



# global weekly

Investment  
Communication  
22 April 2016

## In the grip of oil

Oil price developments continue to grip markets. Failed talks between oil-producing countries, however, did not refrain investors from pushing major equity indices higher this week.

### Macro update

Oil prices dropped following Sunday's failed meeting between oil-producing countries in Doha, Qatar, although the impact was partly offset by a strike by oil and gas workers in Kuwait. Despite the failed Doha talks, the demand-supply imbalance in the oil market looks set to gradually ease during the course of this year. The latest inventory data from the US Energy Information Administration, released on Wednesday, showed that US inventories rose less than expected. This fits our scenario that the global oversupply of oil will likely decline during the course of this year, resulting in higher oil prices. We expect oil prices to reach USD 55 per barrel by the end of this year.

The European Central Bank (ECB) kept its policy on hold during its April meeting on Thursday. ECB President Mario Draghi said the March measures had led to an improvement of broad financing conditions. However, "global uncertainties persist," while "the risks to the euro area growth outlook still remain tilted to the downside." We think the ECB will probably need to do more, as inflation is set to undershoot its target for a long time and the recent easing of domestic financial conditions will likely not be sufficient to change this picture, especially since the euro has risen. However, we do not think further monetary stimulus measures will come until the second half of the year (likely in September).

### Equity markets update

Equity markets had an overall positive week, as several major indices – including the Dow – reached their highest levels for the year. Together with low volatility, this shows that worries about a recession and tightening of monetary policy have clearly abated. The announcement by the ECB that rates will stay unchanged in Europe reassured markets.

Equity markets started out digesting the news of last week-end's Doha oil conference where suppliers failed to close a

### Equity index performance in local currency

	Value	One week change (%)	Year-to-date (%)
MSCI ACWI	408.3	1.2	2.2
S&P 500	2091.5	0.4	2.3
AEX Index	451.8	0.3	2.2
EuroStoxx 50	3151.7	2.9	-3.8
DAX Index	10435.7	3.3	-3.3
Nikkei 225	17572.5	4.3	-7.7
Hang Seng Index	21467.0	0.7	-2.0

### Important rating changes (RL=Recommended List; NR=not rated)

Company	From	To
Fugro	Hold	Sell
Schlumberger	Hold	Sell
Under Armour	Hold	Sell
Rio Tinto	Hold	Sell
Deutsche Bank	Buy	Hold

### Government bond yields

	Yield (%)	One week (bp)	One year (bp)
US Treasuries 2-year	0.808	7.2	26.1
German Bunds 2-year	-0.493	2.0	-23.0
Japan 2-year	-0.306	-5.3	-30.2
US Treasuries 10-year	1.866	11.3	-11.4
German Bunds 10-year	0.229	10.3	6.5
Japan 10-year	-0.122	0.1	-42.2

### Spreads

Index	Spread (bp)	One week (bp)	One year (bp)
CDX NA IG	74.11	-6.10	12.42
iTraxx Euro 5-year	68.53	-4.97	8.56
JPM EMBI+	370.97	-12.00	-14.23

Performance data as of Friday 22 April

Source: Bloomberg

### In this issue

Macro update	1
Equity markets update	1
Bond markets update	2
Currency outlook	2
Asset allocation	2
Published this week	2

deal to refrain oil output. Energy stocks initially followed the oil price decline early in the week. They subsequently recovered, as markets realized energy companies are already adapting to these oil price levels and that oil output is gradually being reduced which should support its price in the near future.

The first-quarter earnings season is in its second week. Companies are signalling modest growth overall, which is understandable this early in the year. Intel is cutting 12,000 jobs while shifting its focus to areas such as chips for internet devices, a field that grows faster than chips for PCs. A similar trend we see at ASML, which is now focusing more on extreme ultraviolet (EUV) technologies to boost chip production.

We continue to favour equities, as we expect them to offer higher returns than other asset classes. We did, however, decide to trim our equity position last week. We are locking in some profits and scaling back risk, as we expect political uncertainties, including Brexit, to come to the fore in the next few months.

### Bond markets update

Oil price developments have been the main driver of global bond markets this week. This followed a few weeks in which yields moved sideways as central banks regained control after a turbulent first quarter of the year. Whatever the impact of their recent measures on the real economy may be, central banks did manage to further calm financial markets. As ECB President Mario Draghi emphasized after Thursday's ECB meeting, we need to give these policies time to show they are actually working.

Higher oil prices and positive numbers about the Chinese economy led to higher volatility in yields on safe government bonds (Bunds and US Treasuries) and a decisive move higher towards the end of the week. Credit spreads continued to grind lower, both in investment-grade and in high-yield. With the oil price being the main driver this week, the rise in credit spreads was more pronounced in US markets than in European markets. Inflation linkers also continued to benefit from the rebound in oil prices.

Although the oil price will remain an important driver over the next few weeks, our focus is moving towards various political risks in Europe – including Brexit, Grexit, inconclusive Spanish and Portuguese elections and the refugee crisis – as they are starting to affect peripheral spreads. We expect this volatility to continue over the next few months. In the short

term, peripheral markets may remain vulnerable to temporary setbacks.

### Reporting calendar

Company	Date
Halliburton, BinckBank, Philips, TNT Express, CSM	25 Apr
Apple, eBay, Lockheed Martin Corp, AT&T, Procter & Gamble, Kon. Wessanen, Du Pont, BP, Bayer, Barrick Gold	26 Apr
General Dynamics, Baker Hughes, Texas Instruments, GlaxoSmithKline, Deutsche Boerse, STMicroelectronics, Total, Santander, Barclays	27 Apr
Amazon.com, Britsol Myers Squibb, Dow Chemical, Amgen Inc, United Parcel Service, Ford, Gilead Sciences, Llyods TSB, Deutsche Bank, Volkswagen	28 Apr
KPN, BASF, Linde, Sanofi-Aventis, RBS, USG People, Exxon Mobil, Chevron, Telefónica, Puma, Porsche	29 Apr

### Currency outlook

In recent weeks, the US dollar has been on the back foot as financial markets have priced out any probability that the Fed will raise interest rates next week. We expect no rate hikes for this year, while financial markets still price in one hike. Downward adjustments of these expectations should keep the US dollar under some pressure during the course of this year. Recent data show that non-commercial net long positions in the US dollar have declined to the lowest level since June 2014. This mainly reflects a change of heart about the dollar. Investors have become less positive on the US dollar and some – like us – even have called the end of the multi-year uptrend.

### Asset allocation

Our overall asset allocation now calls for a larger cash positioning, a moderate overweight allocation to equities and an underweight allocation to bonds. Commodities are overweight, with neutral allocations to both real estate and hedge funds.

### Published this week

#### Investment Strategy - Creating room for manoeuvre

We have scaled back risk by trimming our strong overweight allocation to equities. In addition, we reduced our hedge fund positioning. Proceeds of these shifts were partly moved to cash, which gives us more room for manoeuvre if market circumstances change or new opportunities arise.

## Next week's calendar

### Important dates next week

	Country	Date
Ifo - business climate - index	DE	25 Apr
New homes sold - %	US	25 Apr
New durable goods orders - %	US	26 Apr
Pending home sales - %	US	27 Apr
Unemployment - %	DE	28 Apr
Economic sentiment monitor - index	EC	28 Apr
CPI - %	DE	28 Apr
GDP - %	US	28 Apr
Unemployment - %	EC	29 Apr
GDP - %	EC	29 Apr
Core inflation - %	EC	29 Apr
Univ. of Michigan cons. confidence - index	US	29 Apr

## Contributors

### Investment Strategy & Portfolio Expertise

Ralph Wessels - [ralph.wessels@nl.abnamro.com](mailto:ralph.wessels@nl.abnamro.com)  
Maurits Heldring - [maurits.heldring@nl.abnamro.com](mailto:maurits.heldring@nl.abnamro.com)  
Roel Barnhoorn - [roel.barnhoorn@nl.abnamro.com](mailto:roel.barnhoorn@nl.abnamro.com)  
Jaap Rijnders - [jaap.rijnders@nl.abnamro.com](mailto:jaap.rijnders@nl.abnamro.com)  
Willem Bouwman - [willem.bouwman@nl.abnamro.com](mailto:willem.bouwman@nl.abnamro.com)  
Chris Huys - [chris.huys@nl.abnamro.com](mailto:chris.huys@nl.abnamro.com)  
Jasvant Jadoenathmisier - [jasvant.jadoenathmisier@nl.abnamro.com](mailto:jasvant.jadoenathmisier@nl.abnamro.com)

### Group Economics

Georgette Boele - [georgette.boele@nl.abnamro.com](mailto:georgette.boele@nl.abnamro.com)  
Roy Teo - [roy.teo@nl.abnamro.com](mailto:roy.teo@nl.abnamro.com)  
Nick Kounis - [nick.kounis@nl.abnamro.com](mailto:nick.kounis@nl.abnamro.com)  
Aline Schuiling - [aline.schuiling@nl.abnamro.com](mailto:aline.schuiling@nl.abnamro.com)  
Maritza Cabezas - [maritza.cabezas@nl.abnamro.com](mailto:maritza.cabezas@nl.abnamro.com)

### Disclaimer

© Copyright 2016 ABN AMRO Bank N.V. and affiliated companies ("ABN AMRO"), Gustav Mahlerlaan 10, 1082 PP Amsterdam / P.O. box 283, 1000 EA Amsterdam, The Netherlands. All rights reserved. This material was prepared by Global Advisory of ABN AMRO. It is provided for informational purposes only and does not constitute an offer to sell or a solicitation to buy any security or other financial instrument. While based on information believed to be reliable, no guarantee is given that it is accurate or complete. While we endeavour to update on a reasonable basis the information and opinions contained herein, there may be regulatory, compliance or other reasons that prevent us from doing so. The opinions, forecasts, assumptions, estimates, derived valuations and target price(s) contained in this material are as of the date indicated and are subject to change at any time without prior notice. The investments referred to in this material may not be appropriate or suitable for the specific investment objectives, financial situation, knowledge, experience, or individual needs of recipients and should not be relied upon in substitution for the exercise of independent judgement. ABN AMRO or its officers, directors, employee benefit programs or co-workers, including persons which were involved in preparing or issuing this material, may from time to time hold long- or short-positions in securities, warrants, futures, options, derivatives or other financial instruments referred to in this material. ABN AMRO may offer and render at any time investment banking-, commercial banking-, credit-, advice-, and other services to the issuer of any security referred to in this material. Pursuant to offering and rendering such services, ABN AMRO may come into possession of information not included in this material and ABN AMRO may prior or immediately after publication thereof have acted based on such information. In the past year, ABN AMRO may have acted as lead manager or co-lead manager with regard to a public offering of securities from issuers as mentioned in this material. The stated price of any securities mentioned herein is as of the date indicated and is not a representation that any transaction can be effected at this price. Neither ABN AMRO nor other persons shall be liable for any direct, indirect, special, incidental, consequential, punitive or exemplary damages, including lost profits arising in any way from the information contained in this material. This material is for the use of intended recipients only and the contents may not be reproduced, redistributed, or copied in whole or in part for any purpose without ABN AMRO's prior express consent. This document is solely intended for dissemination amongst private/retail customers in a PC country. Distribution to private/retail customers in any jurisdiction that would require registration or licensing of the distributor which the distributor does not currently have, is not permitted. Material means all research information contained in any form including but not limited to hard copy, electronic form, presentations, e-mail, SMS or WAP.

### US Securities Law

ABN AMRO Bank N.V. is not a registered broker-dealer under the U.S. Securities Exchange Act of 1934, as amended (the "1934 Act") and under applicable state laws in the United States. In addition, ABN AMRO Bank N.V. is not a registered investment adviser under the U.S. Investment Advisers Act of 1940, as amended (the "Advisers Act" and together with the 1934 Act, the "Acts"), and under applicable state laws in the United States. Accordingly, absent specific exemption under the Acts, any brokerage and investment advisory services provided by ABN AMRO Bank N.V., including (without limitation) the products and services described herein are not intended for U.S. persons. Neither this document, nor any copy thereof may be sent to or taken into the United States or distributed in the United States or to a US person.

### Other jurisdictions

Without limiting the generality of the foregoing, the offering, sale and/or distribution of the products or services described herein is not intended in any jurisdiction to any person to whom it is unlawful to make such an offer, sale and/or distribution. Persons into whose possession this document or any copy thereof may come, must inform themselves about, and observe, any legal restrictions on the distribution of this document and the offering, sale and/or distribution of the products and services described herein. ABN AMRO can not be held responsible for any damages or losses that occur from transactions and/or services in defiance with the restrictions aforementioned.

### Company disclosures

ABN AMRO may beneficially hold a major shareholding or a significant financial interest of the debt of these companies. ABN AMRO currently maintains a market in the security of these companies and otherwise purchases and sells securities of these companies as principal. ABN AMRO may have received compensation for investment banking services from these companies, its subsidiaries or affiliates during the previous 12 months. All disclosures made herein refer to ABN AMRO and its affiliates.

### Personal disclosures

The information in this opinion is not intended as individual investment advice or as a recommendation to invest in certain investments products. The opinion is based on investment research of ABN AMRO Research & Strategy. The analysts have no personal interest in the companies included in this publication. Their remuneration for this work is not, was not and will not be related directly or indirectly to the specific recommendations or views expressed in this opinion.

