The Weekly Market View

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بنك أبوظبي التجاري ADCB

"Russia-gate" causes midweek tumble, but markets recover

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Markets remain impressively resilient in the face of mounting troubles at home for President Trump and his administration. A midweek sell-off in equities driven by US political risk saw the biggest one-day fall in equities since September, however, markets recovered impressively with the S&P 500 finishing down just 0.4% for the week. European and Japanese markets fared worse, Euro Stoxx 50 and Nikkei 225 both shedding around 1.5%, although for dollar investors these losses were more than offset by the appreciation of the respective currencies vs. the dollar (2.5% for the euro and 1.9% for the yen during the week). Dollar depreciation was broad-based as the greenback suffered its worst week since April 2016. Investor jitters also pushed yields on US Treasuries down, the 10-year yield falling 9bps to 2.23% while gold, another safe haven asset jumped 2.2%. Oil prices continued to recover on the back of firming expectations that OPEC and other oil producing countries will agree to extend production cuts at their meeting later this week.

Has everyone attached too much importance to Trump?

The "Trump-trade", "Trump-flation", "Trumponomics"; these interchangeable terms referring to President Trump's prospective pro-growth policies have all been used to explain the bullish mood in global financial markets post the November 8 US elections. However, despite setbacks and delays to major Trump policies such as tax reform, deregulation and (repealing and replacing) Obamacare, markets have continued rallying. Therefore, should we not ask the question as to whether investors and commentators alike (ourselves included) have been overestimating the importance of Mr Trump's prospective policies? The fact is that post the Brexit referendum in June global equities have been on an upward path. Admittedly the election of Mr Trump in November gave the market a further boost, however, the synchronized pick-up in global growth was already well underway before the US presidential elections. According to Bloomberg (using IMF data) the variation of growth rates this year among G-20 economies is the smallest since 1980, while for the first time since 2010 not a single G-20 country is expected to post a decline in output this year. This is mirrored at a corporate level where a very strong global Q1 earnings season (both earnings and sales) suggests the global cycle is relatively healthy. If this thinking is correct, then by extension we should cease to be surprised when markets shrug off disappointments in Trump policies. Instead we should focus much more on economic data in the key growth engines; the US, China and Eurozone to gauge the strength of the cycle.

Past week global markets' performance

Index Snapshot (World Indices)

Index	Latest	Weekly Chg %	YTD %
S&P 500	2,381.7	-0.4	6.4
Dow Jones	20,804.8	-0.4	5.3
Nasdaq	6,083.7	-0.6	13.0
DAX	12,638.7	-1.0	10.1
Nikkei 225	19,590.8	-1.5	2.5
FTSE 100	7,470.7	0.5	4.6
Sensex	30,464.9	0.9	14.4
Hang Seng	25174.9	0.1	14.4
Regional Markets (Sunday to Thursday)			
ADX	4581.3	-0.6	0.8
DFM	3378.0	-1.2	-4.3
Tadawul	6938.1	0.8	-3.8
DSM	10103.4	-0.1	-3.2
MSM30	5415.07	-0.3	-6.4
BHSE	1308.8	0.1	7.2
KWSE	6725.8	0.8	17.0
MSCI			
MSCI World	1,894.8	0.1	8.2
MSCI EM	995.7	-0.7	15.5

Global Commodities, Currencies and Rates

Commodity	Latest	Weekly Chg %	YTD %
ICE Brent USD/bbl	53.6	5.4	-5.6
Nymex WTI USD/bbl	50.3	5.2	-6.3
Gold USD/t oz	1255.9	2.2	9.4
Silver USD/t oz	16.9	2.4	5.9
Platinum USD/t oz	939.8	2.0	4.1
Copper USD/MT	5596.0	1.4	1.7
Alluminium	1938.75	2.8	14.4
Currencies			
EUR USD	1.1206	2.5	6.6
GBP USD	1.3036	1.1	5.6
USD JPY	111.26	-1.9	-5.1
CHF USD	0.9729	-2.8	4.7
Rates			
USD Libor 3m	1.1864	0.6	18.9
USD Libor 12m	1.7229	-2.4	2.2
UAE Eibor 3m	1.4850	0.1	0.6
UAE Eibor 12m	2.1570	-1.4	3.0
US 3m Bills	0.9043	4.1	81.8
US 10yr Treasury	2.2346	-3.9	-8.6

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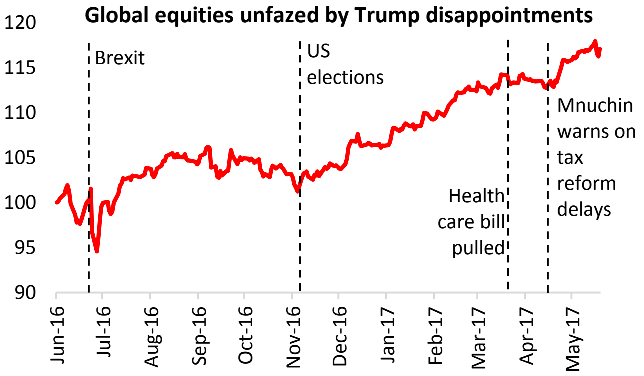
Trump is a source of volatility, not direction

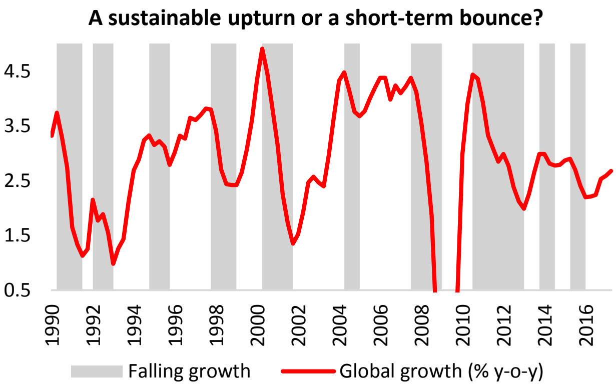
Anything Mr Trump can deliver is just a bonus

Since the turn of the year we have commented in this forum on several occasions about the impressive resilience of equity markets in particular. By that we were referring to the fact that markets, which had run-up on the back of expectations over Mr Trump's pro-growth economic policies hardly flinched when delays or failures to these policy proposals became evident. The chart below shows global equities have rallied significantly since the Brexit referendum in June and were undoubtedly boosted by the election of Mr Trump, but the market has continued to rise despite major setbacks to the policy proposals.



Source: Thomson Reuters

Rather, it is the synchronized uptick in global growth and corporate earnings which are the main drivers. In other words, markets have given Mr Trump too much credit. Year-to-date European and Emerging equity markets have outperformed the US, this can be attributed to improving global growth, and not to Mr Trump's policy agenda.



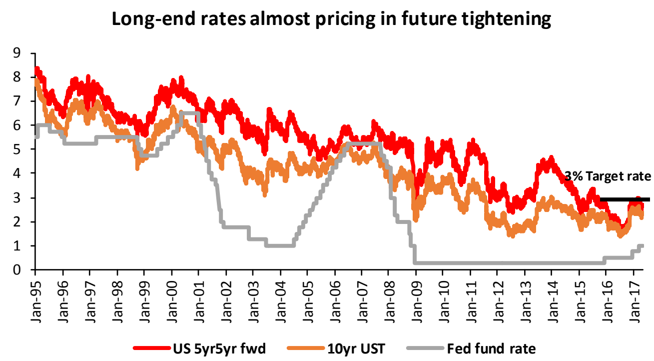
Source: Thomson Reuters

The chart above shows global growth since 1990. The key question for investors is whether the uptick since the middle of 2016 is sustainable. Encouragingly, global growth is broad-based, which has not always been the case post-global financial crisis. Even though growth has been positive since 2009 it has been uneven as markets like the US grew more strongly than the Eurozone and Japan. Within EM, China and India grew strongly but markets like Brazil and Russia fell into recession. This is no longer true today, the majority of markets are growing at a decent rate, even Japan registered the 5th consecutive quarter of positive growth, the first time it has managed this in a decade.

Overall then, political risk emanating from the US undoubtedly has the ability to induce a 5%-10% correction in global equities should things get worse for Mr Trump. But this is unlikely to derail the more positive synchronized global growth pick up we are currently enjoying. **Mr Trump therefore, has become a source of volatility, but not direction. By extension, anything which he can deliver in terms of tax reform, deregulation or infrastructure investment should be viewed as a bonus.**

Long-end yields to remain capped

While 10-year US Treasury yields declined last week, the Fed futures probability of a June rate hike remained mostly unchanged at around 97%. As should be the case, it was short-end yields that were more impacted by the re-pricing of Fed hike expectations, thus leading to a flattening of the yield curve. In a growing economic environment it is highly likely that long-end yields will rise further. However, there are certain factors that should keep an upward cap on yields. Long-term US rates are almost fully reflecting the future tightening path indicated by the Fed. The 5yr5yr forward swap rate has been hovering around 3% - the Fed fund rate target. This implies that most of the Fed's future tightening is already priced in. Similarly, inflation expectations have been fairly range-bound as the Trump reflation trade continues to fizzle out. As such, we expect the current flattening bias to sustain in the near term and see limited upward pressure on 10yr yields.



Source: Bloomberg

Summary market outlook

Bonds	
Global Yield	10-year US Treasury yields moved lower last week as investor concerns over the possibility of pro-growth reforms in the US rose. Nevertheless, the Fed futures curve continues to price in a 97% probability of a June rate hike. We believe that US Treasury yields are likely to remain contained with a June rate hike already priced in. Global bond markets including the German and UK markets tracked the decline in US yields.
Stress and Risk Indicators	The VIX shot to the highest level seen in a month last week before settling lower at the end of the week. We expect to see periods of volatility amidst ongoing global political uncertainty.
Equity Markets	
Local Equity Markets	GCC equity markets were mixed in spite of higher oil prices and weaker dollar, mainly driven by sluggish global equity performance. 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 lower, impacted by the negative news about the Trump administration, thereby pushing back further the likelihood of any pro-growth policy agenda. Japanese equities performed the worst on the back of yen strength versus the dollar. Emerging markets were also down due to the revival in political uncertainty in Brazil. In spite of recent disappointments to Mr Trump's pro-growth policy plans, we believe that better global macro data and strong corporate earnings will continue to support risk appetite.
Commodities	
Precious Metals	Gold prices jumped in line with the preference for safe-haven assets. We stick to our overweight recommendation on gold as a risk hedge against ongoing political and inflationary risks.
Energy	Energy prices continued to rise last week after US stockpiles fell for the sixth consecutive week. With the likelihood of an extension to OPEC cuts at the upcoming meeting on 25 May, we expect some upward normalisation to take place. This will keep a floor under prices, however, we argue against any significant jump as the rising US rig count will act as a ceiling.
Industrial Metals	Industrial metals performed better last week, boosted by the weaker dollar and tracking the jump in gold prices. We expect industrial metals to remain under pressure given ongoing concerns around Chinese demand.

Currencies								
EURUSD	The euro appreciated versus the greenback as dollar demand weakened. This trend is unlikely to sustain on a long term basis given the divergence in central bank policies in Europe versus the US.							
Critical levels	**R2**	**1.1286**	**R1**	**1.1246**	**S1**	**1.1131**	**S2**	**1.1057**
GBPUSD	The pound strengthened versus the dollar on the back of a higher CPI print and strong retail sales. We expect this to reverse as risks of "hard Brexit" remain.							
Critical levels	**R2**	**1.3114**	**R1**	**1.3075**	**S1**	**1.2962**	**S2**	**1.2888**
USDJPY	The yen appreciated against the dollar with the recovery in safe-haven appetite. We expect the yen to weaken further given the potential for dollar strength and widening interest rate differentials.							
Critical levels	**R2**	**111.99**	**R1**	**111.63**	**S1**	**110.97**	**S2**	**110.68**

Forthcoming important economic data

United States

	Indicator	Period	Expected	Prior	Comments
05/23/2017	Markit US Manufacturing PMI	May P	53.1	52.8	Attention will be on the FOMC minutes, home sales and PCE data ahead of the June FOMC meeting.
05/23/2017	New Home Sales MoM	Apr	-1.80%	5.80%	
05/24/2017	Existing Home Sales MoM	Apr	-1.10%	4.40%	
05/24/2017	FOMC Meeting Minutes	3-May			
05/25/2017	Wholesale Inventories MoM	Apr P	0.20%	0.20%	
05/26/2017	GDP Annualized QoQ	1Q S	0.90%	0.70%	
05/26/2017	Core PCE QoQ	1Q S	2.00%	2.00%	
05/26/2017	Durable Goods Orders	Apr P	-1.50%	0.90%	
05/26/2017	Univ. of Mich. Sentiment	May F	97.5	97.7	

Japan

	Indicator	Period	Expected	Prior	Comments
05/22/2017	Exports YoY	Apr	8.00%	12.00%	Exports and inflation data will be important.
05/26/2017	Natl CPI YoY	Apr	0.40%	0.20%	
05/26/2017	Natl Core CPI YoY	Apr	0.00%	-0.10%	

Eurozone

	Indicator	Period	Expected	Prior	Comments
05/23/2017	Markit Eurozone Manufacturing PMI	May P	56.5	56.7	PMIs will be the key focus.
05/23/2017	Markit Eurozone Composite PMI	May P	56.7	56.8	

United Kingdom

	Indicator	Period	Expected	Prior	Comments
05/22/2017	Rightmove House Prices YoY	May	2.00%	2.20%	Eyes will be on the GDP print for the 1st quarter.
05/25/2017	GDP YoY	1Q P	2.10%	2.10%	
05/25/2017	Exports QoQ	1Q P	0.50%	4.60%	

China and India

Indicator	Period	Expected	Prior	Comments
				No major data scheduled for 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

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