The Weekly Market View

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بنك أبوظبي التجاري ADCB

Markets resilient as economic data hold up well

As the week drew to an end risk assets managed to recoup the bulk of the losses they had incurred during most of the week. Cyclical data was indeed strong in most large economies, thereby for sure providing a tailwind for the further continuation of the so-called "Trump reflation theme". Critically, also, inflationary pressures in the US remained subdued and the Federal Reserve has not yet determined to what extent its stance would change as a result of new fiscal stimulus in the country (basically because it is not yet clear exactly what that fiscal stimulus consists of). This is important because, while yields and equities have stabilized in 2017, the US dollar has had a meaningful correction from its peak. A moderate monetary stance – whether that be through a weak US dollar or less rate hikes – can keep yields at bay and sustain equity values. At the same time, markets can take some comfort as US Q1 earnings have kept up quite well.

Political "data" is as erratic as ever, but the end of the world is not "nigh"

The strength of the US market, underpinned by continuing good economic data in almost all large economies, is ever so important in a context where the traditional global governance framework seems to be losing pieces every day. Markets are still betting on Trump deregulation and fiscal stimulus to keep the economy growing. On this front he has done less so far, when compared with his more frenetic activism in those areas where he is less business friendly, i.e. trade, immigration and, arguably, foreign policy. And whilst it seems that the president's honeymoon period is already over, this may be true for half of the population as well as the so-called mainstream media. It is less the case for the other half, which voted for him. Not surprisingly, therefore, markets are still looking for something "acceptable" to emerge in terms of trade, immigration and foreign policy, and for something "good" in terms of fiscal policy and deregulation. They remain very volatile and short term pull backs, more likely in Europe than in the US, are not to be ruled out. The end of the world, however, is not (yet) "nigh".

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Past week global markets' performance

Index Snapshot (World Indices)

Index	Latest	Weekly Chg %	YTD %
S&P 500	2,297.4	0.1	2.6
Dow Jones	20,071.5	-0.1	1.6
Nasdaq	5,666.8	0.1	5.3
DAX	11,651.5	-1.4	1.5
Nikkei 225	18,918.2	-2.8	-1.0
FTSE 100	7,188.3	0.1	0.6
Sensex	28,240.5	1.3	6.1
Hang Seng	23129.2	-1.0	5.1
Regional Markets (Sunday to Thursday)			
ADX	4446.2	-3.8	-2.2
DFM	3623.8	-2.1	2.6
Tadawul	7098.6	-0.5	-1.6
DSM	10570.4	-3.8	1.3
MSM30	5802.62	0.9	0.3
BHSE	1307.8	0.6	7.2
KWSE	6843.5	-0.1	19.1
MSCI			
MSCI World	1,805.5	0.1	3.1
MSCI EM	918.9	0.3	6.6

Global Commodities, Currencies and Rates

Commodity	Latest	Weekly Chg %	YTD %
ICE Brent USD/bbl	56.8	2.3	-0.0
Nymex WTI USD/bbl	53.8	1.2	0.2
Gold USD/t oz	1220.3	2.4	6.3
Silver USD/t oz	17.5	2.2	10.0
Platinum USD/t oz	1004.8	1.9	11.3
Copper USD/MT	5836.0	-0.2	6.1
Alluminium	1819.75	0.8	7.4
Currencies			
EUR USD	1.0783	0.8	2.5
GBP USD	1.2484	-0.6	1.2
USD JPY	112.61	-2.2	3.9
CHF USD	0.9930	-0.6	2.6
Rates			
USD Libor 3m	1.0340	-0.5	3.6
USD Libor 12m	1.7134	-0.6	1.6
UAE Eibor 3m	1.3844	-0.1	-6.2
UAE Eibor 12m	2.1021	1.3	0.3
US 3m Bills	0.4974	-2.0	0.0
US 10yr Treasury	2.4648	-0.8	0.8

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Strong cyclical data and resilient earnings allow markets to keep up in spite of uncertainty

Short-term pullback still possible, but 2017 outlook remains constructive

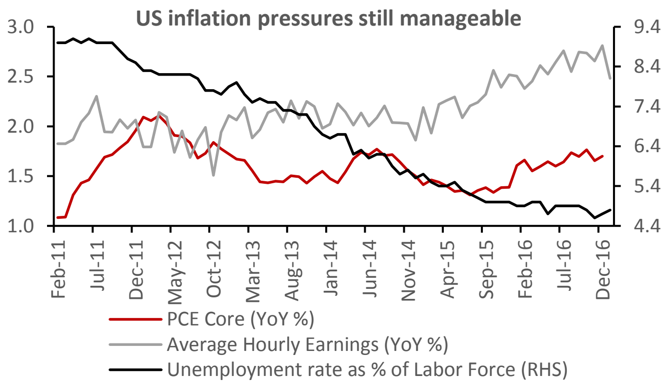
If one looks at observed volatility – and not the implicit volatility derived from option prices – equity markets have laid bare some nervousness, even as they remain at high levels (with important markets at or close to record levels). Past week US earnings confirmed a generally positive last quarter, whilst the global positive cyclical momentum continued, particularly in developed economies. The overall outlook remains thus positive, possibly throughout the summer. Having said so, some pullback remains possible in the short term, as markets remain overstretched.

Political uncertainty must be put in perspective

It is clear that most political uncertainty is right now come from developed markets. As such, it is particularly unsettling for global financial markets. As for the uncertainty surrounding the new US president, it is worthwhile to note that the markets are still assessing the real implication of his policies in those areas where he is less business friendly, i.e. trade, immigration and foreign (security) policy. As for the areas where he is more business friendly – fiscal policy and deregulation – things still have to pan out. As we have been saying since November last year, until such policies are effectively implemented, markets can maintain upward momentum.

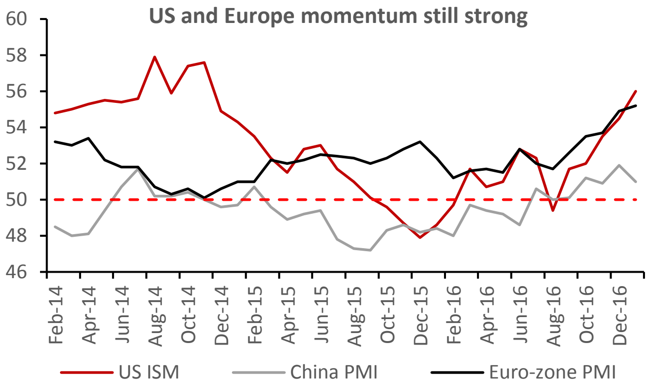
US inflation appears still manageable, whilst confidence in the reflationary momentum continues to grow

A key risk related to Trump's policies is of course their impact on inflation and, as a result, on the Federal Reserve's monetary stance. From that perspective it is important to stress that inflation appears still manageable even if the economy is by now close to full employment.



Source: Bloomberg

Another important element which is supportive of risk assets is of course the fact that global manufacturing companies, across the Atlantic, seem to believe in the positive reflationary momentum, whether it is Trump-driven or not.



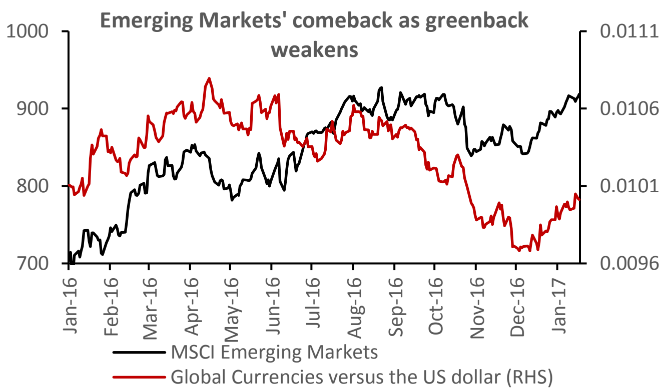
Source: Bloomberg

China, but also India, to take the spotlight this week

Whilst China might gradually reduce its stimulus over the next months, the growth impact will take longer to fade. As such we expect China trade and monetary indicators to remain relatively good. Of course, for China to be able to reduce its stimulus gradually only, it will be key that the US dollar does not strengthen too much. More interesting, perhaps, will be the potential decision of the RBI to reduce its reference rate, together with resilience of India's industrial and export data. India's equity market has already staged a remarkable recovery since December 2016.

India preferred as emerging markets remain fragile

It is true that overall emerging markets have done well since December 2016. It is also true that a lot of that strength is critically a function of the weaker greenback, and as such vulnerable. India is in general more resilient as its economy is more insulated from international trade and a stronger US dollar would reduce its commodity bill. The expectations of capital spending-oriented fiscal stimulus with rate reduction are bound to favour the Indian market further.



Source: Bloomberg

Summary market outlook

Bonds	
Global Yields	The 10-year US Treasury yields were little changed last week. This was in spite of robust US manufacturing data and Fed recognising the rising investor confidence in its FOMC statement. US jobs report which signalled strong hiring but subdued wage pressures, argues for a more gradual Fed tightening approach. As such, bond yields are likely to consolidate at current levels as policy uncertainty remains elevated.
Stress and Risk Indicators	The VIX continued to slide towards its two-year record low level. We argue against any sustained drop in volatility and expect some normalisation with markets evaluating the impact of Trump's policies.
Equity Markets	
Local Equity Markets	GCC equity markets were mixed last week and little impacted by the upward correction in the oil prices. Mixed earnings reports continued to influence the market sentiment. ADX, DSM and DFM underperformed the most while KWSI posted its first weekly loss this year.
Global Equity Markets	The impact of Trump's policies weighed on investor's risk appetite as majority of the equity markets were almost flat last week. The S&P 500 ended the week in the positive territory, boosted on reports of Trump administration's plans of reviewing the Dodd-Frank banking regulations. Similarly, FTSE 100 was supported by a rally in bank stocks and the pound weakness. In contrast, Japanese markets were under pressure, underperforming the most as yen strength continued post the BoJ meeting.

Commodities	
Precious Metals	Demand for gold returned with investors flocking to safe-haven assets amidst the backdrop of global uncertainty. As such, we continue to favour gold as a risk hedge against the ongoing political risks.
Energy	Oil prices advanced last week on news that the OPEC and non OPEC members have reached about 60% of their output cut targets. Fresh sanctions imposed on Iran by the US also supported the price. However, we do not expect any significant rise in oil prices due to the ongoing increase in US rig counts.
Industrial Metals	Industrial metals performed well, tracking higher gold prices and weak dollar demand. However, this upward trend is not sustainable given the subdued China demand.

Currencies								
EURUSD	The euro continued to strengthen against the greenback as economic data surprised on the upside. Any broad dollar strength could lead to a reversal in the ongoing trend.							
Critical levels	R2	1.0761	R1	1.0730	S1	1.0663	S2	1.0628
GBPUSD	The pound declined versus the dollar on account of weak PMI print. We expect the pound to weaken further on "Brexit" concerns ahead of the Article 50 being triggered.							
Critical levels	R2	1.2648	R1	1.2602	S1	1.2513	S2	1.2470
USDJPY	Japanese yen gained versus the greenback due to disappointing BoJ bond purchases. A correction, however is necessary as the yen is trading near its strongest range since the beginning of the year.							
Critical levels	R2	115.94	R1	115.52	S1	114.54	S2	113.98

Forthcoming important economic data

United States

	Indicator	Period	Expected	Prior	Comments
02/07/2017	Trade Balance	Dec	-USD45bn	-USD45.2bn	Durable goods data and Univ. of Michigan sentiment will be important this week
02/09/2017	Wholesale Inventories MoM	Dec F	1.0%	1.0%	
02/10/2017	Univ. of Mich. Sentiment	Feb P	97.8	98.5	

Japan

	Indicator	Period	Expected	Prior	Comments
02/06/2017	Labor Cash Earnings YoY	Dec	0.4%	0.5%	Current account balance data will be the key focus
02/08/2017	BoP Current Account Balance	Dec	JPY1.18trn	JPY1.41trn	
02/10/2017	PPI YoY	Jan	0%	-1.2%	
02/10/2017	Tertiary Industry Index MoM	Dec	-0.2%	0.2%	

Eurozone

	Indicator	Period	Expected	Prior	Comments
02/06/2017	Markit Eurozone Retail PMI	Jan		50.4	Attention will be on the Markit Retail PMI data
02/07/2017	Industrial Production SA MoM (GE)	Dec	0.3%	0.4%	
02/09/2017	Exports SA MoM (GE)	Dec	-1.3%	3.9%	

United Kingdom

	Indicator	Period	Expected	Prior	Comments
02/10/2017	Trade Balance	Dec	-GBP3.5bn	-GBP4.1bn	Industrial production and foreign trade data will be closely watched.
02/10/2017	Industrial Production MoM	Dec	0.2%	2.1%	

China and India

	Indicator	Period	Expected	Prior	Comments
02/06/2017	Caixin PMI Composite (CH)	Jan		53.5	Focus will be on China's foreign reserves and foreign trade data along with India's central bank's action.
02/07/2017	Foreign Reserves (CH)	Jan	$3000bn	$3010bn	
02/08/2017	RBI MPC meeting (IN)		6.00%	6.25%	
02/10/2017	Exports YoY (CH)	Jan	3.0%	-6.2%	
02/10/2017	Industrial Production YoY (IN)	Dec	1.4%	5.7%	
02/10/2017	Exports YoY (IN)			5.7%	
02/10-02/15	New Yuan Loans CNY (CH)	Jan	2380bn	1040bn	
02/10-02/15	Aggregate Financing CNY (CH)	Jan	3085bn	1626bn	

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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