

## Equities range bound ahead of French elections, but Mrs May surprises

In the run-up to the first round in the French presidential elections global equities were relatively muted. Japanese equities were the outlier on the upside, catching up after underperforming significantly in recent weeks as a result of yen strength. On the downside UK equities retreated following Prime Minister May's surprise decision to hold snap general elections on June 8. Again the currency was the main driver as pound sterling strengthened markedly. Markets believe a "soft Brexit" is now more likely because Mrs May is expected to win the election and increase the majority her conservative party holds. By doing so Mrs May will be able to dilute the influence of so-called "Brexit hardliners" within her own party who have been pushing her towards a "hard Brexit" (see note from last week). Elsewhere oil prices came under renewed pressure with US inventories and production surprising to the upside.

## For once the polls were correct – expect short-term rally

The French elections were always likely to cause a surprise. The surge in opinion polls of far-left candidate Jean Luc Melenchon had thrown into doubt what was for some time expected to be a Le Pen vs. Macron run-off on May 7. The surprise might have come from Mr Melenchon's momentum taking him into the second round, or by the underperformance of favourite Mr Macron. Instead, however, the surprise came from the fact that for once, the opinions polls were spot on. This morning European equity futures are pointing to strong gains and the euro has appreciated towards the 1.09 level vs. the dollar. We expect this reaction to moderate given that the outcome of the French elections had been anticipated. Markets tend to move on surprises relative to expectations. The fact that the worst case scenario in France has been avoided (a Le Pen vs. Melenchon run off) justifies a relief rally. However, we do not expect this to be the catalyst for a renewed and sustained surge in equities. Sooner rather than later the focus will shift back towards the so-called "reflation trade" which has been the real driving force behind the strong run-up in global risk assets since the middle of last year. The two main engines of the global reflation trade, the United States and China are both likely to disappoint relative to expectations. We are already seeing signs of this happening. **We attach a [link to a note](#) we wrote late last week which will replace the usual one-pager which typically follows on from here.**

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## Past week global markets' performance

Index Snapshot (World Indices)				Global Commodities, Currencies and Rates			
Index	Latest	Weekly Chg %	YTD %	Commodity	Latest	Weekly Chg %	YTD %
S&P 500	2,348.7	0.8	4.9	ICE Brent USD/bbl	52.0	-7.0	-8.6
Dow Jones	20,547.8	0.5	4.0	Nymex WTI USD/bbl	49.6	-6.7	-7.6
Nasdaq	5,910.5	1.8	9.8	Gold USD/t oz	1284.4	-0.1	11.9
DAX	12,048.6	-0.5	4.9	Silver USD/t oz	17.9	-3.3	12.6
Nikkei 225	18,620.8	1.6	-2.6	Platinum USD/t oz	972.4	-0.1	7.7
FTSE 100	7,114.6	-2.9	-0.4	Copper USD/MT	5601.0	-1.0	1.8
Sensex	29,365.3	-0.3	10.3	Alluminium	1925.25	1.6	13.7
Hang Seng	24042.0	-0.9	9.3	<b>Currencies</b>			
<b>Regional Markets (Sunday to Thursday)</b>				EUR USD	1.0728	1.0	2.0
ADX	4521.6	0.1	-0.5	GBP USD	1.2817	2.3	3.9
DFM	3469.8	-1.1	-1.7	USD JPY	109.09	0.4	7.2
Tadaw ul	6899.0	-2.5	-4.3	CHF USD	0.9963	-0.9	2.3
DSM	10241.6	-2.0	-1.9	<b>Rates</b>			
MSM30	5474.42	-1.7	-5.3	USD Libor 3m	1.1562	-0.2	15.9
BHSE	1334.4	-1.6	9.3	USD Libor 12m	1.7446	-1.5	3.5
KWSE	6813.5	-2.8	18.5	UAE Eibor 3m	1.4588	-0.4	-1.1
<b>MSCI</b>				UAE Eibor 12m	2.2035	-0.2	5.2
MSCI World	1,842.1	0.5	5.2	US 3m Bills	0.7720	-3.8	55.2
MSCI EM	961.8	0.1	11.5	US 10yr Treasury	2.2480	0.5	-8.0

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## Summary market outlook

Bonds									
<b>Global Yield</b>	US Treasuries were little changed as investors remained cautious ahead of the French presidential election. US Treasury yields are likely to remain supported particularly if US GDP data due this week disappoints. In Europe, German bunds yields rose in reaction to strong PMI releases. We expect bond yields in Europe to remain relatively stable following French elections.								
<b>Stress and Risk Indicators</b>	The VIX was little changed with some recovery in equity markets. However, given ongoing global political uncertainty, volatility could jump from current levels.								
Equity Markets									
<b>Local Equity Markets</b>	GCC equity markets ended the week on a weaker note as oil prices came under pressure. We remain neutral on GCC equities given the potential for further dollar strength and limited upside in oil prices.								
<b>Global Equity Markets</b>	Global stock markets slightly recovered from the previous week's risk off sentiment. US equities erased their previous week's losses, ending the week higher after President Trump hinted details of a tax plan would be revealed later this week. The Nikkei also reversed its earlier losses on the back of a weaker yen. In contrast, the FTSE underperformed as the pound rallied following UK PM May's announcement of snap elections. We expect markets to remain side-lined until the tax plans are unveiled this week.								
Commodities									
<b>Precious Metals</b>	Gold prices were mostly unchanged, indicating the cautious tone in the market. We stick to gold as a risk hedge against ongoing political and inflationary risks.								
<b>Energy</b>	Energy prices declined sharply as oversupply concerns resurfaced with the continuous increase in the US rig count as well as US crude inventories. While we expect normalisation to take place, we argue against any significant jump as the rising US rig count and downbeat China demand should weigh on energy prices.								
<b>Industrial Metals</b>	Industrial metals were mixed in spite of the weaker dollar. We expect industrial metals to remain under pressure given ongoing concerns around Chinese demand.								
Currencies									
<b>EURUSD</b>	The euro rose slightly versus the greenback, boosted by the strong PMI releases. We expect the euro to receive a one-off boost following the French election results.								
<b>Critical levels</b>	<table border="0"> <tr> <td><b>R2</b> →</td> <td>1.0772</td> <td><b>R1</b> →</td> <td>1.0750</td> <td><b>S1</b> →</td> <td>1.0694</td> <td><b>S2</b> →</td> <td>1.0661</td> </tr> </table>	<b>R2</b> →	1.0772	<b>R1</b> →	1.0750	<b>S1</b> →	1.0694	<b>S2</b> →	1.0661
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<b>GBPUSD</b>	The pound strengthened versus the dollar after the call for an early election bolstered the prospects of a "soft Brexit". Recent pound strength is overdone as we believe "hard Brexit" will be the most likely outcome. .								
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<b>USDJPY</b>	The yen fell against the dollar as appetite for safe-haven assets eased slightly. We expect the yen to weaken further given the potential for dollar strength.								
<b>Critical levels</b>	<table border="0"> <tr> <td><b>R2</b> →</td> <td>109.68</td> <td><b>R1</b> →</td> <td>109.38</td> <td><b>S1</b> →</td> <td>108.84</td> <td><b>S2</b> →</td> <td>108.59</td> </tr> </table>	<b>R2</b> →	109.68	<b>R1</b> →	109.38	<b>S1</b> →	108.84	<b>S2</b> →	108.59
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## Forthcoming important economic data

### United States

Indicator	Period	Expected	Prior	Comments
04/25/2017	FHFA House Price Index MoM	Feb	0.40%	0.00%
04/25/2017	New Home Sales	Mar	584k	592k
04/27/2017	Wholesale Inventories MoM	Mar P	0.30%	0.40%
04/27/2017	Durable Goods Orders	Mar P	1.30%	1.80%
04/28/2017	GDP Annualized QoQ	1Q A	1.10%	2.10%
04/28/2017	Univ. of Mich. Sentiment	Apr F	98	98

First quarter GDP print will be the main focus this week.

### Japan

Indicator	Period	Expected	Prior	Comments
04/27/2017	BoJ MPC Meeting	27-Apr	No change	
04/28/2017	Jobless Rate	Mar	2.90%	2.80%
04/28/2017	Natl CPI YoY	Mar	0.30%	0.30%
04/28/2017	Natl CPI Ex Fresh Food, Energy YoY	Mar	0.00%	0.10%
04/28/2017	Industrial Production YoY	Mar P	4.00%	4.70%

The BoJ MPC meeting will be the main highlight this week.

### Europe

Indicator	Period	Expected	Prior	Comments
04/24/2017	IFO Expectations (GE)	Apr	105.9	105.7
04/27/2017	Consumer confidence	Apr F	-3.6	-3.6
04/27/2017	ECB MPC Meeting	27-Apr	0.00%	0.00%
04/28/2017	CPI Estimate YoY	Apr	1.80%	1.50%
04/28/2017	CPI Core YoY	Apr A	1.00%	0.70%

All eyes will be on the ECB meeting.

### United Kingdom

Indicator	Period	Expected	Prior	Comments
04/28/2017	GDP QoQ	1Q A	0.40%	0.70%
This week	Nationwide House PX MoM	Apr	0.10%	-0.30%

GDP data will be important.

### China and India

Indicator	Period	Expected	Prior	Comments
04/30/2017	Manufacturing PMI (CH)	Apr	51.7	51.8

No major data other than China manufacturing PMI scheduled 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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