The Weekly Market View

August 16 2021

بنك أبوظبي التجاري ADCB

ASSET MANAGEMENT LIMITED

Shrugging off delta for now

Risk sentiment held up despite delta variant concerns, reports of rising COVID-19 infections and its potential implications for the future economic outlook. In terms of economic releases, it was relatively a light data week in the US- the main focus being on the July inflation releases which signalled increasing signs of transient nature of price pressures. Headline inflation saw the smallest month-on-month increase since March while core inflation print was lower than expected. On the other hand- consumer sentiment surveys disappointed with the University of Michigan's preliminary sentiment index dropping to the lowest level since December 2011, highlighting delta variant concerns weighing on consumer expectations about future economic outlook.

Shrugging off the delta variant and growth concerns, global equities rallied with the DM equities outperforming EM stocks. Within DM, Japanese and Western European markets outperformed. EM stock performance was pulled down by EM Asia. By sectors, materials, financials, and utilities outperformed while IT, consumer discretionary, and energy were the worst performers. In the bond market, global bond index advanced, helped by the rally in corporate bonds and EM bond market. The Fed chatter of sooner-than expected taper pushed 10yr yields higher in the first half of the week. However, CPI data pointing to peaking signs of inflation and dismal report of consumer sentiment survey erased the rally in UST yields. In Europe, core bond yields tracked the move in UST yields. In currencies, the greenback weakened against major currencies, with the disappointing consumer sentiment survey weighing on the growth outlook. Gold prices advanced slightly on the weak dollar bias while silver recorded losses. Delta variant impact on global oil demand and the IEA downgrading the demand forecasts led to a mixed week for oil prices. In industrial metals, copper prices recorded losses despite weak USD bias.

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Preparing for the taper bell

Long-term USTs have rallied for straight four consecutive months since April. The rally corresponds to the rise in disappointing economic data, even though actual inflation prints have been strong. Increasing spread of delta variant has started to weigh on the consumer sentiment. But the sizeable drop in the consumer sentiment index should not be construed as a gloomy economic outlook but rather dampening hopes of the pandemic ending soon. Surprisingly, market's expectations of future rate hikes have been fairly unchanged. At the same time, inflation concerns seem to have taken a backseat but consumer's expectations of future inflation over next three years have jumped while the relative stickiness in inflation swaps and bonds signal that investors have continued to add to inflation protection. As we have highlighted in our recent investment strategy outlook note Quarterly Investment View, July 2021, while inflation concerns remain on the surface, the looming risk for USTs is the taper risk, even more so now especially given the levels at which they are trading. The 5yr5yr forward swap and 10yr USTs, both have significantly declined from the Fed's long-term neutral rate, making the long-end vulnerable. Recent weeks of jump in bond volatility (MOVE index) is an evidence of the possible impact on other fixed income assets and also underscore our short-duration stance on USTs. In the weeks ahead, the annual Jackson Hole Symposium will be key for the markets, but the likelihood of taper announcement looks difficult. We now expect the Fed to outline taper plans mostly in the last quarter of the year with the taper likely to start in 2022. The Fed could target to trim the purchases of MBS at a faster rate than USTs, leading to a faster normalisation of the size of the MBS holdings. As a result, we express our preference for USTs and US IG over MBS in our fixed income asset allocation as the faster reduction of MBS purchases could weigh on the MBS spreads.

Global markets' performance snapshot

Index Snapshot (World Indices)

Index	Latest	Weekly %	YTD %
S&P 500	4,468	0.7	19.0
Dow Jones	35,515	0.9	16.0
Nasdaq	14,823	-0.1	15.0
DAX	15,977	1.4	16.5
Nikkei 225	28,071	0.6	1.9
FTSE 100	7,219	1.3	11.7
Sensex	55,437	2.1	16.1
Hang Seng	26,392	0.8	-3.1
Regional Markets (Sunday to Thursday)			
ADX	7,594	2.4	51.2
DFM	2,815	-0.2	12.8
Tadawul	11,325	1.0	30.2
DSM	10,916	0.1	4.7
MSM30	4,006	0.1	9.5
BHSE	1,623	0.5	9.6
KWSE	6,612	0.7	19.0
MSCI			
MSCI World	3,110	0.9	16.2
MSCI EM	1,298	-0.9	-0.8

Global Commodities, Currencies and Rates

Commodity	Latest	Weekly %	YTD %
ICE Brent USD/bbl	70.6	-0.2	36.3
Nymex WTI USD/bbl	68.4	0.2	41.1
Gold USD/t oz	1,779.7	0.9	-6.2
Silver USD/t oz	23.7	-2.4	-10.0
Platinum USD/t oz	1,032.1	4.9	-3.7
Copper USD/MT	9,508.5	-1.0	21.8
Alluminium	2,579.5	1.4	31.8
Currencies			
EUR USD	1.18	0.3	-3.4
GBP USD	1.39	-0.0	1.4
USD JPY	109.59	-0.6	5.8
CHF USD	0.92	0.1	-3.3
Rates	**Latest**	**Weekly (bp)**	**YTD(bp)**
USD Libor 3m	0.12	-0.4	-11.4
USD Libor 12m	0.24	0.3	-10.2
UAE Eibor 3m	0.37	-5.0	-14.0
UAE Eibor 12m	0.51	-11.0	-14.3
US 3m Bills	0.05	0.3	-1.3
US 10yr Treasury	1.28	-2.0	36.4

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Summary market outlook

Global Yields	The 10yr UST yields jumped on hawkish Fed comments in the first half of the week but lower than expected core CPI print and disappointing consumer sentiment erased the rally in yields. In the Eurozone, core bond yields tracked the decline in USTs. Overall, we recommend a lower duration stance (5Y US Treasuries) in anticipation of interest rate volatility in the near term.
Stress and Risk Indicators	VIX index declined to one-month low. We think the VIX index is unlikely to fall back to the pre-pandemic levels until the virus comes fully under control.
Equity Markets	
Local Equity Markets	GCC markets had another strong week outperforming their EM peers. Strength in Abu Dhabi and Saudi equities helped the region overall. We remain neutral GCC equities within our global equity framework. Stable to higher oil prices, potential for revival in growth and scope for reversing the underperformance of 2020 are all balanced by lack of structural growth plays in the equity markets.
Global Equity Markets	Global equities continued to grind her over the past week. DM equities outperformed EM equities. Within DM, Japanese and Western European markets outperformed. EM aggregates were led down by EM Asia. By sectors, materials, financials, and utilities outperformed while IT, consumer discretionary, and energy underperformed. Our equity strategy is to overweight US and UK, and underweight Eurozone and EM outside Asia. We are neutral Asia and prefer structural growth opportunities there. By sector we prefer IT and communication services as long-term plays and energy as a cyclical play. We have also identified industry level opportunities to play the re-opening trade in the medium-term. Our strategic preference is for large cap non-cyclical growth with focus on quality. 'Build back better' themes including green recovery, digitalization and health care innovation are likely to do well. Yet, in the very near-term, we see opportunities in cyclicals, value and re-opening sectors.
Technology Segments	Higher long-term bond yields observed over most of the week contributed to weakness in structural growth segments. Nasdaq was marginally lower while Nasdaq-100 was flat. NYSE FANG+ index lost c1% over the week. HK Tech index (an index of Chinese technology stocks) lost c2%. In China, the Central Committee and the State Council issued a regulation/reform implementation outline for 2021 to 2025, and mentioned a push forward of legislation in areas such as national security, biosecurity and digital economy, and to strengthen law enforcement in areas related to the public interest, including food, medicine, environment, employment, transportation, finance, and education. This perhaps further increased the market perception of Chinese equity risk.
Commodities	
Precious Metals	The gold price finished higher for the week, driven by the weak USD bias. We keep our overweight in gold as a hedge against potential risks on the horizon.
Energy	Oil prices ended the week unchanged on global demand concerns with the IEA downgrading the demand forecasts. Overall, we believe that oil prices will remain sustained as the market approaches a balance.
Industrial Metals	Alluminium prices rose while Copper prices remained under pressure. While another commodity super-cycle appears difficult, demand for commodities linked to environmental friendly green infrastructure is likely to sustain.
Currencies	
EURUSD	The euro slightly strengthened versus the dollar with the US consumer sentiment data disappointing. Re-opening is a positive for EUR while risk-off sentiment and the easier policy are moderately negative.
Critical levels	R2 1.1853 · R1 1.1825 · S1 1.1749 · S2 1.1701
GBPUSD	GBP ended the week flat against USD despite the strong 2Q UK GDP print. We expect the cable to be driven by how the re-opening plays out over the near-term and to decouple from the EUR.
Critical levels	R2 1.3928 · R1 1.3897 · S1 1.3813 · S2 1.3760
USDJPY	USD/JPY strengthened on the back of weak dollar bias. Over the medium-term, we believe that BoJ yield curve targeting should put downward pressure on JPY.
Critical levels	R2 110.78 · R1 110.18 · S1 109.27 · S2 108.96

Note: R2, R1, S2 and S1 refer to Bloomberg calculated weekly technical resistance and support levels.

Forthcoming important economic data/events

United States

	Indicator	Period	Expected	Prior	Comments
08/17/21	**Industrial Production MoM**	**Jul**	**0.50%**	**0.40%**	All eyes will be on the Fed minutes where markets will be searching for discussion on taper plans. Industrial production, MBA mortgage applications, and weekly jobless claims will also be important.
08/17/21	Capacity Utilization	Jul	75.70%	75.40%	
08/17/21	NAHB Housing Market Index	Aug	80	80	
08/18/21	**MBA Mortgage Applications**	**13- Aug**	**--**	**2.80%**	
08/18/21	Housing Starts	Jul	1600K	1643K	
08/18/21	Housing Starts MoM	Jul	-2.60%	6.30%	
08/18/21	**FOMC Meeting Minutes**	**28- Jul**	**No Change**		
08/19/21	**Initial Jobless Claims**	**14- Aug**	**365K**	**375K**	
08/19/21	Continuing Claims	7- Aug	2800K	2866K	

Japan

	Indicator	Period	Expected	Prior	Comments
08/20/21	**Natl CPI YoY**	**Jul**	**-0.50%**	**0.20%**	Focus will be on inflation.
08/20/21	**Natl CPI Ex Fresh Food, Energy YoY**	**Jul**	**-0.80%**	**-0.20%**	

Eurozone

	Indicator	Period	Expected	Prior	Comments
08/17/21	**GDP SA QoQ**	**2Q P**	**2.00%**	**2.00%**	The most important data will be GDP 2Q print. Eurozone CPI and German PPI will be closely watched.
08/17/21	**GDP SA YoY**	**2Q P**	**13.70%**	**13.70%**	
08/18/21	**Eurozone CPI Core YoY**	**Jul F**	**0.70%**	**0.70%**	
08/18/21	**Eurozone CPI MoM**	**Jul F**	**-0.10%**	**-0.10%**	
08/19/21	ECB Current Account SA	Jun	--	11.7b	
08/20/21	**Germany PPI YoY**	**Jul**	**9.20%**	**8.50%**	

United Kingdom

	Indicator	Period	Expected	Prior	Comments
08/16/21	Rightmove House Prices YoY	Aug	--	5.70%	Labour market data (Jobless claims change for July, and average weekly earnings and unemployment rate for June) are all important releases to assess the condition of the job market. Consumer confidence for Aug and retail sales during July are other important data.
08/17/21	**Jobless Claims Change**	**Jul**	**--**	**-114.8K**	
08/17/21	**Average Weekly Earnings 3M/YoY**	**Jun**	**8.60%**	**7.30%**	
08/17/21	**ILO Unemployment Rate 3Mths**	**Jun**	**4.80%**	**4.80%**	
08/18/21	CPI YoY	Jul	2.30%	2.50%	
08/20/21	GfK Consumer Confidence	Aug	-7	-7	
08/20/21	Retail Sales Inc Auto Fuel MoM	Jul	0.20%	0.50%	

China and India

	Indicator	Period	Expected	Prior	Comments
08/20/21	China 1-Year Loan Prime Rate	20- Aug	3.85%	--	PBOC's decision on loan prime rate to be closely watched.
08/20/21	China 5-Year Loan Prime Rate	20- Aug	4.65%	--	

Sources

All information in this report has been obtained from the following sources except where indicated otherwise:

1. Bloomberg
2. Wall Street Journal
3. RTT News
4. Reuters
5. Gulfbase
6. Zawya

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