

Volatility drops to levels last seen in 1993

Despite a plethora of news and events last week, financial markets were remarkably stable. The Vix index, more commonly known as the “fear index” tracks the extent to which traders are worried about the future performance of US stocks. Last week the index fell to 9.77, a level not seen in 24 years. With French (presidential) elections now a thing of the past and Q1 earnings season coming in very strongly, investors were unmoved by any potential ramifications of President Trump’s decision to fire FBI director James Comey. The prospect of new elections in Austria, volatility in oil prices or tensions between the US and North Korea were of equal little concern. Developed market equities were flattish during the week, with Japanese and UK equities outperforming; catching up on previous underperformance supported by a weaker yen and pound sterling (vs. the US dollar) respectively. Emerging market (EM) equities extended their outperformance over developed markets to c8% year-to-date, flows into EM equities have risen sharply this year. Elsewhere, gold was flat, 10-year Treasury yields barely moved and oil prices bounced having sold off sharply in recent weeks.

Trump “caged in”, but reform prospects dimming

As we pointed out in our [latest Strategy Note](#), populists, once elected, turn out to pursue less radical and more traditional policies. This is because they get “caged in” by the establishments and the institutions that they had vowed to take on. Indeed, as President Trump prepares for his first foreign trip he will be keen to recommit to US traditional allies, including the GCC and abandon his more isolationist instincts. Also the trade deal with China confirms the old adage that “barking dogs don’t bite”. That’s the good news. The not so good news is that the prioritization of foreign policy, combined with the playing-out of the “Comey affair”, is putting US tax reform on the back burner once again. As for the “Comey affair”, markets are betting on US Congress not seeking an independent investigation into “Russia-gate”. As for the prospects of major tax reform, markets seem to not expect too much on this front anymore and are still digesting the good news on earnings whilst at the same time betting that growth won’t stall in a significant manner. It is thus reasonable to believe that political risks have taken a backseat and data and monetary policy will remain in the forefront.

Past week global markets’ performance

Index Snapshot (World Indices)

| Index | Latest | Weekly Chg % | YTD % |
|------------|----------|--------------|-------|
| S&P 500 | 2,390.9 | -0.3 | 6.8 |
| Dow Jones | 20,896.6 | -0.5 | 5.7 |
| Nasdaq | 6,121.2 | 0.3 | 13.7 |
| DAX | 12,770.4 | 0.4 | 11.2 |
| Nikkei 225 | 19,883.9 | 2.3 | 4.0 |
| FTSE 100 | 7,435.4 | 1.9 | 4.1 |
| Sensex | 30,188.2 | 1.1 | 13.4 |
| Hang Seng | 25156.3 | 2.8 | 14.3 |

Regional Markets (Sunday to Thursday)

| | | | |
|----------|---------|------|------|
| ADX | 4608.3 | -0.2 | 1.4 |
| DFM | 3420.2 | 0.0 | -3.1 |
| Tadaw ul | 6882.5 | -0.6 | -4.5 |
| DSM | 10110.8 | 1.7 | -3.1 |
| MSM30 | 5432.14 | -0.8 | -6.1 |
| BHSE | 1307.1 | -1.8 | 7.1 |
| KWSE | 6670.5 | -1.2 | 16.0 |

MSCI

| | | | |
|------------|---------|------|------|
| MSCI World | 1,893.0 | -0.2 | 8.1 |
| MSCI EM | 1,002.4 | 2.5 | 16.2 |

Global Commodities, Currencies and Rates

| Commodity | Latest | Weekly Chg % | YTD % |
|-------------------|--------|--------------|-------|
| ICE Brent USD/bbl | 50.8 | 3.5 | -10.5 |
| Nymex WTI USD/bbl | 47.8 | 3.5 | -10.9 |
| Gold USD/t oz | 1228.4 | 0.0 | 7.1 |
| Silver USD/t oz | 16.5 | 0.8 | 3.4 |
| Platinum USD/t oz | 921.3 | 0.9 | 2.0 |
| Copper USD/MT | 5520.0 | -0.2 | 0.3 |
| Alluminium | 1885.5 | -0.5 | 11.3 |

Currencies

| | | | |
|---------|--------|------|------|
| EUR USD | 1.0931 | -0.6 | 3.9 |
| GBP USD | 1.2890 | -0.7 | 4.5 |
| USD JPY | 113.38 | 0.6 | -3.2 |
| CHF USD | 1.0009 | 1.3 | 1.8 |

Rates

| | | | |
|------------------|--------|------|------|
| USD Libor 3m | 1.1796 | -0.1 | 18.2 |
| USD Libor 12m | 1.7657 | -0.7 | 4.7 |
| UAE Eibor 3m | 1.5020 | 0.4 | 1.8 |
| UAE Eibor 12m | 2.2192 | 1.4 | 5.9 |
| US 3m Bills | 0.8687 | -1.7 | 74.6 |
| US 10yr Treasury | 2.3257 | -1.0 | -4.9 |

Please refer to the disclaimer at the end of this publication

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Summary market outlook

| Bonds | | | | | | | | | |
|-----------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------|--------|-------------|--------|-------------|--------|-------------|--------|
| Global Yield | 10-year US Treasury yields ended the week lower after US core CPI came in weaker than consensus. This also had an impact on market expectations of a June rate hike which fell slightly to 94% after the data release (from 100% previously). US Treasury yields are likely to remain contained with a June rate hike already priced in. In the UK, gilts rallied after the central bank reduced its growth forecasts. In spite of rising inflationary pressures, Brexit risks are likely to keep gilt demand supported. | | | | | | | | |
| Stress and Risk Indicators | The VIX touched lows not seen since 1993 and is now running close to half of its 20-year average. We believe current levels are too low given ongoing global political uncertainty. | | | | | | | | |
| Equity Markets | | | | | | | | | |
| Local Equity Markets | GCC equity markets ended the week lower on disappointing earnings results even though oil prices recovered during the week. 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, led by emerging markets. Japanese and UK equity markets were also among the top performers, driven by yen and pound weakness respectively. US equity markets ended the week flattish with weak core inflation numbers inconsistent with hopes of stronger economic growth post the election of Mr Trump. We believe that strong earnings and better macro data should continue to support risk appetite. | | | | | | | | |
| Commodities | | | | | | | | | |
| Precious Metals | Gold prices were mostly unchanged as markets remained skewed towards the “risk-on” mode. Nevertheless, we stick to gold as a risk hedge against ongoing political and inflationary risks. | | | | | | | | |
| Energy | Energy prices rebounded last week after US crude inventories fell more than expected. With the likelihood of an extension of OPEC cuts rising at the upcoming meeting on 25 May, we expect some upward normalisation to take place. Indeed Saudi Arabia (OPEC) and Russia (non-OPEC) have already announced a plan to extend production cuts through to March 2018. This will keep a floor under prices, however, we argue against any significant jump as the rising US rig count should weigh on energy prices. | | | | | | | | |
| Industrial Metals | Industrial metals were mixed with dollar strength gaining momentum. We expect industrial metals to remain under pressure given ongoing concerns around Chinese demand. | | | | | | | | |
| Currencies | | | | | | | | | |
| EURUSD | The euro depreciated versus the greenback as dollar demand strengthened. This trend is expected to continue on a long term basis given the diverging central bank policies in Europe versus the US. | | | | | | | | |
| Critical levels | <table border="0"> <tr> <td>R2 →</td> <td>1.0986</td> <td>R1 →</td> <td>1.0958</td> <td>S1 →</td> <td>1.0880</td> <td>S2 →</td> <td>1.0829</td> </tr> </table> | R2 → | 1.0986 | R1 → | 1.0958 | S1 → | 1.0880 | S2 → | 1.0829 |
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| GBPUSD | The pound weakened versus the dollar as the Bank of England lowered its growth estimates at its MPC meeting. We expect this weakness to sustain as risks of “hard Brexit” remain. | | | | | | | | |
| Critical levels | <table border="0"> <tr> <td>R2 →</td> <td>1.2933</td> <td>R1 →</td> <td>1.2912</td> <td>S1 →</td> <td>1.2857</td> <td>S2 →</td> <td>1.2823</td> </tr> </table> | R2 → | 1.2933 | R1 → | 1.2912 | S1 → | 1.2857 | S2 → | 1.2823 |
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| USDJPY | The yen fell against the dollar with a softening appetite for safe-haven assets. We expect the yen to weaken further given the potential for dollar strength and widening interest rate differentials. | | | | | | | | |
| Critical levels | <table border="0"> <tr> <td>R2 →</td> <td>114.26</td> <td>R1 →</td> <td>113.82</td> <td>S1 →</td> <td>113.07</td> <td>S2 →</td> <td>112.76</td> </tr> </table> | R2 → | 114.26 | R1 → | 113.82 | S1 → | 113.07 | S2 → | 112.76 |
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Forthcoming important economic data

United States

| Indicator | Period | Expected | Prior | Comments |
|------------|---------------------------|----------|--------|----------|
| 05/15/2017 | NAHB Housing Market Index | May | 68 | 68 |
| 05/16/2017 | Housing Starts MoM | Apr | 3.70% | -6.80% |
| 05/16/2017 | Industrial Production MoM | Apr | 0.40% | 0.50% |
| 05/16/2017 | Capacity Utilization | Apr | 76.30% | 76.10% |

Light week in terms of data releases.

Japan

| Indicator | Period | Expected | Prior | Comments |
|------------|-----------------------------|----------|-------|----------|
| 05/15/2017 | PPI YoY | Apr | 1.80% | 1.40% |
| 05/16/2017 | Tertiary Industry Index MoM | Mar | 0.10% | 0.20% |
| 05/17/2017 | Industrial Production YoY | Mar F | - | 3.30% |
| 05/18/2017 | GDP SA QoQ | 1Q P | 0.40% | 0.30% |

Focus will be on the GDP data for the first quarter.

Eurozone

| Indicator | Period | Expected | Prior | Comments |
|------------|-------------------------|----------|-------|----------|
| 05/16/2017 | ZEW Survey Expectations | May | - | - |
| 05/16/2017 | GDP SA QoQ | 1Q P | 0.50% | 0.50% |
| 05/17/2017 | CPI YoY | Apr F | 1.90% | 1.50% |
| 05/17/2017 | CPI Core YoY | Apr F | 1.20% | 1.20% |
| 05/19/2017 | Consumer Confidence | May A | -3 | -3.6 |

GDP preliminary figures and Consumer price inflation data will be closely tracked by the market.

United Kingdom

| Indicator | Period | Expected | Prior | Comments |
|------------|-----------------------|----------|-------|----------|
| 05/16/2017 | CPI YoY | Apr | 2.60% | 2.30% |
| 05/16/2017 | CPI Core YoY | Apr | 2.30% | 1.80% |
| 05/16/2017 | RPI YoY | Apr | 3.40% | 3.10% |
| 05/16/2017 | House Price Index YoY | Mar | 5.30% | 5.80% |

Attention will be on inflation numbers.

China and India

| Indicator | Period | Expected | Prior | Comments |
|------------|--------------------------------|----------|--------|----------|
| 05/15/2017 | Retail Sales YoY (CH) | Apr | 10.80% | 10.90% |
| 05/15/2017 | Industrial Production YoY (CH) | Apr | 7.00% | 7.60% |
| 05/15/2017 | Exports YoY (IN) | Apr | - | 27.60% |

China industrial production and India exports will be important.

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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