The Weekly Market View

February 20 2017

بنك أبوظبي التجاري ADCB

Reflation theme undeterred amidst good data, and "dysfunctional" Trump

Good US retail data, and persistently strong confidence indicators, continue to have the upper hand in spite of the increasing likelihood of the Federal Reserve hiking rates soon, and what is still a rather chaotic new US presidency. As for the latter, it is worthwhile to point out that the current difficulties of the country's new administration, specifically the problems related to the immigration ban and the resignation of the National Security Advisor are in fact putting a brake on the more concerning policy proposals of Mr. Trump. He is now "disappointing" Russia by giving reassurance to his traditional NATO allies, whilst at this stage it is difficult to envisage any soon-to-be trade conflict with countries such as China and Mexico. Thus, in some way, those who would like Mr. Trump to act more "presidential" are missing the point. Trump is very likely to continue to act more like a candidate than a president, but entangled as he is, he is for the moment unlikely to be able to pursue the more disruptive of his policies.

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

Rahmatullah Khan
Economist
Tel: +971 (0)2 696 2843
rahmatullah.khan@adcb.com

Visit Investment Strategy Webpage to read our other reports

Don't expect too much news this week

The upcoming new immigration measures are unlikely to affect the markets meaningfully. Nor are we expecting to see much in terms of healthcare reform proposals. On the other side of Atlantic, we do not see any solution of the Greek bailout renewal. With elections around the corner in France and the Netherlands, it makes more sense to expect a showdown this summer, rather than any action before the end of May. Thus the week will be essentially data driven, with disappointment on the PMI confidence indicators a plausible major risk. As for the hard data, US housing data are likely to take the spotlight. Given the strong data of the last months, we do expect the February Fed minutes to be a bit less important, although it remains important to see when and how the monetary authorities will start unwinding their huge balance sheet, i.e. reducing liquidity.

Past week global markets' performance

Index Snapshot (World Indices)			
Index	**Latest**	**Weekly Chg %**	**YTD %**
S&P 500	2,351.2	1.5	5.0
Dow Jones	20,624.1	1.7	4.4
Nasdaq	5,838.6	1.8	8.5
DAX	11,757.0	0.8	2.4
Nikkei 225	19,234.6	-0.7	0.6
FTSE 100	7,300.0	0.6	2.2
Sensex	28,468.8	0.5	6.9
Hang Seng	24033.7	1.9	9.2
Regional Markets (Sunday to Thursday)			
ADX	4643.2	1.6	2.1
DFM	3650.8	-0.9	3.4
Tadawul	7131.3	2.3	-1.1
DSM	10819.3	1.8	3.7
MSM30	5843.11	0.4	1.0
BHSE	1323.7	1.3	8.5
KWSE	6824.5	3.7	18.7
MSCI			
MSCI World	1,836.5	1.2	4.9
MSCI EM	939.0	1.0	8.9

Global Commodities, Currencies and Rates			
Commodity	**Latest**	**Weekly Chg %**	**YTD %**
ICE Brent USD/bbl	55.8	-1.6	-1.8
Nymex WTI USD/bbl	53.4	-0.9	-0.6
Gold USD/t oz	1234.6	0.1	7.6
Silver USD/t oz	18.0	0.3	13.0
Platinum USD/t oz	1003.3	-0.8	11.1
Copper USD/MT	5939.0	1.1	8.0
Alluminium	1871.25	0.3	10.5
Currencies			
EUR USD	1.0616	-0.3	0.9
GBP USD	1.2412	-0.6	0.6
USD JPY	112.84	-0.3	3.7
CHF USD	1.0026	0.0	1.6
Rates			
USD Libor 3m	1.0523	1.6	5.5
USD Libor 12m	1.7354	1.9	2.9
UAE Eibor 3m	1.3846	0.3	-6.2
UAE Eibor 12m	2.0439	-2.7	-2.4
US 3m Bills	0.5126	-3.8	3.1
US 10yr Treasury	2.4147	0.3	-1.2

Please refer to the disclaimer at the end of this publication

Momentum persists, but risks are on the rise

The "unpresidential president" is not the issue

We should not expect Mr. Trump to start acting more presidential any time soon. He is likely to remain more candidate than president. Having said so, as the new administration continues to struggle to identify a clear course of action, it appears also less likely to enact the globally more disruptive policy proposals of the man who won the elections in November. Plans to disengage from the country's long standing security commitments, e.g. by appeasing Russia, do no longer seem to be on the short-term horizon. Similarly, it is difficult to envisage major conflict on trade issues with China or Mexico any time soon.

That leaves us with some scant indications on the Washington agenda for the upcoming week. It is unlikely to be overwhelming. On the healthcare reform proposals that will be rolled out, candidate Trump was never likely to cut on coverage for the lower income segments of the population. This means that the proposals will merely set out some guidelines for addressing the issue, something that then has to be concurred with the (Republican) Congress. Don't hold your breath. As for a revamped immigration ban along the lines of the one that was blocked by the country's judges, it will be difficult to enact something that resembles it too much, lest it will once more be repealed. At any rate, we don't expect it to impact the markets negatively.

Mr. Mnuchin has to start working

We do not expect this week any major proposals in terms of tax reform, deregulation and infrastructure spending. Yet, it is on these issues that markets have built their positive momentum, and it is here that we expect the future market movements to come from. The confirmation of Steven Mnuchin as Secretary of the Treasury is likely to trigger more action in that direction, yet it is still a matter of some weeks before we will get anything concrete.

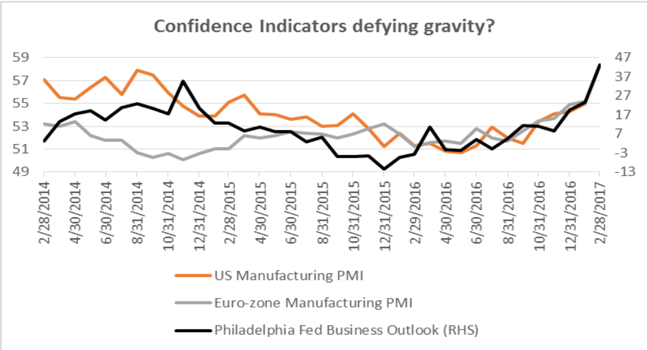
Greece issue to stay with us until July

An agreement on the renewal of Greece's bailout program is unlikely to materialize over the next months. The reason for this is quite simple. At this stage Greece is unlikely to accept any further austerity measures, whilst the IMF is advocating a reduction of the country's primary surplus from 3.5% to 1.5% of GDP, by allowing for a significant reduction of the country's overall debt. With elections in March in the Netherlands and in May in France, such requests are unlikely to be accepted by Europe's creditor countries. Thus we will have to hope for a solution after the election of France's new president.

Even small disappointments likely to carry growing risk

The upcoming week is not particularly heavy in terms of upcoming economic data. The relatively positive US earnings season is drawing to an end with 75% of S&P 500 companies having reported 5.2% year over year earnings growth and economic confidence indicators still surprising to the upside.

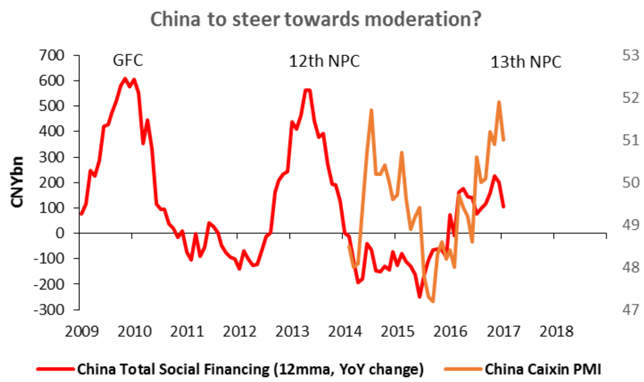
Whilst many observers are now searching for hard data, i.e. an increase in effective investment and/or consumption spending to confirm the strong soft confidence indicators, the risk is now increasing that the latter disappoint before they translate into hard spending. From that perspective, it might be worthwhile to contrast the Philadelphia Fed Business Outlook with this week's upcoming global PMI indicators, and ask oneself how much more can the US and European PMI indicators really improve? And what if, with all the optimism surrounding markets, they would suddenly disappoint?



Source: Bloomberg

China turnaround to be watched

Interestingly, the China PMI indicator has already been retracting in line with the Chinese authorities' gradually removing stimulus beyond the 13th National Party Congress. Critically the reduction in the countries forex reserves is a sign of the determination of the PBoC to prevent a too dramatic slide of the renminbi. It also confirms that the government might be forced to withdraw stimulus earlier than expected because of the Trump reflation boosting the US dollar. In that sense this week's Fed minutes will remain of critical importance.



Source: Bloomberg

Summary market outlook

Bonds	
Global Yields	10-year US Treasury yields rose above 2.5% during the week on strong inflation data and after Fed Chair Janet Yellen indicated that waiting too long to raise interest rates would be "unwise". However, policy uncertainty caused yields to retreat back to 2.41%. We expect US treasury yields to remain range bound ahead of the FOMC minutes this week. In Europe, investor's preference for safe-haven German bunds was evident with increased election uncertainty in France. French spreads versus German bunds are likely to remain wide due to risks associated to the May election.
Stress and Risk Indicators	The VIX edged higher last week, in line with the positive surprises in economic data. Further upside is expected given it is still trading in the lower bound of its range.

Equity Markets	
Local Equity Markets	GCC equity markets performed well this week, shrugging off the decline in oil prices. Kuwait and Saudi were the best performers while DFM was the only underperformer. We remain neutral on GCC equities given the potential for further dollar strength and limited upside in oil prices.
Global Equity Markets	Global equities ended the week higher, adding to the previous week's gain. Yellen's hawkish comments along with strong inflation data boosted risk appetite. US equities led the outperformance with the S&P 500 and Dow Jones reaching new record highs. In contrast, Japan's Nikkei 225 underperformed as the yen strengthened versus the dollar. The ongoing equity rally is likely to remain supported, particularly if the upcoming FOMC minutes signal a less hawkish Fed.

Commodities	
Precious Metals	Gold prices were mostly unchanged last week amidst the build-up in risk appetite. Nevertheless, we continue to favour gold as a risk hedge against the ongoing political risks.
Energy	Oil prices declined with the fifth consecutive jump in US rig counts and increase in crude stocks. As such, we expect limited upside in oil prices due to the ongoing rise in US rigs and OPEC cuts already being priced in by the market.
Industrial Metals	Industrial metals performed reasonably well as the dollar remained flattish last week. Copper prices rose to their highest level in almost 2-years, boosted by supply cuts. However, this upward trend is not sustainable as weak China demand will eventually weigh on metal prices.

Currencies								
EURUSD	The euro continued to weaken versus the dollar, adding to its previous losses. Political uncertainty in Europe ahead of the elections and broad dollar strength could lead to further euro weakness in the near term.							
Critical levels	R2	1.0704	R1	1.0660	S1	1.0589	S2	1.0562
GBPUSD	The pound weakened versus the greenback on the back of disappointing retail sales data. We expect cable to remain under pressure on "Brexit" concerns ahead of Article 50 being triggered.							
Critical levels	R2	1.2560	R1	1.2486	S1	1.2363	S2	1.2314
USDJPY	The Japanese yen strengthened versus the dollar, partially reversing its previous week's loss. However, we expect the yen to weaken with the potential for dollar strength.							
Critical levels	R2	113.87	R1	113.36	S1	112.47	S2	112.11

Forthcoming important economic data

United States

	Indicator	Period	Expected	Prior	Comments
02/21/2017	Markit US Composite PMI	Jan	-	55.8	FOMC minutes will be the key focus this week
02/22/2017	Existing Home Sales	Jan	5.54m	5.49m	
02/22/2017	FOMC Meeting Minutes				
02/23/2017	Initial Jobless Claims	18-Feb	240k	239k	
02/24/2017	New Home Sales	Jan	571k	536k	
02/24/2017	Univ. of Mich. Sentiment	Feb F	96	95.7	

Japan

	Indicator	Period	Expected	Prior	Comments
02/20/2017	Trade Balance	Jan	-¥625.9b	¥641.4b	Attention will be on the trade data
02/20/2017	Exports YoY	Jan	5.0%	5.4%	
02/21/2017	Nikkei Japan PMI Mfg	Feb P	-	52.7	
02/21/2017	All Industry Activity Index MoM	Dec	-0.2%	0.3%	

Eurozone

	Indicator	Period	Expected	Prior	Comments
02/20/2017	Consumer Confidence	Feb A	-4.9%	-4.9%	Inflation and PMI will be the main focus.
02/21/2017	Markit Manufacturing PMI	Feb P	55	55.2	
02/21/2017	Markit Composite PMI	Feb P	54.3	54.4	
02/22/2017	CPI YoY	Jan F	1.8%	1.1%	
02/22/2017	IFO Business Climate	Feb	109.6	109.8	

United Kingdom

	Indicator	Period	Expected	Prior	Comments
02/20/2017	Rightmove House Prices MoM	Feb	-	0.4%	. GDP will be the key release
02/21/2017	Public Sector Net Borrowing	Jan	-14.5bn	6.4bn	
02/22/2017	GDP YoY	4Q P	2.2%	2.2%	

China and India

Indicator	Period	Expected	Prior	Comments
				No major data are scheduled to be released this week

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.