

Downward surprises

Negative economic surprises coupled with concerns of China regulatory crackdown dominated the market sentiment over the week. US 2Q GDP showed that economy grew at 6.5% yoy, but disappointed the consensus estimates. Weekly jobless claims also declined, but came in higher than expectation. On the other hand, core PCE for June came in lower than expected at 3.5% yoy. In the latest Fed meeting, the central bank continued to stress on the improving growth outlook followed by Fed Chair Jay Powell's statement which cautioned that "substantial progress" is yet to be made to reach their goals. Market reaction was mixed, but overall the meeting was less hawkish compared to the June meeting. Amidst the risk-off environment, global equities recorded marginal losses with the DM stocks outperforming EM equities. Amongst DMs, UK and Canada outperformed while US underperformed the most. Acute weakness in China (and other emerging Asian markets) weighed on the broader EM index. Sector wise, materials and energy outperformed while consumer discretionary and communication services underperformed the most. In the bond market, 10yr UST yield continued to decline, driven by the negative growth surprise and less hawkish Fed meeting. In Europe, core bond yields dropped on the delta variant concerns. EM bonds were under pressure given the risk-off backdrop. In commodities, crude oil prices jumped over the week with re-opening plans not severely threatened by the delta variant concerns, due to lower hospitalisation rate. Reports of decline in US crude inventories also supported the market. Precious metals gained over the week, helped by the risk-off sentiment and weaker dollar bias. The greenback weakened against the major currencies, ending close to the one-month low, with the Fed being less hawkish.

This too shall pass

Recent China regulatory crackdown coupled with growth concerns and rampant spread of delta variant in Asia has spurred volatility across the equity and bond markets in China. China credit has been under re-pricing pressure with concerns over state-owned AMC Huarong impacting the Asia IG market and default concerns over property developer Evergrande leading to excessive widening of Asia HY spreads. Market apprehension has pushed the China IG spreads to trade at levels three notches below the average rating of "A-" and China HY with an average rating of "B" to trade at "CCC+" levels. While regulatory risks in the technology sector has led to melt-down in the China equity market, it is the real estate sector which has raised concerns in China HY bond market. Given that Evergrande is dominant player in the real estate market, default risks concerns, especially post two rating agencies downgrade is difficult to ease anytime soon. But with the recent, Chinese regulator's "three red lines" strategy introduced with an aim to reduce leverage risks, it is important to look beyond the noise. Over long-term, three red lines approach is likely to be credit positive, as it will help in reducing risks in the real estate sector. In addition, growth slowdown concerns have been excessively priced by the market as indicated by the recent improvement seen in China growth surprises number. China's credit impulse which rolled over this year, is also showing signs of bottoming out. With valuations now looking excessively attractive in Asia credit space, we continue to remain overweight on Asia IG within Emerging market USD corporate credit. For details on allocation, see our recent investment strategy outlook note [Quarterly Investment View, July 2021](#).

Global markets' performance snapshot

Index Snapshot (World Indices)

Index	Latest	Weekly %	YTD %
S&P 500	4,395	-0.4	17.0
Dow Jones	34,935	-0.4	14.1
Nasdaq	14,673	-1.1	13.8
DAX	15,544	-0.8	13.3
Nikkei 225	27,582	-1.0	-0.6
FTSE 100	7,032	0.1	8.9
Sensex	52,587	-0.7	10.1
Hang Seng	25,961	-5.0	-4.7

Regional Markets (Sunday to Thursday)

Index	Latest	Weekly %	YTD %
ADX	7,318	3.6	47.4
DFM	2,766	0.8	11.4
Tadawul	11,013	2.0	27.5
DSM	10,753	0.5	3.2
MSM30	4,030	-1.1	10.7
BHSE	1,597	1.1	6.8
KWSE	6,581	2.9	18.6

MSCI

Index	Latest	Weekly %	YTD %
MSCI World	3,090	-0.1	14.1
MSCI EM	1,295	-2.6	-1.0

Global Commodities, Currencies and Rates

Commodity	Latest	Weekly %	YTD %
ICE Brent USD/bbl	76.3	3.0	45.6
Nymex WTI USD/bbl	74.0	2.6	52.4
Gold USD/t oz	1,814.2	0.7	-4.4
Silver USD/t oz	25.5	1.2	-3.5
Platinum USD/t oz	1,051.6	-1.1	-1.9
Copper USD/MT	9,781.0	3.3	25.9
Alluminium	2,614.0	4.0	31.5

Currencies

Currency	Latest	Weekly %	YTD %
EUR USD	1.19	0.8	-2.8
GBP USD	1.39	1.1	1.7
USD JPY	109.72	-0.8	5.9
CHF USD	0.91	-1.5	-2.3

Rates

Rate	Latest	Weekly (bp)	YTD(bp)
USD Libor 3m	0.13	-0.3	-11.3
USD Libor 12m	0.24	-0.4	-10.5
UAE Eibor 3m	0.37	-	-14.2
UAE Eibor 12m	0.79	-	14.0
US 3m Bills	0.04	-0.3	-1.8
US 10yr Treasury	1.22	-5.4	30.9

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Summary market outlook

Global Yields 10yr UST yields declined with growth and inflation recording negative surprises. In Europe, core Eurozone bond yields edged lower on delta variant concerns. UK gilt yields and periphery bond yields also tracked the decline in core bond yields. 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 jumped on Tuesday and later stabilized in the latter half of the week. 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 MSCI GCC index outperformed not only its EM equities but also global equities. The index was up c2% during the week, taking year-to-date gains to 27%. IMF upgrading its economic projections for the region and a strong corporate earnings season in progress helped the sentiment. Kuwait, Saudi Arabia and UAE posted strong gains. Within UAE, Abu Dhabi outperformed strongly. 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 posted marginal losses as slowing global growth and China tech crackdown weighed on the sentiment. DMs outperformed EMs. Amongst DMs, UK and Canada outperformed while US underperformed. Acute weakness in China (and other emerging Asian markets) pressured the broader EM index. Sector wise, materials and energy outperformed while consumer discretionary and communication services 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 vaccine availability 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.

Technology Segments Nasdaq-100 index closed lower for the week despite strong earnings for the segment very broadly. NYSE FANG+ index lost c2% for the week as Chinese stocks in the index dragged the broader index lower. Sentiment around the China tech crackdown impacted the otherwise positive outlook for the sector. HK Tech index lost c7% during the week taking year-to-date losses to c20%. Latter part of the week saw some respite as Chinese authorities moved to assure investors and the PBoC injected sizable liquidity into the system.

Commodities

Precious Metals Gold prices rose with decline in risk appetite and weaker dollar bias. We keep our overweight in gold as a hedge against potential risks on the horizon.

Energy Oil prices jumped over the week, despite delta variant concerns, with reports of decline in US crude inventories. Overall, we believe that oil prices will remain sustained as the market approaches a balance.

Industrial Metals Industrial metal prices rose over the week. While another commodity super-cycle appears difficult, demand for commodities linked to environmental friendly green infrastructure is likely to sustain.

Currencies

EURUSD EUR advanced against the USD driven by less hawkish Fed bias and stronger than expected Euro GDP print. Re-opening is a positive for EUR while risk-off sentiment and the easier policy are moderately negative.

Critical levels R2 1.1934 R1 1.1902 S1 1.1845 S2 1.182

GBPUSD The pound sterling appreciated versus the dollar. 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 1.4020 R1 1.3962 S1 1.3867 S2 1.3830

USDJPY The yen strengthened versus the greenback in line with risk-off sentiment. Over the medium-term, we believe that BoJ yield curve targeting should put downward pressure on JPY.

Critical levels R2 110.11 R1 109.91 S1 109.44 S2 109.17

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

The Weekly Market View

August 2 2021

Forthcoming important economic data/events

United States



	Indicator	Period	Expected	Prior	Comments
08/02/21	Markit Manufacturing PMI	Jul F	63.1	63.1	
08/02/21	ISM Manufacturing	Jul	60.9	60.9	
08/03/21	Factory Orders	Jun	1.00%	1.70%	
08/03/21	Durable Goods Orders	Jun F	0.80%	0.80%	
08/04/21	MBA Mortgage Applications	30- Jul	--	5.70%	
08/05/21	Trade Balance	Jun	-\$74.0b	-\$71.2b	
08/05/21	Initial Jobless Claims	31- Jul	382k	400k	
08/05/21	Continuing Claims	24- Jul	3260K	3269K	
08/06/21	Change in Nonfarm Payrolls	Jul	900k	850K	
08/06/21	Unemployment Rate	Jul	5.70%	5.90%	
08/06/21	Average Hourly Earnings MoM	Jul	0.30%	0.30%	
08/06/21	Labor Force Participation Rate	Jul	61.70%	61.60%	
08/06/21	Underemployment Rate	Jul	--	9.80%	
08/06/21	Wholesale Inventories MoM	Jun F	0.80%	0.80%	

Market attention will be on the labor market payroll data. Also, initial jobless claims, PMI and ISM Manufacturing are important. In addition, Durable goods orders and MBA Mortgage applications will be closely watched.

Japan



	Indicator	Period	Expected	Prior	Comments
08/02/21	Jibun Bank PMI Mfg	Jul F	--	52.2	
08/03/21	Tokyo CPI YoY	Jul	0.00%	0.00%	
08/03/21	Tokyo CPI Ex-Fresh Food, Energy	Jul	0.00%	0.00%	
08/04/21	Jibun Bank PMI Services	Jul F	--	46.4	
08/04/21	Jibun Bank PMI Composite	Jul F	--	47.7	

Focus will be on July PMI print. Also, inflation data will be important.

Eurozone



	Indicator	Period	Expected	Prior	Comments
08/02/21	Germany Retail Sales MoM	Jun	2.00%	4.20%	
08/02/21	Markit Manufacturing PMI	Jul F	62.6	62.6	
08/03/21	PPI YoY	Jun	10.30%	9.60%	
08/04/21	Markit Services PMI	Jul F	60.4	60.4	
08/04/21	Markit Composite PMI	Jul F	60.6	60.6	
08/05/21	ECB Publishes Economic Bulletin				
08/06/21	Unemployment Rate	Jul	7.40%	7.80%	

Focus will be on the ECB's economic bulletin.

United Kingdom



	Indicator	Period	Expected	Prior	Comments
08/02/21	Markit PMI Manufacturing SA	Jul F	60.4	60.4	
08/04/21	Markit/CIPS Services PMI	Jul F	57.8	57.8	
08/04/21	Markit/CIPS Composite PMI	Jul F	57.7	57.7	
08/05/21	BoE Meeting	5- Aug	No change		

All attention will be on BoE meeting. UK PMI Manufacturing will also be important.

China and India



	Indicator	Period	Expected	Prior	Comments
08/02/21	India Markit PMI Mfg	Jul	--	48.1	
08/06/21	China BoP Current Account Balance	2Q P	--	\$69.4b	
08/06/21	RBI MPC Meeting	6- Aug	No change		
08/07/21	China Exports YoY	Jul	19.10%	32.20%	
08/07/21	China Imports YoY	Jul	35.40%	36.70%	
08/07/21	China Foreign Reserves	Jul	--	\$3214.01b	

All eyes will be on China July releases for foreign reserves, manufacturing PMI's, imports and exports. In India, RBI meeting and manufacturing PMI 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. RTT News
4. Reuters
5. Gulfbase
6. Zawya

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