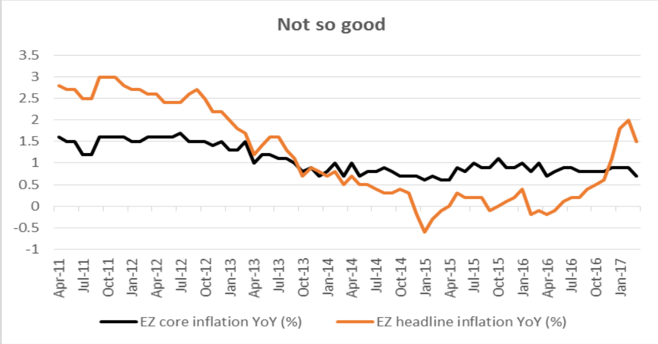
We have been reluctant to buy into the narrative of a continuously weakening US dollar. It is true that some weakening of the US dollar was on the cards after its massive post-US election rally, and given that the greenback usually declines when the Fed finally starts enacting a much announced hiking cycle. In fact, the greenback *has* come down since the beginning of this year. There are two reasons why we believe that a significant weakening of the US dollar is unlikely. First, whilst it is increasingly clear that the Trump administration will have a hard time to pursue tax reforms, it still makes sense to assume that fiscal policy in the US is going to be significantly more expansionary than it had been in the last years. Thus in a context of close to full employment, the Federal Reserve will have little choice but to maintain a relatively hawkish policy, at least hawkish enough to prevent a significant depreciation of the greenback. Second, markets have made too much out of the so-called global reflation trade, the idea – in other words – that reflation in the US is massively spilling over to other parts of the world. For sure, also Europe is *right now* seeing a significant uptick in momentum. Yet, much of that uptick is still the result of the weaker euro. Imbalances between the core and the periphery persist and fiscal policy in Europe is still bound to remain dictated by austerity. As for China, tightening is firmly on the agenda, a matter of "when" rather than "if".

A tale of two "inflations" and a resilient greenback

The resilience of the US cycle, as compared to the more sluggish European one, is obvious when comparing inflation data, with European core prices pulling down headline inflation, whereas in the US core and headline prices continue to move in unison upward. Only headline inflation moving up in Europe means that higher commodity and food prices are restraining consumers from buying other goods. Thus the moderation in aggregate demand means that imported inflation has a deflationary and recessionary impact. In the US both headline and core inflation have been moving up, confirming that the recovery is broad-based and not merely the result of energy prices bouncing back from a sharp correction.



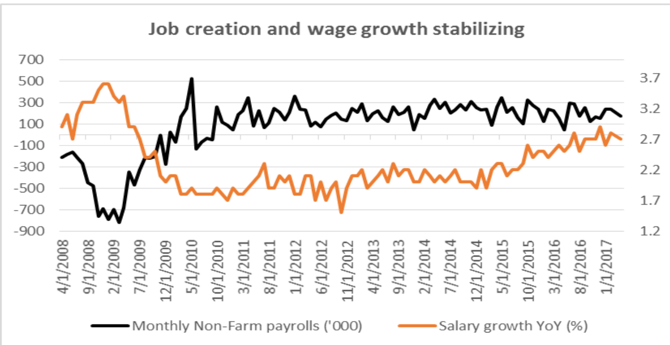
Source: Bloomberg



Source: Bloomberg

Politics and labour data to drive the agenda

Judges restraining executive orders, Congress halting policy reform, and the "Russia" affair are all interpreted as signs that major policy measures that would boost growth might become illusionary. We would insist that major tax cuts and increased government spending are still likely to preserve growth through 2017, and a good part of 2018, and that monetary policy is likely to remain accommodating. It is against this overall backdrop of continuing growth and supportive policies, that the markets' resilience must be seen. Yes, errors in trade policies – in particular the imposition of punitive tariffs – or unfavourable developments in US Senate enquiry into the relationship between the Trump campaign and the Russian government, would put further doubts on substantial tax reform, and would be a good trigger for a market pullback. For the moment we still see these only temporary setbacks, not events able to permanently derail the new administration's policies. Newly created jobs are expected to have fallen below 200'000 in March, whilst other indicators such as unemployment and wage growth should have stabilized. Stronger data would likely "disappoint" markets as fears would grow that the Federal Reserve would want to do more than (the currently two remaining hikes) expected for 2017. And beyond 2017. Paradoxically, given the already high levels of employment, not so strong labour data, would at this point favour markets.



Source: Bloomberg

Summary market outlook

Bonds	
Global Yields	US Treasuries held up well in spite of strong US consumer sentiment readings as market remained skeptical about the reflation trade. We expect the bond yields to remain supported given the lack of US fiscal policy clarity. In Europe, lower than expected inflation print pushed the German bund yields lower. Similarly in the UK, flight to safe-haven rose post the official trigger of Article 50, driving gilt yields lower. This trend could continue as the Brexit risks are unlikely to fade away in the near term.
Stress and Risk Indicators	The VIX levels slightly dropped this week with the normalisation of the equity markets. Current low levels of volatility don't look reasonable amidst the rising geopolitical risks and we expect volatility to rise.
Equity Markets	
Local Equity Markets	GCC equity markets posted another mixed week as dollar strengthened while oil prices moved higher. We remain neutral on GCC equities given the potential for further dollar strength and limited upside in oil prices.
Global Equity Markets	Global equities performed better this week, led by gains in European stocks. The S&P 500 also ended the week higher, boosted by the positive sentiment data coming out of the US. In contrast, Japanese equities were the worst performer as yen failed to weaken versus the dollar. Emerging markets also came under pressure with the return of dollar strength. Whilst the markets appear to have doubt about the reflation trade, policy momentum will remain skewed towards a fiscal boost, proving a still favourable environment for the equity market.
Commodities	
Precious Metals	Gold prices slightly rose last week supported by the market's scepticism about the reflation trade. We stick to gold as a risk hedge against the ongoing political and inflationary risks.
Energy	Energy prices jumped higher, boosted by the possibility of extension of oil supply cuts into the second half of the year. 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 performed well in spite of strong 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 as the inflation data disappointed on the lower side. We expect the euro to remain under pressure given the upcoming election calendar in key Eurozone countries.							
Critical levels	R2	1.0719	R1	1.0685	S1	1.0635	S2	1.0619
GBPUSD	The pound remained flattish versus the dollar in spite of the official trigger of Article 50 last week. With Brexit risks likely to linger in the near term, the cable is likely to stay weak versus the dollar.							
Critical levels	R2	1.2638	R1	1.2594	S1	1.2470	S2	1.2389
USDJPY	The yen ended the week flat versus the dollar as strong inflation report and low jobless data pared yen's early week advance. We expect the yen to remain weak given the potential for dollar strength.							
Critical levels	R2	112.57	R1	111.98	S1	111.03	S2	110.66

Forthcoming important economic data

United States

	Indicator	Period	Expected	Prior	Comments
04/03/2017	ISM Manufacturing	Mar	57.2	57.7	Focus will be on the FOMC minutes. ISM Manufacturing and payrolls data will also be important.
04/04/2017	Factory Orders	Feb	1.00%	1.20%	
04/04/2017	Durable Goods Orders	Feb F	1.90%	1.70%	
04/05/2017	FOMC Meeting Minutes	15-Mar			
04/07/2017	Change in Nonfarm Payrolls	Mar	175k	235k	
04/07/2017	Unemployment Rate	Mar	4.70%	4.70%	
04/07/2017	Wholesale Inventories MoM	Feb F	0.40%	0.40%	

Japan

	Indicator	Period	Expected	Prior	Comments
04/03/2017	Nikkei Japan PMI Mfg	Mar F		52.6	Attention will be on the PMI mfg.
04/03/2017	Vehicle Sales YoY	Mar		13.4%	
04/06/2017	Consumer Confidence Index	Mar	43.4	43.1	

Eurozone

	Indicator	Period	Expected	Prior	Comments
04/03/2017	Markit Manufacturing PMI	Mar F	56.2	56.2	PMI will be the main focus this week.
04/03/2017	PPI YoY	Feb	4.20%	3.50%	
04/06/2017	ECB account of the monetary policy meeting	Mar P			

United Kingdom

	Indicator	Period	Expected	Prior	Comments
04/03/2017	Markit PMI Manufacturing SA	Mar	55.0	54.6	PMI and industrial production will be important.
04/07/2017	Industrial Production MoM	Feb	0.20%	-0.40%	
04/07/2017	Trade Balance	Feb	-£2200	-£1966	

China and India

	Indicator	Period	Expected	Prior	Comments
04/06/2017	Caixin PMI Composite (CH)	Mar		52.6	China PMI and India central bank meeting will be the main focus. .
04/06/2017	Nikkei PMI Composite (IN)	Mar		50.7	
04/06/2017	RBI meeting (IN)	6-Apr	No change		

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.