

“Super Thursday” delivers a Theresa May own goal

“Super Thursday”, in which investors had to split their attention between the ECB meeting, former FBI director James Comey’s testimony and UK general elections provided at least one surprise. This came in the form of Theresa May’s Conservative party losing their majority in the House of Commons. Just as her predecessor David Cameron had done, Mrs May overestimated her political capital when calling for snap elections. The PMs Conservative party remains the largest party with 318 seats, short of a majority (at least 326 seats) and less than what her party enjoyed prior to the elections (331 seats). The Labour Party, led by Jeremy Corbyn outperformed all expectations, gaining 30 seats while the Scottish National Party (SNP) led by Nicola Sturgeon was the other big loser (losing 21 seats).

The main implications are that Mrs May’s negotiating positions vis a vis the Eurozone in Brexit negotiations has weakened. At the margin, this makes a hard Brexit less likely than before. However, the uncertainty created by a minority government means that the Conservatives might struggle to deliver on their manifesto promises. The initial market reaction saw sterling sell off, helping the FTSE 100 to finish the day up over 1%, within a whisker of its all-time highs. This is unsurprising given around 70% of revenues of FTSE 100 corporates come from overseas, meaning that prolonged (and further) GBP weakness will support earnings for the large array of global heavyweights which dominate the FTSE100 index. We expect sterling to remain weak and therefore we maintain our overweight call on UK equities (on a hedged basis).

The Fed comes into focus again this week

The Federal Reserve meets this week to decide whether or not to increase interest rates for the second time this year. The market is expecting rates to rise by 25bps, a move well telegraphed by Fed Chair Janet Yellen. The Fed has been fairly explicit that it intends to hike interest rates twice further this year, starting this week. These hikes are now well digested by the market and it would require a big surprise to encourage policy makers in the US to hike more than two times this year. As such, markets have a degree of certainty which will help them consolidate at elevated levels on the back of a very strong Q1 earnings season. Equities typically perform less well during the summer months and have rallied pretty relentlessly since the Brexit Referendum 12-months ago. In the short-term [we expect a period of consolidation rather than a major sell-off.](#)

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	2,431.8	-0.3	8.6	ICE Brent USD/bbl	48.2	-3.6	-15.3
Dow Jones	21,272.0	0.3	7.6	Nymex WTI USD/bbl	45.8	-3.8	-14.7
Nasdaq	6,207.9	-1.6	15.3	Gold USD/t oz	1266.8	-1.0	10.4
DAX	12,815.7	-0.1	11.6	Silver USD/t oz	17.2	-2.0	8.0
Nikkei 225	20,013.3	-0.8	4.7	Platinum USD/t oz	940.2	-1.5	4.1
FTSE 100	7,527.3	-0.3	5.4	Copper USD/MT	5739.0	3.2	4.3
Sensex	31,262.1	-0.0	17.4	Alluminium	1897.25	-1.4	12.0
Hang Seng	26030.3	0.4	18.3	Currencies			
Regional Markets (Sunday to Thursday)				EUR USD	1.1195	-0.7	6.4
ADX	4476.6	-0.1	-1.5	GBP USD	1.2746	-1.1	3.3
DFM	3400.1	1.8	-3.7	USD JPY	110.32	-0.1	-6.0
Tadaw ul	6865.5	-0.9	-4.8	CHF USD	0.9694	0.7	5.1
DSM	9237.7	-6.9	-11.5	Rates			
MSM30	5354.77	-1.3	-7.4	USD Libor 3m	1.2364	1.1	23.9
BHSE	1323.5	-0.7	8.4	USD Libor 12m	1.7284	-0.1	2.5
KWSE	6783.4	-0.7	18.0	UAE Eibor 3m	1.4887	0.5	0.9
MSCI				UAE Eibor 12m	2.0982	-0.5	0.2
MSCI World	1,922.8	-0.6	9.8	US 3m Bills	0.9960	2.6	100.2
MSCI EM	1,018.2	0.3	18.1	US 10yr Treasury	2.2005	1.9	-10.0

Please refer to the disclaimer at the end of this publication

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Summary market outlook

Bonds									
Global Yields	Investor demand for 10-year US Treasuries eased last week yet yields remained low at 2.20%. With markets fully pricing in a Fed fund rate hike this week, we expect any sell-off in long-term Treasuries to be contained. In Europe, a dovish ECB led to a decline in bund yields. The UK election's surprise outcome pushed UK gilt yields lower. In spite of inflationary pressure, we expect UK gilt yields to stay low due to political uncertainty.								
Stress and Risk Indicators	The VIX rose slightly amidst numerous risk events last week. However, current levels are still low given the ongoing global political uncertainty and we expect volatility to rise.								
Equity Markets									
Local Equity Markets	GCC equity market came under pressure as oil prices declined while the demand for dollars rose. 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 with the surprise outcome in the UK election and Comey's testimony subduing market sentiment. UK equities were marginally lower while US equities (S&P 500) finished flat. The Nasdaq underperformed strongly as tech shares were sold off. We continue to believe that the positive global macro backdrop and strong corporate earnings will support risk appetite.								
Commodities									
Precious Metals	Gold prices declined due to softer appetite for safe-haven assets and renewed dollar strength. Nevertheless, we stick to our overweight recommendation on gold as a risk hedge against ongoing political and inflationary risks.								
Energy	Energy prices continued to drop owing to the surprise increase in stockpiles of US crude and a report by the EIA expecting US crude production to top 10 million barrels a day in 2018. 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 were mixed amidst the strong dollar last week. We expect this trend to continue due to ongoing concerns around Chinese demand.								
Currencies									
EURUSD	The euro weakened versus the greenback on the back of a dovish ECB. On a long term basis, we expect this trend to continue given the divergence in central bank policies in Europe versus the US.								
Critical levels	<table border="0"> <tr> <td>R2</td> <td>1.1270</td> <td>R1</td> <td>1.1233</td> <td>S1</td> <td>1.1162</td> <td>S2</td> <td>1.1129</td> </tr> </table>	R2	1.1270	R1	1.1233	S1	1.1162	S2	1.1129
R2	1.1270	R1	1.1233	S1	1.1162	S2	1.1129		
GBPUSD	The pound fell versus the dollar after the UK election outcome increased political uncertainty in the UK. We expect sterling to remain under pressure as the hung parliament will further complicate Brexit negotiations.								
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R2	1.3103	R1	1.2924	S1	1.2602	S2	1.2458		
USDJPY	The yen was almost flat versus the dollar in spite of rising dollar demand. We expect the yen to weaken given the potential for dollar strength and widening interest rate differentials.								
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Forthcoming important economic data

United States

	Indicator	Period	Expected	Prior	Comments
06/14/2017	CPI YoY	May	2.00%	2.20%	
06/14/2017	CPI Core YoY	May	1.90%	1.90%	
06/14/2017	Retail Sales Advance MoM	May	0.10%	0.40%	
06/14/2017	FOMC meeting	14-Jun	25bp hike	-	All eyes will be on the FOMC meeting where the Fed is expected to hike interest rates.
06/15/2017	Capacity Utilization	May	76.80%	76.70%	
06/15/2017	NAHB Housing Market Index	Jun	70	70	
06/16/2017	Housing Starts MoM	May	3.90%	-2.60%	
06/16/2017	Univ. of Mich. Sentiment	Jun P	97.1	97.1	

Japan

	Indicator	Period	Expected	Prior	Comments
06/12/2017	PPI YoY	May	2.20%	2.10%	
06/14/2017	Industrial Production YoY	Apr F	-	5.70%	Focus will be on the BoJ MPC meeting.
06/16/2017	BoJ MPC Meeting	16-Jun	No change	-	

Eurozone

	Indicator	Period	Expected	Prior	Comments
06/14/2017	Industrial Production WDA YoY	Apr	1.40%	1.90%	CPI and Industrial production data will be important.
06/14/2017	Employment YoY	1Q	-	1.1%	
06/16/2017	CPI YoY	May F	1.40%	1.90%	
06/16/2017	CPI Core YoY	May F	0.90%	0.90%	

United Kingdom

	Indicator	Period	Expected	Prior	Comments
06/13/2017	CPI YoY	May	2.70%	2.70%	Attention will be on the BoE MPC meeting
06/13/2017	RPI YoY	May	3.5%	3.5%	
06/15/2017	BoE MPC meeting	15-Jun	No change	-	

China and India

	Indicator	Period	Expected	Prior	Comments
06/12/2017	CPI YoY (IN)	May	2.43%	2.99%	India inflation data will be closely tracked by the market.
06/14/2017	WPI YoY (IN)	May	3.10%	3.85%	
06/14/2017	Retail Sales YoY (CH)	May	10.7%	10.7%	
This week	New Yuan Loans CNY	May	1000bn	1100bn	
This week	Aggregate Financing CNY	May	1190bn	1394bn	

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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