The Weekly Market View

May 29 2017

بنك أبوظبي التجاري ADCB

Strong earnings season and upwardly revised GDP boost US equities

Global equities continued rising last week, this time led by US equities which were helped by upwardly revised Q1 growth numbers. The world's largest economy is now believed to have expanded at an annual rate of 1.2% (vs. 0.7% previously). US equities are now up 8% this year, slightly lagging behind global equities which are up 10% year-to-date. Friday's positive close meant that the S&P 500 has now closed in the black for seven consecutive sessions, rallying 2.5% during this time. The fact that this has come in the aftermath of the political uncertainty in Washington confirms our assertion ***last week*** *that Mr Trump is no longer the driver of market direction. Eurozone equities underperformed while UK equities rallied to all-time highs helped by a c2% drop in the value of pound sterling vs. both the dollar and euro on the back of narrowing polls going into the June 8 general elections. Oil prices experienced a classic case of "buy the rumor sell the fact" as prices fell following confirmation by OPEC and its allies of a 9-month extension to the existing production agreement. Despite the pull-back in oil prices, emerging market equities enjoyed a strong week, outperforming developed markets by 1.2% during the week.*

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This week's data should confirm whether or not the Fed will hike in June

Despite the shortened trading week in the US (Monday markets are closed for Memorial day), the week ahead is loaded with important data releases which will confirm (or not) the Fed's decision to raise interest rates again at their June 13-14 meeting. Most important will be Friday's labour data, the market is looking for 185k jobs to have been added with wage growth rising slightly to 2.6% y-o-y (from 2.5%). Core PCE inflation, manufacturing ISM and home and vehicle sales will provide the Fed with further insight into the strength of the economy. With a 95% implied probability of a hike in the Fed funds target rate data will need to disappoint meaningfully in our view for policy makers to hold off on tightening, especially as the view among FOMC members is that Q1 economic weakness is merely transitory. With Q1 earnings season pretty much wrapped up and likely to be confirmed as the strongest since Q4 2011, investors will focus on economic data to gauge the strength of the US and global economies. The data is also likely to impact the US dollar which has weakened significantly this year.

Past week global markets' performance

Index Snapshot (World Indices)

Index	Latest	Weekly Chg %	YTD %
S&P 500	2,415.8	1.4	7.9
Dow Jones	21,080.3	1.3	6.7
Nasdaq	6,210.2	2.1	15.4
DAX	12,602.2	-0.3	9.8
Nikkei 225	19,686.8	0.5	3.0
FTSE 100	7,547.6	1.0	5.7
Sensex	31,028.2	1.8	16.5
Hang Seng	25639.3	1.8	16.5
Regional Markets (Sunday to Thursday)			
ADX	4516.8	-1.4	-0.6
DFM	3327.1	-1.5	-5.8
Tadawul	6871.7	-1.0	-4.7
DSM	10060.5	-0.4	-3.6
MSM30	5403.14	-0.2	-6.6
BHSE	1314.2	0.4	7.7
KWSE	6687.5	-0.6	16.3
MSCI			
MSCI World	1,912.2	0.9	9.2
MSCI EM	1,017.0	2.1	17.9

Global Commodities, Currencies and Rates

Commodity	Latest	Weekly Chg %	YTD %
ICE Brent USD/bbl	52.2	-2.7	-8.2
Nymex WTI USD/bbl	49.8	-1.1	-7.3
Gold USD/t oz	1266.8	0.9	10.4
Silver USD/t oz	17.4	2.9	8.9
Platinum USD/t oz	960.6	2.2	6.4
Copper USD/MT	5671.0	1.3	3.1
Alluminium	1944.25	0.3	14.8
Currencies			
EUR USD	1.1183	-0.2	6.3
GBP USD	1.2804	-1.8	3.8
USD JPY	111.33	0.1	-5.1
CHF USD	0.9741	0.1	4.6
Rates			
USD Libor 3m	1.2018	1.3	20.4
USD Libor 12m	1.7212	-0.1	2.1
UAE Eibor 3m	1.4843	0.2	0.6
UAE Eibor 12m	2.1343	-1.4	1.9
US 3m Bills	0.9246	2.2	85.9
US 10yr Treasury	2.2465	0.5	-8.1

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Summary market outlook

Bonds	
Global Yields	US Treasuries were mostly unchanged last week as the FOMC minutes indicated that the Fed will stick to its gradual approach in hiking rates as well as unwinding of its balance sheet. With the upcoming June rate hike already priced in, we believe that US Treasury yields are likely to remain contained in the near term. Global bond markets including the German and UK markets reacted positively to the dovish FOMC minutes.
Stress and Risk Indicators	The VIX dropped back towards its record low again as equities rallied. However, current levels are too low amidst the ongoing global political uncertainty and we expect volatility to rise.
Equity Markets	
Local Equity Markets	GCC equity markets were negative after oil prices declined post the OPEC meeting. 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, mainly led by US equities. Strong first quarter earnings and an upward revision to US Q1 GDP drove US equities higher. European equities were down while UK equities outperformed as the pound depreciated versus the dollar on account of election uncertainty. We believe that the positive global macro backdrop and strong corporate earnings will continue to support risk appetite.
Commodities	
Precious Metals	Gold prices were mostly flat last week in the absence of any safe-haven demand. Yet, we stick to our overweight recommendation on gold as a risk hedge against ongoing political and inflationary risks.
Energy	Energy prices ended the week lower in spite of OPEC's decision to extend its existing supply cuts for another nine months. We expect some upward normalization to take place, yet rising US crude production is likely to act as a ceiling.
Industrial Metals	Industrial metals performed better last week as the dollar remained mostly stable. However, we expect industrial metals to come under pressure due to ongoing concerns around Chinese demand.

Currencies								
EURUSD	The euro slightly depreciated versus the greenback due to a marginal rise in dollar demand. 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	1.1199	R1	1.1186	S1	1.1162	S2	1.1151
GBPUSD	The pound weakened versus the dollar as narrowing polls raised the chances of hung parliament. We expect this trend to sustain as risks of a "hard Brexit" remain.							
Critical levels	R2	1.2822	R1	1.2814	S1	1.2794	S2	1.2783
USDJPY	The yen was flat against the dollar in the absence of any strong safe-haven demand. We expect the yen to weaken given the potential for dollar strength and widening interest rate differentials.							
Critical levels	R2	111.40	R1	111.33	S1	111.19	S2	111.12

Forthcoming important economic data

United States

	Indicator	Period	Expected	Prior	Comments
05/30/2017	Personal Income	Apr	0.40%	0.20%	PCE, PMI and labour data will be closely watched.
05/30/2017	PCE Deflator MoM	Apr	0.20%	-0.20%	
05/30/2017	PCE Core MoM	Apr	0.10%	-0.10%	
06/01/2017	Markit US Manufacturing PMI	May F	52.5	52.5	
06/01/2017	ISM Manufacturing	May	54.6	54.8	
06/02/2017	Change in Nonfarm Payrolls	May	185k	211k	
06/02/2017	Unemployment Rate	May	4.40%	4.40%	

Japan

	Indicator	Period	Expected	Prior	Comments
05/30/2017	Retail Sales MoM	Apr	-0.10%	0.20%	PMI and Industrial production data will be important.
05/31/2017	Industrial Production YoY	Apr P	6.00%	3.50%	
06/01/2017	Nikkei Japan PMI Mfg	May F	-	52	

Eurozone

	Indicator	Period	Expected	Prior	Comments
05/30/2017	Consumer Confidence	May F	-3.3	-3.3	Main focus will be on the final PMI release.
05/31/2017	CPI Estimate YoY	May	1.50%	1.90%	
06/01/2017	Markit Manufacturing PMI	May F	57	57	
06/01/2017	GDP WDA YoY (Italy)	1Q F	0.80%	0.80%	

United Kingdom

	Indicator	Period	Expected	Prior	Comments
06/01/2017	Nationwide House PX MoM	May	0.20%	-0.40%	The PMI numbers will be important.
06/01/2017	Markit UK PMI Manufacturing SA	May	56.5	57.3	

China and India

	Indicator	Period	Expected	Prior	Comments
05/31/2017	Manufacturing PMI	May	51	51.2	All eyes will be on China's PMI data and India's GDP print.
06/01/2017	Caixin PMI Mfg	May	50.2	50.3	
05/31/2017	Fiscal Deficit INR Crore	Mar		41422	
05/31/2017	GDP YoY	1Q	7.10%	7.00%	

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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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