Strong US dollar and yield retracement confirm global growth concerns

Towards the end of the week we have seen both a strengthening of the US dollar and a retracement of US dollar yields. The fact that the greenback strengthened in spite of lowering of yields is perhaps an indication of continuing concern about global growth. Two regional US producer confidence indicators – the ISM Milwaukee and the Chicago PMI Index – fell. It is not clear, of course, if regional weakness will spill over across the country, but it does confirm our prudent stance on the US economy. The growing wedge between the Brent price and the WTI price (the latter moving downward), as well as the rate cut by the People's Bank of China are further indications that prudence remains warranted.

Luciano Jannelli, Ph.D., CFA
Head Investment Strategy
luciano.jannelli@adcb.com

Rahmatullah Khan
Economist
rahmatullah.khan@adcb.com

Global PMIs and US labour market data will be in the spotlight

Now that the Greek distraction is gone, markets will focus again on the more important issue, namely global growth. At the beginning of the week markets will be focussed on global producer confidence indicators, towards the end on US labour market data for February. Will the US country indicators (Markit and ISM) follow the ISM Milwaukee and the Chicago PMI Index? Markets are expecting the largest economies' indicators (US, Eurozone and China) to hold up at current levels. Negative surprises cannot be excluded, even if for now markets seem oriented towards continuing lower volatility.

Visit Investment Strategy Webpage to read our other reports.

Past week global markets' performance

Index Snapshot (World Indices)			
Index	**Latest**	**Weekly Chg %**	**YTD %**
S&P 500	2,104.5	-0.3	2.2
Dow Jones	18,132.7	-0.0	1.7
Nasdaq	4,963.5	0.2	4.8
DAX 40	11,401.7	3.2	16.3
Nikkei 225	18,797.9	2.5	7.7
FTSE 100	6,946.7	0.5	5.8
Sensex	29,361.5	0.4	6.8
Hang Seng	24823.3	-0.0	5.2
Regional Markets (Sunday to Thursday)			
ADX	4689.2	0.8	3.5
DFM	3827.2	0.6	1.4
Tadawul	9342.8	0.1	12.1
DSM	12445.3	-0.6	1.3
MSM30	6580.41	-1.1	3.7
BHSE	1476.3	0.9	3.5
KWSE	6581.8	-0.0	0.7
MSCI			
MSCI World	1,772.9	0.3	3.7
MSCI EM	990.3	0.6	3.6

Global Commodities, Currencies and Rates			
Commodity	**Latest**	**Weekly Chg %**	**YTD %**
ICE Brent USD/bbl	62.6	3.9	9.2
Nymex WTI USD/bbl	49.8	-1.2	-6.6
OPEC Baskt USD/bbl	56.1	-0.9	7.8
Gold 100 oz USD/t oz	1213.2	0.9	2.4
Platimum USD/t oz	1188.8	2.0	-1.6
Copper USD/MT	271.6	4.7	-3.9
Alluminium	1809.25	1.4	-1.3
Currencies			
EUR	1.1196	-1.6	-7.5
GBP	1.5438	0.3	-0.9
JPY	119.63	0.5	0.1
CHF	0.9543	1.7	4.2
Rates			
USD Libor 3m	0.2619	-0.3	2.4
USD Libor 12m	0.6796	0.8	8.1
UAE Eibor 3m	0.6900	-0.2	1.9
UAE Eibor 12m	1.0100	0.0	-0.6
US 3m Bills	0.0101	-42.0	-71.5
US 10yr Treasury	1.9930	-5.6	-8.2

Please refer to the disclaimer at the end of this publication.

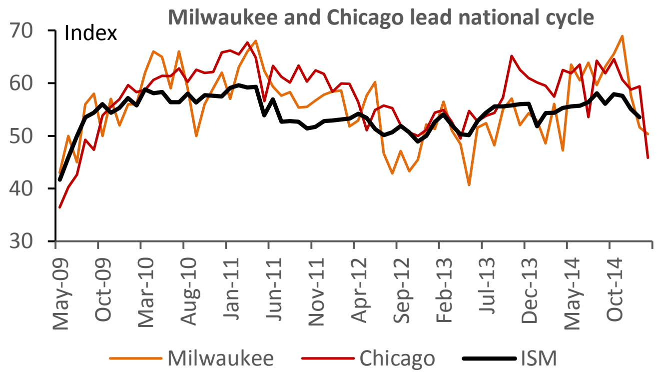
PBoC rate cut underpins growth concerns, US labour data to be in the spotlight

People's Bank of China (PBoC) rate cut unlikely to boost lending

As inflation in China comes down, not only producer but also consumer prices, the PBoC further reduced both the 1-year lending and the deposit rates. It is important to notice that this measure mainly aims at helping large State-owned enterprises to roll-over their considerable debts, rather than stimulating the economy through more credit. There is no clear mechanism by which the reduction in the official rates spills over to market rates. Moreover, the clamp-down on the unofficial "shadow banking" activities will continue. Thus, whilst the larger firms are likely to benefit from this measure, we see little scope for it to promote industrial production and growth, which will likely continue to decrease through 2015.

Milwaukee and Chicago harbingers of US slowdown?

It is of course not a given, but the fall of the regional producer confidence indicators Milwaukee ISM and Chicago PMI could well be a harbinger of lower print on the national ISM indicator. Markets are already expecting the US ISM indicator to remain stable, *not* to increase.



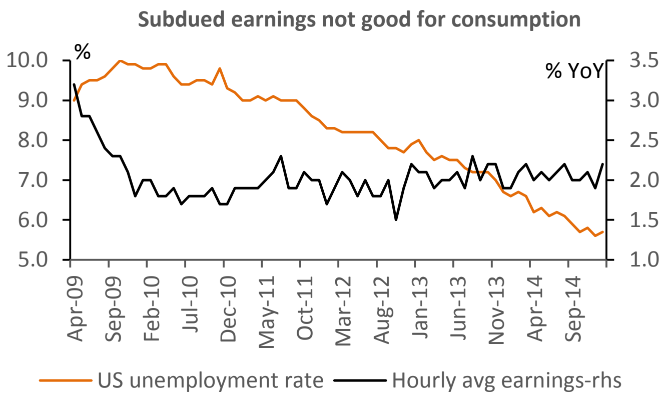
Source: Bloomberg

Producer confidence indicators are generally considered to be the most relying leading indicators of the business cycle as they measure the degree to which business are likely to adapt their spending plans. Thus, even if last week's housing and capital goods data were reasonably strong and US consumption spending for the fourth quarter has not been revised down, businesses might be positioning for continuing downward pressure on prices, as wage growth remains very contained. What's more, if the US economy would indeed start to sputter, the global economy is likely to remain under pressure.

Markets likely to focus on wage growth

Monthly job creation is again expected to have exceeded the 200k bar in February. At this stage markets are increasingly likely to be more interested in wage growth than in job growth. There is a growing sense that jobs that are being created are unable to lift wages, such that a sense of income insecurity continues to act as a drag consumption growth.

Many workers have left the work force because they were no longer hopeful to find a job. Thus, even if job creation persists at the current pace, those jobs may be taken by people who over the last years had not been looking for a job. Since there are approximately three million of such people, they might well keep a lid on wage growth. The reduction of the unemployment rate without wages picking up, expected to have occurred in February, would confirm this concern.



Source: Bloomberg

Fiscal roadmap remains largely on track in India

The Indian government remains committed to the fiscal roadmap to bring the fiscal deficit to 3% of GDP by FY2017-18, a year later than earlier envisaged. A modest increase in the service tax rate support the credibility of government's fiscal prudence. States' share in revenue has been increased to lay ground for a unified Goods and Services Tax, popularly known as GST. The GST will replace the state governments' differential tax structure to a unified central tax structure out of which states will receive their share. The budget mentions that efforts are on for implementing the GST from next year. Government also envisaged a reduction in the corporate tax rate from 30% to 25% over the next four years. We believe these intentions are structurally positive.

In the meantime, the budget has focused on reviving the capital spending cycle by allocating higher percentage of expenditure to infrastructure. As we had mentioned in our ***Investment Strategy Note*** on India last month, public sector companies with huge cash balances on their balance sheets are being encouraged to start the investment cycle. This is in line with the government's efforts to expedite requisite approval for large projects.

Summary market outlook

Global Yields	The US 10yr Treasury yield eased below 2% even though inflation surprised on the positive side. We remain of the view that upside potential in the yield is limited especially after largely negative surprises from economic data over the past weeks. PCE core and wage growth are going to have significant influence on the direction of the yield.
Stress and Risk Indicators	The VIX index came further down and close to the lowest levels. Therefore, it's unlikely to move further lower in any significant way. CDS spreads for major sovereigns largely trended lower except for Greece.
Precious Metals	Will remain volatile as long as the Federal Reserve will not become more explicit about rate hikes. We expect some rebound after the correction of last weeks
Local Equity Markets	Local equities were mixed in the wake of the significant gains over the prior weeks and a stabilization of the oil price. We do not expect major movements this week.
Global Equity Markets	Stronger dollar is likely to weigh on the US equities in the near term while the Eurozone equities could benefit from lower Euro. A strong dollar is also slightly negative for emerging markets' equities.
Energy	We await volatility to stabilize before providing any view on the direction for the very near term. However, we remain of the view that prices will rebound in the medium term.
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	A positive surprise in the US CPI and Weidmann's public approval of proposed QE pushed the euro sharply lower on 26th Feb. Largely negative surprises in economic data over the last weeks in the US is unlikely to push the euro much lower from here in the near term. Watch out for PCE core and wage growth for further clues.	R2 - 1.1497 R1 - 1.1348 S1 - 1.1111 S2 - 1.1025
GBPUSD	Momentum driven appreciation continued in GBP last week. It could take a breather in the near term after a good run over the last month.	R2 - 1.5660 R1 - 1.5549 S1 - 1.5330 S2 - 1.5222
USDJPY	The JPY has been trading largely in a range of 118-120. Barring major changes in US monetary policy this is not likely to change soon.	R2 – 120.58 R1 – 120.10 S1 – 118.89 S2 – 118.16

بنك أبوظبي التجاري ADCB

Forthcoming important economic data

United States

	Indicators	Period	Expected	Prior	Comments
03/02/2015	Personal Spending	Jan	-0.1%	-0.3%	A few important economic data scheduled to be released. Markets will look for any downward surprise in PCE core number before it turns its attention on the job market data.
03/02/2015	Personal Income	Jan	0.4%	0.3%	
03/02/2015	PCE Core YoY	Jan	1.3%	1.3%	
03/02/2015	ISM Manufacturing	Feb	53.0	53.5	
03/04/2015	ISM Non-mfg. Composite	Feb	56.5	56.7	
03/05/2015	Factory Orders	Jan	0.2%	-3.4%	
03/06/2015	Change in Nonfarm Payrolls	Feb	235k	257k	
03/06/2015	Average Hourly Earnings YoY	Feb	2.1%	2.2%	

Japan

	Indicators	Period	Expected	Prior	Comments
03/02/2015	Capital Spending YoY	4Q	4.1%	5.5%	Capital spending is expected to be revised lower while labor earnings are to remain muted.
03/02/2015	Mfg PMI	Feb F	NA	51.5	
03/03/2015	Labor Cash Earnings YoY	Jan	0.5%	1.3%	
03/04/2015	Services PMI	Feb	NA	51.3	

Euro zone

	Indicators	Period	Expected	Prior	Comments
03/02/2015	CPI Core YoY	Feb A	0.6%	0.6%	ECB is expected to stay put. Before that the inflation figure will be scrutinized by the market.
03/02/2015	Markit Mfg PMI	Feb F	51.1	51.1	
03/04/2015	Retail Sales MoM	Jan	0.2%	0.3%	
03/05/2015	ECB Policy Meeting	Mar	No change expected		
03/06/2015	GDP SA QoQ	4Q	0.3%	0.3%	

China and India

	Indicators	Period	Expected	Prior	Comments
03/04/2015	HSBC Mfg PMI (China)	Feb F	50.1	50.1	China's trade data while India's PMIs data are important for clues in the two large EMs.
03/08/2015	Trade Balance (China)	Feb	$7.4bn	$60.03bn	
03/08/2015	Exports YoY (China)	Feb	8.3%	-3.3%	
03/08/2015	Imports YoY (China)	Feb	-12.5%	-19.9%	
03/02/2015	HSBC Mfg PMI (India)	Feb	NA	52.9	
03/02/2015	HSBC Services PMI (India)	Feb	NA	52.4	

ADCB
بنك أبوظبي التجاري

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