

## Global PMIs and US labour market correction confirm sluggish growth

The producer confidence indicators in the US, China and Japan came down last week, whilst only the Euro-zone PMI showed some upward momentum. These developments, together with disappointing labour data in the US, confirm our view that global growth in 2015 will be sluggish rather than strong. It is, in fact, important to point out that Europe's strong momentum is to a large extent the result of an improved outlook for its export industries, which in turn can be explained as a function of the very significant depreciation of the euro. It is the type of growth boost that is deflationary to the rest of the world, in fact comes at the expense of other countries. As such the divergence in global producer confidence indicators is rather disconcerting. On the other hand, it tells a story that should not come to a surprise to most of our readers: Europe is unlikely to morph into an engine of global growth.

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## Growth concerns to keep markets at bay, in spite of lower rate outlook

With little data coming out this week, markets are largely to be influenced by the weaker-than-expected labour market data of last week. The now weakening US dollar – combined with increasing certainty that the Federal Reserve will not hike rates in June – could be a positive factor. Having said so, the fact that the US Federal Reserve is finding it increasingly difficult to “normalize” interest rates, will shed some doubts on the solidity of global growth and company earnings. We do not expect markets to post a strong performance this week.

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## Past week global markets' performance

### Index Snapshot (World Indices)

Index	Latest	Weekly Chg %	YTD %
S&P 500	2,067.0	-0.9	0.4
Dow Jones	17,763.2	-1.2	-0.3
Nasdaq	4,886.9	-1.2	3.2
DAX 40	11,967.4	-1.0	22.0
Nikkei 225	19,435.1	0.1	11.4
FTSE 100	6,833.5	-0.8	4.1
Sensex	28,260.1	1.0	2.8
Hang Seng	25275.6	1.7	7.1

### Regional Markets (Sunday to Thursday)

ADX	4542.2	3.9	0.3
DFM	3665.6	5.1	-2.9
Tadaw ul	8586.5	-3.7	3.0
DSM	11764.6	1.8	-4.2
MSM30	6287.32	1.3	-0.9
BHSE	1432.8	-2.1	0.4
KWSE	6206.5	-1.6	-5.0

### MSCI

MSCI World	1,750.3	-0.4	2.4
MSCI EM	994.3	2.6	4.0

### Global Commodities, Currencies and Rates

Commodity	Latest	Weekly Chg %	YTD %
ICE Brent USD/bbl	55.0	-2.4	-4.2
Nymex WTI USD/bbl	49.1	0.9	-7.8
OPEC Baskt USD/bbl	52.5	2.0	0.9
Gold 100 oz USD/t oz	1206.9	1.8	1.9
Platinum USD/t oz	1155.9	3.1	-4.3
Copper USD/MT	273.4	-1.7	-3.2
Aluminium	1784.5	-0.7	-2.7

### Currencies

EUR	1.0969	1.3	-9.3
GBP	1.4920	0.7	-4.2
JPY	118.97	-0.9	0.7
CHF	0.9517	-1.6	4.5

### Rates

USD Libor 3m	0.2738	-0.1	7.1
USD Libor 12m	0.6924	-0.9	10.1
UAE Eibor 3m	0.7329	-0.6	8.2
UAE Eibor 12m	1.0600	1.0	4.4
US 3m Bills	0.0101	-33.3	-71.5
US 10yr Treasury	1.8389	-5.6	-15.3

Please refer to the disclaimer at the end of this publication

## US labour market slows down, Europe's momentum is at the cost of other countries

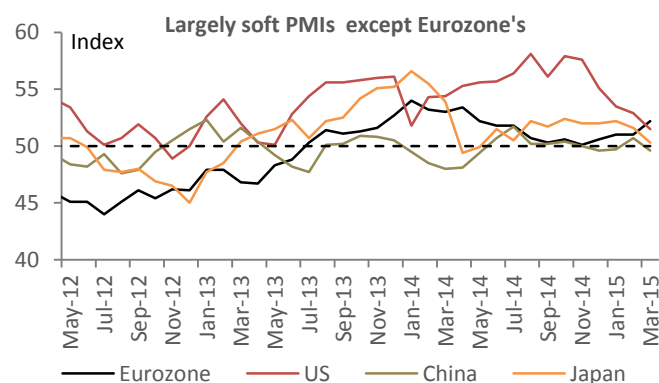
### Global PMIs, notwithstanding Europe, disappoint

We were not surprised ([read our Weekly Market View of 09.03.2015](#)) by the so-called disappointment in the US labour market data: before discussing these figures – and their implications for US monetary policy – we think it might be more interesting to have a look at the global PMI dynamics that was also released last week. The Purchasing Manager Indices, in fact, reflect the confidence of companies and producers in an economy, have a reasonable track-record in anticipating the forthcoming dynamics of the business cycle. Not surprisingly, they are among the most used leading indicators for economic growth.

What is striking is that currently all major PMIs, with the exception of the Euro-zone one are coming down. The Chinese PMI is hovering around the 50 level, which is an important threshold for indicating whether an economy's growth rate is significantly coming down. The US PMI is still far away from that level, but it has been coming down significantly. Only the Euro-zone is holding up, largely due to currency depreciation which has helped export industries.

### Divergence between Euro-zone PMI and PMIs of other major economies carries a sobering message for growth

The Euro-zone already has the largest trade surplus in the world. This trade surplus is now being even further expanded because of the weaker euro. Thus, Europe's growth momentum is to a large extent being boosted by its export industry. Unfortunately, the flip side of the medal is reduced growth prospects for the US and other economies. Europe, in other words, is not morphing into an engine of global growth. It is therefore anything but clear that the diverging PMIs will re-converge to the upside. They are more likely to stabilize at lower rather than higher levels.

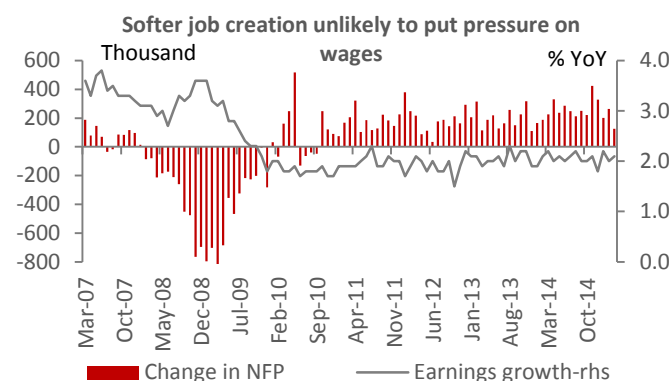


Source: Bloomberg

### US labor market data confirm last months' soft figures

The lower than expected job creation in March, 126'000 versus 245'000, and the downward revision of job creation of the two prior months by 69'000, did not come as a surprise to us. We would insist on our long-standing argument that job creation in

the US is not anymore leading to the income security it used to in the past. In fact, wage growth in March – while picking up to 2.1% YoY – did not break out of the range it has been anchored in since unemployment rate – now at 5.5% - has come down. In other words, wage growth is not threatening inflation, but is also not sufficient to trigger the type of consumption growth we were used to before the Global Financial Crisis (GFC). Thus, as growth remains sluggish, the Fed has little reason to aggressively hike rates, if at all. A decline in average weekly hours from 34.6 to 34.5 also underlines the softness in economic activities.



Source: Bloomberg

### Growth expectations move further south

Largely soft US data over the last three months has continuously sobering effect on the growth outlook for the first quarter. The quarter started with close to 3% growth expectation that has come down to half of that. Now, the market consensus forecast for the first quarter growth is just 1.5% QoQ annualized. Note that this growth number will be released at the end of April (by then Fed will be done with its April meeting). So, the next meeting after the first quarter growth number will be held in June. In the wake of such a sluggish growth number, it's unlikely that the central bank will move on interest rate during the meeting. So we rule out June lift-off.

### Equity markets unlikely to break out, yields to remain low

This week we will see little data. The publication on Wednesday of the minutes of the March FOMC meeting might shed some additional light on the Fed's future rate moves. Regardless, the reduction in rate expectations is too a significant extent a reflection of growth concerns. As such we expect the yields to remain low, and global equities to remain volatile and add little value.

## Summary market outlook

### Global Yields

US sovereign bond yields trended downward all through the week. A sharp reaction came in after job data surprised significantly on the lower side. We expect yield to move sideways with downward bias this week. European sovereign bond yields also ticked down but expected to remain sideways in the near term.

### Stress and Risk Indicators

VIX index remained low. We expect it to remain low in the near term. Sovereign CDS spreads for major countries eased a few basis points.

### Precious Metals

Precious metals gained further from its recent lows as economic data further disappointed. The trend is likely to continue in the near term as markets absorb weak US job data and delayed Fed rate hike expectations.

### Local Equity Markets

GCC equities were largely positive except Tadawul index. A relative stability in the oil price and easing geopolitical issues in the region are likely to be supportive to local equities in the near term.

### Global Equity Markets

Global equity markets are yet to react to the disappointing US job data. We believe that the initial reaction is likely to be positive as pressure on many EM currencies will ease due to adjustment in Fed hike. However, this gain will be capped by the fear of slowdown in the US economic activity which has been the global growth driver in the recent past.

### Energy

We remain cautious on energy prices, as the demand- and supply dynamics do not support significant near term gains.

### Industrial Metals

The China-driven secular downward trend will continue, but the pace might stall to the extent that US dollar strengthening might have a "technical" pause.

### Currencies

#### Commentary

#### Critical levels

#### EURUSD

Euro was largely flat before the US job data. It gained some ground as Fed rate hike expectation adjusted. We believe that the currency is likely to gain some more ground in the near term as European data turning favourable. However, the gains will be limited due to ongoing QE.

R2 - 1.1217  
R1 - 1.1093  
S1 - 1.0779  
S2 - 1.0589

#### GBPUSD

British Pound followed more or less same trajectory as the euro did. We expect the pound to gain further as recent UK's economic data surprises have largely been on the positive side while US' have been on the negative side.

R2 - 1.5073  
R1 - 1.4997  
S1 - 1.4792  
S2 - 1.4663

#### USDJPY

The Japanese yen remained in the trading range. Although we expect slight weakness in the dollar in the near term due to disappointing US data, yen is unlikely to move any remarkable way. It's expected to remain in the range of 118-120 per dollar.

R2 - 121.00  
R1 - 119.99  
S1 - 118.34  
S2 - 117.70

## Forthcoming important economic data

### United States

	Indicators	Period	Expected	Prior	Comments
04/06/2015	ISM Non-Mfg. Composite	Mar	56.5	56.9	In the absence of any significant data releases, market will focus on FOMC minutes to find a clue for members' thoughts on the rate hike.
04/07/2015	Consumer Credit	Feb	\$12.65bn	\$11.56bn	
04/08/2015	FOMC Minute	Mar			
04/09/2015	Wholesale Inventories MoM	Feb	0.2%	0.2%	
04/10/2015	Import Price YoY	Mar	-10.2%	-9.4%	

### Japan

	Indicators	Period	Expected	Prior	Comments
04/06/2015	Leading Index CI	Feb P	105.1	105.5	Data is expected to be mixed from Japan.
04/08/2015	BoP Current Account Balance	Feb	¥1212bn	¥61.4bn	
04/08/2015	Eco Watchers Survey Current	Mar	50.8	50.1	
04/09/2015	Machine Tool Orders YoY	Mar P	NA	28.9%	

### Euro zone

	Indicators	Period	Expected	Prior	Comments
04/06/2015	Markit Service PMI	Mar F	54.3	54.3	Economic data in the Eurozone expected to remain on improving track.
04/07/2015	Markit Composite PMI	Mar F	54.1	54.1	
04/07/2015	PPI YoY	Feb	-2.9%	-3.4%	
04/08/2015	Retail Sales MoM	Feb	-0.2%	1.1%	
04/08/2015	Retail Sales YoY	Feb	2.8%	3.7%	
04/07/2015	Markit Service PMI (Germany)	Mar F	55.3	55.3	
04/08/2015	Factory Orders (Germany)	Feb	1.5%	-3.9%	
04/09/2015	Industrial Production (Germany)	Feb	0.1%	0.6%	

### China and India

	Indicators	Period	Expected	Prior	Comments
04/10/2015	CPI YoY (China)	Mar	1.3%	1.4%	Market will focus on inflation data in China while central bank in India is expected to maintain <i>status quo</i> .
04/10/2015	PPI YoY (China)	Mar	-4.7%	-4.8%	
04/10/2015	New Yuan Loans CNY (China)	Mar	1050bn	1020bn	
04/06/2015	HSBC Service PMI (India)	Mar	NA	53.9	
04/07/2015	RBI policy meeting (India)	Mar	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

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