

The Weekly Market View

December 12 2022

Pivotal scepticism

After a strong start to the final month of 2022, incoming economic data again tested markets' scepticism of a possible Fed pivot last week. Good news on economic data front proved to be bad news for the financial market as it confirmed the resilience of US economy and the need for Fed tightening. The week started on a positive note with reports of China partially lifting some of the Covid-19 restrictions. However, the mood soured after the strong upward surprise in ISM services print. Later, positive surprise in US November PPI softened hopes that inflation could be trending lower. The PPI increased by 0.3% m-o-m basis and 7.4% y-o-y basis, beating market expectations, but continued on the declining trend. Furthermore, University of Michigan consumer survey showed that consumer sentiment positively surprised, signalling the US economy's resilience to the Fed hikes. Meanwhile, the one-year inflation expectations unexpectedly declined to the lowest level in more than a year while long-term inflation expectations remained anchored at 3%. Across the Atlantic, final estimate of Eurozone Services PMI and Composite PMI showed continued deceleration in economic activity. Eurozone retail sales in October recorded their biggest monthly drop this year. In Asia, final Japan GDP print for 3Q22 showed that growth decelerated less than initially estimated. Global equity markets pared most of the previous two weeks' gains with the MSCI ACWI declining by c2.6%. VIX Index jumped after declining for two consecutive weeks. EM equities, on the other hand, recorded positive returns. Amongst DM, US underperformed the most. Japan registered positive weekly gains, thus outperforming peers. In fixed income, 10yr UST yields touched a three-month low on intraday basis but ended the week higher in reaction to the positive surprise in PPI and consumer sentiment. In commodities, oil prices dropped to one-year low on global slowdown fears. Gold prices ended the week flat. In currencies, USD strengthened for the first time in three weeks.

Every cloud has a silver lining

2022 has been the most challenging year for the global bond markets. Bloomberg Global Aggregate Bond Index has declined by c15% YTD*, on track to record the worst annual performance in the history of the index. Negative returns have been evident across the board in fixed income space on the back of co-ordinated global central bank tightening response to the rise in global inflation pressures. However, we believe the worst may be behind us as we head into the New Year. 2023 is likely to be the year of duration, in our view. Firstly, the 10yr UST yields tend to peak much ahead of the Fed's terminal rate of the hiking cycle and have never crossed the peak Fed fund rate in the past tightening cycles. Secondly, while 2022 was the worst year for the bond volatility amidst inflation and Fed policy uncertainty, we believe that the bond volatility is likely to have peaked and will stabilise with prospects of more clarity on Fed policy and reduced inflation uncertainty in 2023. Lastly, 2023 will not only be the year of duration but also the year of UST yield curve steepening where rates will decline across the UST curve, but led by the short-end rates. The 10Y-2Y UST yield curve begins to steepen with the Fed pause and the steepening picks up momentum once the Fed starts to cut rates. As such, we maintain our overweight stance on US Treasuries with a preference for the 7Y-10Y segment. In corporate credit, US IG valuations have become attractive versus fixed income peers as well as versus equities. The US IG yield and S&P 500 dividend yield differential is at the widest level since the global financial crisis. We remain neutral on US IG but wait for opportunities to add exposure once the recession risks subside. In US HY, we still remain cautious. We believe the worst may not yet be over for US HY given its sensitivity to equity market volatility, tightening of US financial conditions and likelihood of sharp jump in default rates in the event of an economic downturn. We maintain our underweight stance on US HY.

Global markets' performance snapshot*

Index Snapshot (World Indices)*

Index	Latest	Weekly %	YTD %
S&P 500	3,934	-3.37	-17.45
Dow Jones	33,476	-2.77	-7.88
Nasdaq	11,005	-3.99	-29.66
DAX	14,371	-1.09	-9.53
Nikkei 225	27,901	0.44	-3.37
FTSE 100	7,477	-1.05	1.25
Sensex	62,182	-1.09	6.74
Hang Seng	24,209	6.56	-16.54

Regional Markets

ADX	10,252	-2.85	20.77
DFM	3,325	0.03	4.04
Tadawul**	10,247	-5.32	-10.13
DSM**	11,489	-4.40	-1.52
MSM30**	4,784	3.69	16.47
BHSE**	1,855	-0.49	3.20
KWSE**	7,450	-1.54	5.86

MSCI

MSCI World	2,663	-2.57	-17.60
MSCI EM	978	0.45	-20.59

Global Commodities, Currencies and Rates*

Commodity	Latest	Weekly %	YTD %
ICE Brent USD/bbl	76.1	-11.07	-1.74
Nymex WTI USD/bbl	71.0	-11.20	-4.87
Gold USD/t oz	1,797.3	-0.02	-2.25
Silver USD/t oz	23.5	1.44	-0.08
Platinum USD/t oz	1,027.6	0.83	4.82
Copper USD/MT	8,490.5	1.78	-12.40
Alluminium	2,451.8	-2.88	-12.53

Currencies

EUR USD	1.05	0.05	-7.52
GBP USD	1.23	-0.17	-9.66
USD JPY	136.56	1.68	15.93
USD CHF	0.93	-0.32	2.50

Rates

	Latest	Weekly (bp)	YTD(bp)
USD Libor 3m	4.73	0.06	452.40
USD Libor 12m	5.50	7.00	491.63
UAE Eibor 3m	4.48	13.57	411.06
UAE Eibor 12m	5.08	3.75	433.78
US 3m Bills	4.26	1.55	423.28
US 10yr Treasury	3.58	9.21	206.82

Notes: *Data as of December 09 2022 unless stated otherwise; **Data as of December 08 2022.

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Summary market outlook

Global Yields

Yields on UST rose over the past week on strong PPI print. 10Y-2Y portion of the yield curve slight steepened but remained the most inverted in decades. European bond yields jumped on ECB policymakers calling for more rate hikes. Bond yields and prices are inversely correlated. i.e. yields rise when prices fall and vice versa. Overall, we recommend adding duration on USTs (7-10Y segment) as growth slowdown/recession fears rise.

Stress and Risk Indicators

VIX index (measuring implied volatility in equities), VVIX index (measuring volatility of the VIX), SKEW index (a measure of tail risks in equities), and MOVE index (measure of volatility in bonds) all jumped last week. We expect financial market volatility to stay elevated as the monetary policy normalizes.

Equity Markets

Local Equity Markets

GCC equities had a mixed week as oil prices slumped to one-year low. Within the region, Oman posted considerable gains. Gains in Dubai were muted while Saudi Arabia, Qatar, and Abu Dhabi equities posted losses. We stay neutral GCC equities within our global equity framework. Stable to higher oil prices, potential for revival in growth prospects, and scope for reversing the underperformance of the past several years are all balanced by lack of structural growth plays in the equity market indices.

Global Equity Markets

Global equities (as measured by MSCI All Country World Index) declined by c2.57%, partially paring previous two weeks' gains. EM equities recorded marginal gains, outperforming DM peers. US underperformed the most while Japan was the best performer. We are moderately overweight US, UK, and Asia Pacific; underweight Eurozone and EMs outside Asia. By sector we prefer healthcare, industrials, and communication services. Our strategic preference is for large cap non-cyclical growth with focus on quality. Our other high conviction ideas include clean energy themes (for medium to long-term); aerospace & defence, food security, energy security, and cybersecurity as plays on rising geopolitical tensions and deglobalization; and consumer services, airlines, and hotels, restaurants & leisure as plays on re-opening.

Technology Segments

Nasdaq-100 index declined c3.6% while HK tech index rose 12.6%. Within the technology sector, we prefer non-cyclical growth over cyclical growth (tech hardware, semiconductors etc.) over a 12-month horizon.

Commodities

Precious Metals

Gold prices ended the week flat while silver and platinum prices rose. We are overweight gold as a hedge against potential inflation, growth, and geopolitical risks.

Energy

Oil prices slumped to one-year low as global slowdown concerns weighed on the demand outlook, despite positive signs of China re-opening. Overall, over the medium-term we believe that oil prices will remain sustained as the market balances into the new normal.

Industrial Metals

Copper prices rose while aluminium prices fell. Another commodity super-cycle is difficult, yet demand for commodities linked to "green infrastructure" is likely to sustain.

Currencies

EURUSD

EUR ended the week unchanged against the USD. We expect ECB policy divergence and growth differentials to play a major role in the performance of the euro.

Critical levels



GBPUSD

GBP slightly weakened versus the USD. We expect GBP to weaken against USD and stay flat versus the EUR.

Critical levels



USDJPY

JPY weakened against the USD with the latter posting gains for the first time in three weeks. BoJ policy remains odd-one out and is likely to keep JPY under pressure.

Critical levels



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Forthcoming important economic data/events

United States

Date & Time (GST)	Indicator	Period	Expected	Prior
12/13/22 15:00	NFIB Small Business Optimism	Nov	90.5	91.3
12/13/22 17:30	Real Avg Hourly Earning YoY	Nov	--	-2.80%
12/13/22 17:30	Real Avg Weekly Earnings YoY	Nov	--	-3.70%
12/13/22 17:30	CPI YoY	Nov	7.30%	7.70%
12/13/22 17:30	CPI Ex Food and Energy YoY	Nov	6.10%	6.30%
12/14/22 16:00	MBA Mortgage Applications	9- Dec	--	-1.90%
12/14/22 17:30	Import Price Index MoM	Nov	-0.50%	-0.20%
12/14/22 23:00	FOMC Rate Decision (Lower Bound)	14- Dec	4.25%	3.75%
12/14/22 23:00	FOMC Rate Decision (Upper Bound)	14- Dec	4.50%	4.00%
12/14/22 23:00	Interest on Reserve Balances Rate	15- Dec	4.40%	3.90%
12/15/22 17:30	Retail Sales Advance MoM	Nov	-0.20%	1.30%
12/15/22 17:30	Initial Jobless Claims	10- Dec	232K	230K
12/15/22 17:30	Philadelphia Fed Business Outlook	Dec	-10	-19.4
12/15/22 17:30	Continuing Claims	3- Dec	1650K	1671K
12/15/22 18:15	Industrial Production MoM	Nov	0.10%	-0.10%
12/15/22 18:15	Capacity Utilization	Nov	79.80%	79.90%
12/16/22 18:45	S&P Global US Manufacturing PMI	Dec P	47.9	47.7

Japan

Date & Time (GST)	Indicator	Period	Expected	Prior
12/14/22 03:50	Core Machine Orders MoM	Oct	-1.80%	-4.60%
12/14/22 08:30	Industrial Production MoM	Oct F	--	-2.60%
12/14/22 08:30	Capacity Utilization MoM	Oct	--	-0.40%
12/15/22 03:50	Trade Balance Adjusted	Nov	-¥1238.2b	-¥2299.2b
12/15/22 03:50	Exports YoY	Nov	19.70%	25.30%
12/15/22 03:50	Imports YoY	Nov	26.90%	53.50%
12/15/22 08:30	Tertiary Industry Index MoM	Oct	0.80%	-0.40%
12/16/22 04:30	Jibun Bank Japan PMI Mfg	Dec P	--	49

Eurozone

Date & Time (GST)	Indicator	Period	Expected	Prior
12/13/22 11:00	Germany CPI YoY	Nov F	10.0%	10.0%
12/13/22 14:00	Germany ZEW Survey Expectations	Dec	-26.4	-36.7
12/14/22 13:00	Eurozone Industrial Production WDA YoY	Oct	3.50%	4.90%
12/15/22 14:00	France CPI YoY	Nov F	6.20%	6.20%
12/15/22 11:45	France Manufacturing Confidence	Dec	100	102
12/15/22 17:15	Eurozone ECB Marginal Lending Facility	15- Dec	2.50%	2.00%
12/15/22 17:15	Eurozone ECB Deposit Facility Rate	15- Dec	2.75%	2.25%
12/15/22 17:15	Eurozone ECB Main Refinancing Rate	15- Dec	2.00%	1.50%
12/16/22 12:15	France S&P Global Manufacturing PMI	Dec P	48	48.3
12/16/22 13:30	Germany S&P Global/BME Manufacturing PMI	Dec P	46.4	46.2
12/16/22 13:00	Eurozone S&P Global Manufacturing PMI	Dec P	47.1	47.1
12/16/22 14:00	Germany CPI Core YoY	Nov F	--	5.00%

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United Kingdom



Date & Time (GST)	Indicator	Period	Expected	Prior
12/12/22 11:00	Manufacturing Production YoY	Oct	-5.40%	-5.80%
12/12/22 11:00	Index of Services 3M/3M	Oct	-0.10%	0.00%
12/12/22 11:00	Construction Output YoY	Oct	6.50%	5.70%
12/13/22 11:30	Claimant Count Rate	Nov	--	3.90%
12/13/22 11:00	Jobless Claims Change	Nov	--	3.3K
12/13/22 11:00	Average Weekly Earnings 3M/YoY	Oct	6.10%	6.00%
12/13/22 11:00	ILO Unemployment Rate 3Mths	Oct	3.70%	3.60%
12/14/22 11:00	CPI YoY	Nov	10.90%	11.10%
12/14/22 11:00	CPI Core YoY	Nov	6.50%	6.50%
12/14/22 11:00	RPI YoY	Nov	13.90%	14.20%
12/14/22 13:30	House Price Index YoY	Oct	11.20%	9.50%
12/15/22 16:00	BoE/ Bank Rate	15- Dec	3.50%	3.00%
12/16/22 11:00	Retail Sales Inc Auto Fuel MoM	Nov	3.30%	0.60%
12/16/22 11:00	Retail Sales Ex Auto Fuel YoY	Nov	-5.80%	-6.70%
12/16/22 13:30	S&P Global/CIPS UK Manufacturing PMI	Dec P	46.5	46.5
12/16/22 13:30	S&P Global/CIPS UK Services PMI	Dec P	48.5	48.8

China and India



Date & Time (GST)	Indicator	Period	Expected	Prior
12/09/22 12/15/22	China Aggregate Financing CNY	Nov	2100.0b	907.9b
12/09/22 12/15/22	China New Yuan Loans CNY	Nov	1400.0b	615.2b
12/09/22 12/15/22	China Money Supply M2 YoY	Nov	11.70%	11.80%
12/12/22 16:00	India CPI YoY	Nov	6.35%	6.77%
12/14/22 12/15	India Exports YoY	Nov	--	-16.60%
12/14/22 12/15	India Imports YoY	Nov	--	5.70%
12/15/22 05:20	China 1-Yr Medium-Term Lending Facility Rate	Nov	2.75%	2.75%
12/15/22 06:00	China Industrial Production YTD YoY	Nov	4.00%	4.00%
12/15/22 06:00	China Retail Sales YTD YoY	Nov	0.50%	0.60%
12/15/22 06:00	China Fixed Assets Ex Rural YTD YoY	Nov	5.60%	5.80%
12/15/22 06:00	China Property Investment YTD YoY	Nov	-9.20%	-8.80%
12/15/22 06:00	China Surveyed Jobless Rate	Nov	5.60%	5.50%
12/15/22 12/30	India BoP Current Account Balance	3Q	-\$35.10b	-\$23.90b

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