

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.

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)				Global Commodities, Currencies and Rates			
Index	Latest	Weekly Chg %	YTD %	Commodity	Latest	Weekly Chg %	YTD %
S&P 500	2,415.8	1.4	7.9	ICE Brent USD/bbl	52.2	-2.7	-8.2
Dow Jones	21,080.3	1.3	6.7	Nymex WTI USD/bbl	49.8	-1.1	-7.3
Nasdaq	6,210.2	2.1	15.4	Gold USD/t oz	1266.8	0.9	10.4
DAX	12,602.2	-0.3	9.8	Silver USD/t oz	17.4	2.9	8.9
Nikkei 225	19,686.8	0.5	3.0	Platinum USD/t oz	960.6	2.2	6.4
FTSE 100	7,547.6	1.0	5.7	Copper USD/MT	5671.0	1.3	3.1
Sensex	31,028.2	1.8	16.5	Alluminium	1944.25	0.3	14.8
Hang Seng	25639.3	1.8	16.5	Currencies			
Regional Markets (Sunday to Thursday)				EUR USD	1.1183	-0.2	6.3
ADX	4516.8	-1.4	-0.6	GBP USD	1.2804	-1.8	3.8
DFM	3327.1	-1.5	-5.8	USD JPY	111.33	0.1	-5.1
Tadaw ul	6871.7	-1.0	-4.7	CHF USD	0.9741	0.1	4.6
DSM	10060.5	-0.4	-3.6	Rates			
MSM30	5403.14	-0.2	-6.6	USD Libor 3m	1.2018	1.3	20.4
BHSE	1314.2	0.4	7.7	USD Libor 12m	1.7212	-0.1	2.1
KWSE	6687.5	-0.6	16.3	UAE Eibor 3m	1.4843	0.2	0.6
MSCI				UAE Eibor 12m	2.1343	-1.4	1.9
MSCI World	1,912.2	0.9	9.2	US 3m Bills	0.9246	2.2	85.9
MSCI EM	1,017.0	2.1	17.9	US 10yr Treasury	2.2465	0.5	-8.1

Please refer to the disclaimer at the end of this publication

Wietse Nijenhuis

Equity Strategist
Tel: +971 (0)2 205 4923
wietse.nijenhuis@adcb.com

Prerana Seth

Fixed Income Strategist
Tel: +971 (0)2 696 2878
prerana.seth@adcb.com

Luciano Jannelli, Ph.D., CFA

Head Investment Strategy
Tel: +971 (0)2 696 2340
luciano.jannelli@adcb.com

Visit [Investment Strategy Webpage](#) to read our other reports

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	<table border="0"> <tr> <td>R2 → 1.1199</td> <td>R1 → 1.1186</td> <td>S1 → 1.1162</td> <td>S2 → 1.1151</td> </tr> </table>	R2 → 1.1199	R1 → 1.1186	S1 → 1.1162	S2 → 1.1151
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	<table border="0"> <tr> <td>R2 → 1.2822</td> <td>R1 → 1.2814</td> <td>S1 → 1.2794</td> <td>S2 → 1.2783</td> </tr> </table>	R2 → 1.2822	R1 → 1.2814	S1 → 1.2794	S2 → 1.2783
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	<table border="0"> <tr> <td>R2 → 111.40</td> <td>R1 → 111.33</td> <td>S1 → 111.19</td> <td>S2 → 111.12</td> </tr> </table>	R2 → 111.40	R1 → 111.33	S1 → 111.19	S2 → 111.12
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%	
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	PCE, PMI and labour data will be closely watched.
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%	
05/31/2017	Industrial Production YoY	Apr P	6.00%	3.50%	PMI and Industrial production data will be important.
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	
05/31/2017	CPI Estimate YoY	May	1.50%	1.90%	Main focus will be on the final PMI release.
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%	

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

Disclaimer

This publication is intended for general information purposes only. It should not be construed as an offer, recommendation or solicitation to purchase or dispose of any securities or to enter in any transaction or adopt any hedging, trading or investment strategy. Neither this publication nor anything contained herein shall form the basis of any contract or commitment whatsoever. Distribution of this publication does not oblige Abu Dhabi Commercial Bank PJSC ("ADCB") to enter into any transaction.

The content of this publication should not be considered legal, regulatory, credit, tax or accounting advice. Anyone proposing to rely on or use the information contained in the publication should independently verify and check the accuracy, completeness, reliability and suitability of the information and should obtain independent and specific advice from appropriate professionals or experts regarding information contained in this publication.

Information contained herein is based on various sources, including but not limited to public information, annual reports and statistical data that ADCB considers accurate and reliable. However, ADCB makes no representation or warranty as to the accuracy or completeness of any statement made in or in connection with this publication and accepts no responsibility whatsoever for any loss or damage caused by any act or omission taken as a result of the information contained in this publication. This publication is intended for qualified customers of ADCB.

Charts, graphs and related data or information provided in this publication are intended to serve for illustrative purposes only. The information contained in this publication is prepared as of a particular date and time and will not reflect subsequent changes in the market or changes in any other factors relevant to their determination. All statements as to future matters are not guaranteed to be accurate. ADCB expressly disclaims any obligation to update or revise any forward looking statements to reflect new information, events or circumstances after the date of this publication or to reflect the occurrence of unanticipated events.

ADCB does and may at any time solicit or provide commercial banking, investment banking, credit, advisory or other services to the companies covered in its publications. As a result, recipients of this publication should be aware that any or all of the foregoing services may at time give rise to a conflict of interest that could affect the objectivity of this publication.

Past performance does not guarantee future results. Investment products are not bank deposits and are not guaranteed by ADCB. They are subject to investment risks, including possible loss of principal amount invested. Please refer to ADCB's Terms and Conditions for Investment Services.

This publication is being furnished to you solely for your information and neither it nor any part of it may be used, forwarded, disclosed, distributed or delivered to anyone else. You may not copy, reproduce, display, modify or create derivative works from any data or information contained in this publication.