

Let the good times roll

Equities extended gains last week with markets buoyed by improving economic data, particularly in Europe. This helped European equities outperform strongly, adding between 2%-3% across markets during the week. In dollar terms the gains were even more impressive as the euro strengthened to 1.10 vs. the dollar, a level not seen since the final quarter of last year. Following the victory of centrist Emmanuel Macron in the French Presidential elections, however, the euro is weakening somewhat. This is likely due to a buy-the-rumor-sell-the-fact type trade coupled with odds of another 25bps US interest rate hike in June rising to 100% following Friday's strong April jobs numbers in the world's largest economy (211k jobs created) as well as the hawkish statement by Fed Chair Janet Yellen. The strong data also helped lift US equities towards the end of the week. Not fitting with the stronger economic data narrative, however, was a further slump in oil prices to a 6-month low as markets fretted about rising supplies and resurgent US shale production. Treasury yields were fairly stable, gold fell 3% and the volatility remained subdued.

Earnings validation arriving

In our [note on April 12](#) we argued that after the strongest quarter for equities in 4 years that validation from earnings and macro data was required to sustain the rally in global equities. The absence of such a validation would likely have caused a pull-back. The pick-up in global economic data (mentioned above) together with analysis of the ongoing Q1 2017 earnings season suggests that the requisite validation is arriving. In the US, the latest data from Thomson Reuters shows that S&P 500 companies' blended earnings are forecast to rise 14.5% year-on-year in Q1 this year, with revenues expected to grow 7.2%. In Europe the Q1 earnings season is also encouraging. Overall results are stronger than we had anticipated. Therefore, so far this year we have been too cautious in our equity country allocation. By overweighting low beta US equities alongside (currency-hedged) UK and Japanese equity markets, we have missed out on the rally in higher beta Eurozone and EM equities. However, we stick to this positioning given that the next catalyst for Eurozone equities is difficult to identify with a Macron victory, stronger growth and better earnings by now mostly in the price. We still believe the most likely path for the US dollar is up, this will help Japanese equities in particular.

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	2,399.3	0.6	7.2	ICE Brent USD/bbl	49.1	-5.1	-13.6
Dow Jones	21,006.9	0.3	6.3	Nymex WTI USD/bbl	46.2	-6.3	-14.0
Nasdaq	6,100.8	0.9	13.3	Gold USD/t oz	1228.0	-3.2	7.0
DAX	12,716.9	2.2	10.8	Silver USD/t oz	16.3	-5.1	2.6
Nikkei 225	19,445.7	1.3	1.7	Platinum USD/t oz	913.4	-3.5	1.1
FTSE 100	7,297.4	1.3	2.2	Copper USD/MT	5530.5	-2.8	0.5
Sensex	29,858.8	-0.2	12.1	Alluminium	1895.25	-0.5	11.9
Hang Seng	24476.4	-0.6	11.3	Currencies			
Regional Markets (Sunday to Thursday)				EUR USD	1.0998	0.9	4.6
ADX	4617.2	2.3	1.6	GBP USD	1.2982	0.2	5.2
DFM	3419.7	0.1	-3.1	USD JPY	112.71	1.1	3.8
Tadaw ul	6924.1	-0.3	-4.0	CHF USD	0.9877	-0.7	3.2
DSM	9938.3	-1.5	-4.8	Rates			
MSM30	5475.92	-0.9	-5.3	USD Libor 3m	1.1804	0.7	18.3
BHSE	1331.2	-0.1	9.1	USD Libor 12m	1.7790	0.3	5.5
KWSE	6752.8	-1.5	17.5	UAE Eibor 3m	1.4980	2.5	1.5
MSCI				UAE Eibor 12m	2.1505	-0.4	2.6
MSCI World	1,896.7	1.0	8.3	US 3m Bills	0.8839	11.6	77.7
MSCI EM	978.3	0.0	13.5	US 10yr Treasury	2.3487	3.0	-3.9

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 edged higher with the market pricing in a full June rate hike after the Fed indicated that recent weakness in economic growth is only temporary. In Europe, the French-German bond yield spread tightened as opinion polls had (correctly) signaled a Mr. Macron victory in France. With signs of political risk in Europe receding post the Macron win, investor appetite for risk assets could remain. More importantly, the German Bund spread is likely to widen versus US Treasuries.				
Stress and Risk Indicators	The VIX remained near its three-year low, supported by positive economic data. However, current levels are too low given ongoing global political uncertainty remains.				
Equity Markets					
Local Equity Markets	GCC equity markets were weaker as oil prices continued to remain under pressure. 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 higher as risk appetite improved further. Eurozone equities were the best performers for a second consecutive week. Japanese markets also performed well on the back of yen weakness. US equities were flattish as markets assessed the hawkish FOMC statement. We do not expect the euphoria in equity markets witnessed post round 1 of the French elections to repeat post round 2. Nevertheless, strong earnings and better macro data also limit near-term downside.				
Commodities					
Precious Metals	Gold prices declined 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 continued to decline on uncertainty over the extension of OPEC cuts and expanding US crude inventories and production. While we expect some upward normalisation to take place, we argue against any significant jump as the rising US rig count should weigh on energy prices.				
Industrial Metals	Industrial metals were negative in spite of weaker dollar. We expect industrial metals to remain under pressure given ongoing concerns around Chinese demand.				
Currencies					
EURUSD	The euro appreciated versus the greenback, boosted by the rising possibility of Macron winning the French election results and robust GDP print. This trend is not sustainable on a long term basis given diverging central bank policies in Europe versus the US.				
Critical levels	<table border="0"> <tr> <td>R2 → 1.1032</td> <td>R1 → 1.1015</td> <td>S1 → 1.0966</td> <td>S2 → 1.0933</td> </tr> </table>	R2 → 1.1032	R1 → 1.1015	S1 → 1.0966	S2 → 1.0933
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GBPUSD	The pound strengthened versus the dollar on the back of a strong PMI print. Recent pound strength looks overdone as risks of “hard Brexit” remain.				
Critical levels	<table border="0"> <tr> <td>R2 → 1.3039</td> <td>R1 → 1.3010</td> <td>S1 → 1.2927</td> <td>S2 → 1.2872</td> </tr> </table>	R2 → 1.3039	R1 → 1.3010	S1 → 1.2927	S2 → 1.2872
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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 → 113.25</td> <td>R1 → 112.98</td> <td>S1 → 112.27</td> <td>S2 → 111.82</td> </tr> </table>	R2 → 113.25	R1 → 112.98	S1 → 112.27	S2 → 111.82
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Forthcoming important economic data

United States

Indicator	Period	Expected	Prior	Comments	
05/09/2017	Wholesale Inventories MoM	Mar F	-0.10%	-0.10%	
05/12/2017	CPI YoY	Apr	2.30%	2.40%	
05/12/2017	CPI Ex Food and Energy YoY	Apr	2.00%	2.00%	CPI print and retail sales data will be important.
05/12/2017	Retail Sales Advance MoM	Apr	0.60%	-0.20%	
05/12/2017	Univ. of Mich. Sentiment	May P	97	97	

Japan

Indicator	Period	Expected	Prior	Comments	
05/10/2017	Leading Index CI	Mar P	105.5	104.8	Light week in terms of data.
05/10/2017	Coincident Index	Mar P	114.7	115.3	
05/11/2017	BoP Current Account Balance	Mar	¥1731.9b	¥2210.9b	

Eurozone

Indicator	Period	Expected	Prior	Comments
05/11/2017	ECB meeting			ECB meeting will be the key event.
05/12/2017	Industrial Production SA MoM	Mar	0.30%	

United Kingdom

Indicator	Period	Expected	Prior	Comments	
05/08/2017	Halifax House Prices MoM	Apr	0.10%	0.00%	Attention will be on the Bank of England MPC meeting.
05/11/2017	Industrial Production YoY	Mar	1.90%	2.80%	
05/11/2017	BoE MPC Meeting	11-May	No change		

China and India

Indicator	Period	Expected	Prior	Comments	
05/08/2017	Exports YoY (CH)	Apr	11.30%	16.40%	China exports and CPI will be the main focus this week.
05/08/2017	BoP Current Account Balance (CH)	1Q P	-	\$11.8b	
05/10/2017	CPI YoY (CH)	Apr	1.10%	0.90%	
05/10/2017	New Yuan Loans CNY (CH)	Apr	800bn	1020bn	
05/10/2017	Exports YoY (IN)	Apr	-	27.60%	
05/12/2017	Industrial Production YoY (IN)	Mar	-	-1.20%	

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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