The Weekly Market View

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ADCB بنك أبوظبي التجاري

Markets rally for another week

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Global financial markets continued to benefit from the uptick in global economic indicators. However, recent job market indicators in the US failed to meet market expectations. While this did not have any major impact on the probability of a June rate hike (Fed fund futures pointing to 90% chance), a weaker than expected labor market reaffirms our belief that the Fed will refrain from being overly aggressive in tightening policy. As a result, the 10-year US Treasury yield dipped to the lowest level seen so far this year and the 10-2yr spread narrowed to the tightest level since October 2016. At the same time, gold prices rallied while the dollar continued to weaken against major currencies. Oil prices failed to move higher as the rise in US crude production offset the intended impact of OPECs supply cuts. We continue to believe that favorable monetary policy and moderate growth will prove supportive for equities and other risk assets. However, given the sizeable rally already witnessed in equity markets since the June 2016 Brexit referendum, we believe that a period a consolidation is now more likely than a significant move higher (equity market update - is a major correction imminent?).

All eyes on the ECB and UK general election outcome

After a data-heavy week in the US last week, the upcoming week is light in terms of releases with the commencement of the blackout period (when Fed officials are unable to make statements) ahead of the FOMC meeting on June 13-14. Therefore investors' focus will be more skewed towards Europe where the ECB is scheduled to meet on 8 June. We expect Mr Draghi to maintain his dovish tone with regards to monetary stimulus. The UK general elections are also due to take place on the same day. Recent polls point to a narrow lead by the Conservatives over the Labour party with renewed risks of hung parliament. We believe that the possibility of latter is low, yet a thin-majority win by the Conservative Party will weaken the government's position with regards to Brexit negotiations. As such, the ECB meeting and the UK election outcome both are likely to add pressure on the euro and pound respectively, likely resulting in a reversal of the recent dollar weakness.

Past week global markets' performance

Index Snapshot (World Indices)

Index	Latest	Weekly Chg %	YTD %
S&P 500	2,439.1	1.0	8.9
Dow Jones	21,206.3	0.6	7.3
Nasdaq	6,305.8	1.5	17.1
DAX	12,822.9	1.8	11.7
Nikkei 225	20,177.3	2.5	5.6
FTSE 100	7,547.6	0.0	5.7
Sensex	31,273.3	0.8	17.5
Hang Seng	25924.1	1.1	17.8
Regional Markets (Sunday to Thursday)			
ADX	4493.4	-0.8	-1.2
DFM	3349.0	0.7	-5.2
Tadawul	6863.6	-0.1	-4.8
DSM	9939.6	-1.2	-4.8
MSM30	5435.4	0.6	-6.0
BHSE	1325.2	0.8	8.6
KWSE	6813.2	1.9	18.5
MSCI			
MSCI World	1,935.2	1.2	10.5
MSCI EM	1,015.1	-0.2	17.7

Global Commodities, Currencies and Rates

Commodity	Latest	Weekly Chg %	YTD %
ICE Brent USD/bbl	50.0	-4.2	-12.1
Nymex WTI USD/bbl	47.7	-4.3	-11.3
Gold USD/t oz	1279.2	1.0	11.5
Silver USD/t oz	17.6	1.2	10.2
Platinum USD/t oz	954.5	-0.6	5.7
Copper USD/MT	5559.5	-2.0	1.1
Alluminium	1924.25	-1.0	13.6
Currencies			
EUR USD	1.1279	0.9	7.2
GBP USD	1.2888	0.7	4.4
USD JPY	110.40	-0.8	-5.9
CHF USD	0.9631	-1.1	5.8
Rates			
USD Libor 3m	1.2225	1.7	22.5
USD Libor 12m	1.7307	0.5	2.7
UAE Eibor 3m	1.4807	-0.6	0.3
UAE Eibor 12m	2.1078	-1.1	0.6
US 3m Bills	0.9705	5.0	95.1
US 10yr Treasury	2.1591	-3.9	-11.7

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Summary market outlook

Bonds	
Global Yields	10-year US Treasuries dipped to the lowest level seen this year after the recent jobs data failed to meet market expectations. The 10-2yr curve flattened further as market expectations of a June Fed fund rate hike was almost unchanged. We expect this flattening bias to sustain in the near term. In Europe, soft inflation data and ECB Draghi's dovish comments pushed core bond yields lower while Italian yield spreads widened versus bunds on the possibility of early elections. We believe that Italian bonds are likely to remain under pressure.
Stress and Risk Indicators	The VIX dropped to a new record low as the equity market rally extended for another week. However, current levels are too low amidst ongoing global political uncertainty and we expect volatility to rise.
Equity Markets	
Local Equity Markets	GCC equity markets held up well in spite of the sharp drop in oil prices. 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 well last week, adding to the previous week's rally. Japanese markets outperformed the most, mainly driven by positive economic data and strong corporate results. European markets received a boost from ECB chief's Draghi's dovish comments. US equity markets also ended the week on a positive note, unaffected by President Trump's withdrawal from Paris Climate Accord. We continue to believe that the positive global macro backdrop and strong corporate earnings will support risk appetite.
Commodities	
Precious Metals	Gold prices rose after the weak US jobs report reduced the chances of aggressive Fed rate hikes. We stick to our overweight recommendation on gold as a risk hedge against ongoing political and inflationary risks.
Energy	Energy prices dropped as the continuous rise in US oil production pared the intended impact of OPEC's supply cuts. 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 ended the week lower in spite of weak dollar demand. We expect this trend to continue due to ongoing concerns around Chinese demand.

Currencies								
EURUSD	The euro appreciated versus the greenback mainly on account of dollar weakness. 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	1.1336	R1	1.1308	S1	1.1228	S2	1.1177
GBPUSD	The pound strengthened versus the dollar in spite of the increase in political uncertainty ahead of the June 8 general elections. We expect the pound to weaken as risks of a “hard Brexit” remain.							
Critical levels	R2	1.2937	R1	1.2912	S1	1.2855	S2	1.2822
USDJPY	The yen strengthened against the dollar in line with the jump in safe-haven demand. We expect the yen to weaken given the potential for dollar strength and widening interest rate differentials.							
Critical levels	R2	112.19	R1	111.30	S1	109.92	S2	109.44

Forthcoming important economic data

United States

	Indicator	Period	Expected	Prior	Comments
06/05/2017	Unit Labor Costs	1Q F	2.40%	3.00%	Light week in terms of data releases.
06/05/2017	Markit US Composite PMI	May F	-	53.9	
06/05/2017	Durable Goods Orders	Apr F	-0.50%	-0.70%	
06/09/2017	Wholesale Inventories MoM	Apr F	-0.30%	-0.30%	

Japan

	Indicator	Period	Expected	Prior	Comments
06/05/2017	Nikkei Japan PMI Composite	May	-	52.6	All eyes will be on the first quarter GDP print.
06/08/2017	GDP Annualized SA QoQ	1Q F	2.40%	2.20%	
06/08/2017	Eco Watchers Survey Current SA	May	48.5	48.1	
06/09/2017	Tertiary Industry Index MoM	Apr	0.50%	-0.20%	

Eurozone

	Indicator	Period	Expected	Prior	Comments
06/06/2017	Retail Sales YoY	Apr	2.10%	2.30%	ECB meeting and GDP data will be the driving factor for markets.
06/08/2017	GDP SA QoQ	1Q F	0.50%	0.50%	
06/08/2017	ECB meeting	8-Jun	No change		

United Kingdom

	Indicator	Period	Expected	Prior	Comments
06/07/2017	Halifax House Prices MoM	May	-0.20%	-0.10%	Industrial Production data will be important.
06/09/2017	Industrial Production YoY	Apr	-0.30%	1.40%	

China and India

	Indicator	Period	Expected	Prior	Comments
06/07/2017	Foreign Reserves	May	$3045bn	$3029bn	Attention will be on China foreign reserves, exports and CPI data and RBI MPC meeting.
06/08/2017	Exports YoY	May	7.00%	8.00%	
06/09/2017	CPI YoY	May	1.50%	1.20%	
This week	New Yuan Loans CNY	May	1000bn	1100bn	
This week	Aggregate Financing CNY	May	1200bn	1394bn	
06/07/2017	RBI MPC meeting	7-Jun	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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