The Weekly Market View

July 3 2017

Eurozone equities underperform as euro strengthens

Eurozone equities were the big losers in a week which saw modest downward pressure on equities overall. Although global equities are down only 1% from their highs, Eurozone equities are down 6% in local currency terms and over 3% in dollars. The euro gained over 2% against the dollar last week, however, this currency strength is now starting to weigh on the performance of the monetary union's equity markets. In fact earnings momentum in the Eurozone is already slowing. We remain underweight Eurozone equities. Having said so, we expect that euro strength is reaching a peak. We have argued for some time that both the Fed and the ECB appear happy for euro-dollar to trade in a range roughly between 1.05 and 1.15. If the euro approaches the upper band, as it is currently, the ECB becomes nervous, while the same is true of the Fed at the lower bound. It is therefore likely, that in the coming weeks we will see the US dollar reassert itself, although we cannot exclude an overshoot of euro dollar, especially given the raft of market-moving economic data coming out of the US towards the end of the week. If and when the dollar does pick up again, emerging market equities will lose their most powerful tailwind. In fact it is interesting to note that the US dollar has not already picked up at a time when 10-year Treasury yields have risen 16bps in one week.

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Central banks strike a more hawkish tone

Euro strength has not only been the product of better than expected economic data in the Eurozone this year, it also has a lot to do with the more hawkish tone of the European Central Bank recently. Indeed it is not just the ECB which is starting to strike a more hawkish tone, but also the Bank of England and the Federal Reserve. It is noteworthy that this hawkish tilt is coming at a time when inflation is still some way away from central bank targets (except in the UK). This suggests that central banks are becoming increasingly concerned about the side-effects of their extremely accommodative monetary policies. Both Fed Chair Janet Yellen and Vice Chair Stanley Fisher recently voiced their concerns over the valuations of equities and other assets. We think that subdued inflation globally is likely to prevent monetary policy from tightening too much, this is positive for equities. However, at the same time, valuations are likely to cap upside as well. This week investors have a plethora of important economic data out of the US to digest, including jobs numbers, ISM manufacturing and the minutes of the last FOMC meeting.

Past week global markets' performance

Index Snapshot (World Indices)

Index	Latest	Weekly Chg %	YTD %
S&P 500	2,423.4	-0.6	8.2
Dow Jones	21,349.6	-0.2	8.0
Nasdaq	6,140.4	-2.0	14.1
DAX	12,325.1	-3.2	7.4
Nikkei 225	20,033.4	-0.5	4.8
FTSE 100	7,312.7	-1.5	2.4
Sensex	30,921.6	-0.7	16.1
Hang Seng	25764.6	0.4	17.1
Regional Markets (Sunday to Thursday)			
ADX	4425.4	-0.1	-2.7
DFM	3392.0	-0.3	-3.9
Tadawul	7425.7	#N/A N/A	3.0
DSM	9030.4	#N/A N/A	-13.5
MSM30	5118.31	#N/A N/A	-11.5
BHSE	1310.0	-0.2	7.3
KWSE	6762.8	-0.1	17.7
MSCI			
MSCI World	1,916.4	-0.4	9.4
MSCI EM	1,010.8	-0.1	17.2

Global Commodities, Currencies and Rates

Commodity	Latest	Weekly Chg %	YTD %
ICE Brent USD/bbl	48.8	5.2	-14.2
Nymex WTI USD/bbl	46.0	7.0	-14.3
Gold USD/t oz	1241.6	-1.2	8.2
Silver USD/t oz	16.6	-0.5	4.4
Platinum USD/t oz	925.9	-0.5	2.5
Copper USD/MT	5907.5	2.3	7.4
Alluminium	1910.5	2.9	12.8
Currencies			
EUR USD	1.1426	2.1	8.6
GBP USD	1.3025	2.4	5.6
USD JPY	112.39	1.0	-4.1
CHF USD	0.9579	-1.2	6.4
Rates			
USD Libor 3m	1.2992	0.5	30.2
USD Libor 12m	1.7384	0.3	3.1
UAE Eibor 3m	1.5150	0.1	2.7
UAE Eibor 12m	2.1342	0.4	1.9
US 3m Bills	1.0113	6.4	103.3
US 10yr Treasury	2.3037	7.5	-5.8

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Summary market outlook

Bonds	
Global Yields	Despite still soft inflation data in the US and across most of the developed world, government bond yields rose quite sharply during the week. 10yr US yields jumped 16bps to 2.30% while German bund yields leaped 21bps. Unless inflation data significantly surprises on the upside, we expect US Treasury yields to remain supported in the near term while in Europe expectations of scaling back of monetary stimulus are pre-mature.
Stress and Risk Indicators	The VIX remained steady around lower levels in the absence of any major surprises in economic data. Current levels are very low given the ongoing global political uncertainty and we expect volatility to rise.
Equity Markets	
Local Equity Markets	GCC equity markets market were closed for most of the week. As such, volumes were low and markets lacked direction. We have a tactical call on Saudi equities on the back of their inclusion onto the MSCI watch list for potential promotion into the MSCI Emerging Markets index. Overall, however, we remain neutral on GCC equities given the potential for further dollar strength and range-bound oil prices.
Global Equity Markets	Global equities ended the week lower as Eurozone equities performed particularly badly. Eurozone equities have been weighed down by euro strength and worries over a scaling back of ECB stimulus. US equities fared much better, although tech stocks underperformed as investors rotated into banking stocks. For equities globally we continue to expect consolidation in the near-term.
Commodities	
Precious Metals	Gold prices declined due to softer appetite for safe-haven assets. Nevertheless, we stick to our overweight recommendation on gold as a risk hedge against ongoing political and potential for inflationary risks.
Energy	Energy prices rebounded from the lower end of their 12-month range. Fast money has become overly bearish on the outlook for oil which we think is likely to lead to some short covering. While we expect some upward normalization to take place, rising US crude production is likely to act as a ceiling on oil prices.
Industrial Metals	Industrial metals performed well amidst the weaker dollar last week. We do not recommend industrial metals exposure due to ongoing concerns around Chinese demand.
Currencies	
EURUSD	The euro rallied strongly against the dollar last week following hawkish comments by ECB President Draghi. On a long term basis, we expect the euro to weaken given the divergence in central bank policies in Europe versus the US.
Critical levels	R2 1.1621 · R1 1.1523 · S1 1.1250 · S2 1.1075
GBPUSD	The pound also rallied strongly versus the dollar as BOE governor Carney expressed his concern over rising inflation. We expect sterling to remain under pressure due to political uncertainty and Brexit negotiations.
Critical levels	R2 1.3244 · R1 1.3135 · S1 1.2920 · S2 1.2811
USDJPY	The yen depreciated versus the dollar as the spread between US Treasury yields and Japanese government bonds widened. We expect this to continue to drive further yen weakness looking ahead.
Critical levels	R2 113.95 · R1 113.17 · S1 111.37 · S2 110.35

Forthcoming important economic data

United States

Date	Indicator	Period	Expected	Prior	Comments
7/3/2017	Markit US Manufacturing PMI	Jun F	52.1	52.1	Investors will focus on clues as to the strength of the US economy; most importantly non-farm payrolls and the ISM manufacturing survey. The FOMC minutes will also provide important insights.
7/3/2017	ISM Manufacturing	Jun	55.2	54.9	
7/5/2017	Factory Orders	May	-0.50%	-0.20%	
7/5/2017	Durable Goods Orders	May F	--	-1.10%	
7/5/2017	FOMC Meeting Minutes	14-Jun	--	--	
7/6/2017	ADP Employment Change	Jun	190k	253k	
7/6/2017	Initial Jobless Claims	1-Jul	243k	244k	
7/6/2017	Trade Balance	May	-$46.3b	-$47.6b	
7/7/2017	Change in Nonfarm Payrolls	Jun	177k	138k	
7/7/2017	Unemployment Rate	Jun	4.30%	4.30%	
7/7/2017	Average Hourly Earnings YoY	Jun	2.60%	2.50%	

Japan

Date	Indicator	Period	Expected	Prior	Comments
7/2/2017	Tankan Large Mfg Index	2Q	15	12	The PMI as well as labor cash earnings data will be closely watched by market.
7/2/2017	Nikkei Japan PMI Mfg	Jun F	--	52	
7/3/2017	Vehicle Sales YoY	Jun	--	6.10%	
7/3/2017	Monetary Base YoY	Jun	19.20%	19.40%	
7/6/2017	Labor Cash Earnings YoY	May	0.40%	0.50%	
7/9/2017	Machine Orders MoM	May	--	-3.10%	
7/9/2017	BoP Current Account Balance	May	--	¥1951.9b	

Eurozone

Date	Indicator	Period	Expected	Prior	Comments
7/3/2017	Markit Eurozone Manufacturing PMI	Jun F	57.3	57.3	Manufacturing PMI and ECB minutes are the main data releases in the Eurozone this week.
7/3/2017	Unemployment Rate	May	9.30%	9.30%	
7/5/2017	Retail Sales YoY	May	2.30%	2.50%	
7/6/2017	ECB account of the monetary policy meeting				

United Kingdom

Date	Indicator	Period	Expected	Prior	Comments
7/3/2017	Markit UK PMI Manufacturing SA	Jun	56.3	56.7	Data in the UK will give further insights as to the strength of the UK economy with Brexit negotiations having only just started..
7/7/2017	Halifax House Prices MoM	Jun	0.20%	0.40%	
7/7/2017	Industrial Production MoM	May	0.40%	0.20%	
7/7/2017	Manufacturing Production MoM	May	0.40%	0.20%	

China and India

Date	Indicator	Period	Expected	Prior	Comments
7/2/2017	Caixin China PMI Mfg (CH)	Jun	49.8	49.6	Chinese and Indian PMIs will be important not only for their respective markets, but also for broader emerging markets. Chinese foreign reserves are also important in this context.
7/6/2017	Foreign Reserves (CH)	Jun	$3062.0b	$3053.6b	
7/9/2017	CPI YoY (CH)	Jun	1.50%	1.50%	
7/9/2017	PPI YoY (CH)	Jun	5.40%	5.50%	
7/3/2017	Nikkei India PMI Mfg (IN)	Jun	--	51.6	

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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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