The Weekly Market View

June 06 2022

بنك أبوظبي التجاري
ADCB
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Peak growth concerns dominating

Last week, we saw peak growth concerns dominating the sentiment as markets paid heed to the warning comments coming from the top heads of US companies. The focus again remained on the Fed's possible policy path and whether the central bank's aggressive stance could hurt the growth outlook. Economic data, on the other hand, failed to validate these growth slowdown fears. US non-farm payrolls rose more than expected and unemployment rate remained stable, signalling the strong health of the labour market. Weekly Jobless Claims also surprised on the upside. ISM manufacturing pointed to an acceleration in manufacturing activity. On the other hand, ISM services disappointed but remained in the expansion zone. Conference boards' survey showed that the consumer sentiment declined in May. Across the Atlantic, the Eurozone inflation rose to a record high of 8.1%, fuelling expectations of a faster ECB policy normalisation.

Global equities recorded marginal losses, partially reversing previous week's rally. US equities declined the most, making them the worst performer last week. Japanese equities were the top performers, recording strong gains as the country further relaxed the border restrictions. European markets were flat due to holiday-shortened week in the UK. In the bond markets, 10yr UST yields jumped above 2.9% level as strong payroll data justified the Fed's rate hike projections. Corporate IG and HY both recorded losses. Eurozone bond yields jumped on the strong CPI print and hawkish comments by the ECB policy member. Oil prices recorded their sixth weekly gain, despite the OPEC+ agreeing on raising the supply, while the EU announced ban on its Russian oil imports. Gold prices ended the week unchanged. The USD dollar appreciated versus the pound sterling and Japanese Yen but remained flat versus the Euro.

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King dollar losing its shine?

With signs of peak growth, peak inflation and peak bond yields, there is increasing evidence that the King dollar's rally may have also peaked. The US dollar strength has waned over past few weeks after the greenback touched multi-year highs in May. The key factors influencing the dollar's rally have been the Fed's aggressive policy response to inflation, rising interest-rate differentials with other developed markets and safe-haven features of the US dollar. Rising inflation pressures and increased supply chain bottlenecks have also coincided with the rally in the greenback, given these only fuelled the Fed rate hike expectations. A repeat of the US dollar's phenomenal performance looks, however difficult with the signs of moderation in inflation and supply chain bottlenecks. We believe that the momentum in dollar strength is likely to slow down as Fed projections begin to match the market's rate hike projections. At the same time, any significant moderation in the US growth outlook could in fact reverse the Fed's current hawkish stance. Market is currently pricing no Fed rate hikes in 2023 and a rate cut in 2024. In addition, the ECB-while unlikely to match Fed's aggressiveness- is set to move to gradual policy normalisation in the second half of this year, thus anchoring the euro. The euro also stands to benefit from a prospective cyclical rebound in China's economy. China's growth outlook still remains challenging but growth is likely to have bottomed with the country's re-opening plans. However, these shifts in trends are unlikely to materialise in the near-term given the backdrop of strong economic conditions in the US and hawkish Fed bias but are imminent later during the year. As a result, we do not anticipate any significant weakness in the dollar as long as the Fed is seen leading the rate hike band wagon and in absence of strong deceleration in economic activity in the US.

Global markets' performance snapshot*

Index Snapshot (World Indices)*

Index	Latest	Weekly %	YTD %
S&P 500	4,109	-1.2	-13.8
Dow Jones	32,900	-0.9	-9.5
Nasdaq	12,013	-1.0	-23.2
DAX	14,460	-0.0	-9.0
Nikkei 225	27,762	3.7	-3.3
FTSE 100^	7,533	-0.7	2.0
Sensex	55,769	1.6	-4.3
Hang Seng	24,209	1.9	-9.0
Regional Markets			
ADX	9,837	1.5	15.9
DFM	3,387	2.7	6.0
Tadawul**	12,605	0.6	12.2
DSM**	12,800	-0.2	10.2
MSM30**	4,132	0.6	-0.2
BHSE**	1,907	0.7	5.9
KWSE**	7,765	1.7	9.0
MSCI			
MSCI World	2,814	-0.8	-14.0
MSCI EM	1,061	1.7	-13.9

Global Commodities, Currencies and Rates*

Commodity	Latest	Weekly %	YTD %
ICE Brent USD/bbl	119.7	0.2	55.3
Nymex WTI USD/bbl	118.9	3.3	59.4
Gold USD/t oz	1,851.2	-0.1	1.5
Silver USD/t oz	21.9	-0.8	-4.4
Platinum USD/t oz	1,017.7	6.2	5.7
Copper USD/MT^	9,455.0	0.8	-2.4
Alluminium^	2,703.0	-5.3	-3.6
Currencies			
EUR USD	1.07	-0.1	-5.7
GBP USD	1.25	-1.1	-7.7
USD JPY	130.88	3.0	11.9
USD CHF	0.96	0.6	5.1
Rates	**Latest**	**Weekly (bp)**	**YTD(bp)**
USD Libor 3m^	1.63	2.8	141.7
USD Libor 12m^	2.78	8.0	219.2
UAE Eibor 3m	1.72	8.8	135.3
UAE Eibor 12m	2.64	8.5	189.5
US 3m Bills	1.13	9.9	110.1
US 10yr Treasury	2.93	19.5	142.3

Notes: *Data as of June 3rd 2022 unless stated otherwise; **Data as of June 2nd 2022; ^Data as of June 1st 2022

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Summary market outlook

Global Yields	10Y UST yields rose above the 2.9% level on the back of strong payroll data. Corporate bond markets recorded losses, led by US IG. Eurozone bond yields edged higher, driven by the upbeat Eurozone CPI print and hawkish ECB comments. UK gilt yields broadly tracked core markets. Overall, we recommend a lower duration stance (5Y USTs) on the back of higher interest rate volatility in the near term.
Stress and Risk Indicators	VIX index stabilized over the week while the SKEW Index rose during the week. The MOVE index which measures the interest rate volatility, slightly declined over the week. We expect financial market volatility to stay elevated through this year as the pandemic era policy accommodation is withdrawn.
Equity Markets	
Local Equity Markets	GCC stock markets recorded gains over the week with the exception of Qatari stocks. Dubai, Abu Dhabi, and Kuwait led the outperformance while Qatar underperformed the most. 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 years are all balanced by lack of structural growth plays in the equity markets.
Global Equity Markets	Global equities were back in red, recording marginal losses after last week's rally. EM equities outperformed DM stocks. US equities declined the most, making them the worst performer last week. Japanese equities were the top performers, recording strong gains as the country further relaxed the border restrictions. European markets were flat due to holiday-shortened week in the UK. 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 recorded marginal losses while HK tech index jumped by c5%. Within technology, 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 unchanged. We are overweight gold as a hedge against potential inflation, growth, and geopolitical risks.
Energy	Oil prices recorded its sixth weekly gain, despite the OPEC+ agreeing on raising the supply, while the EU announced ban on its Russian oil imports. Overall, over the medium-term we believe that oil prices will remain sustained as the market balances into the new normal.
Industrial Metals	Industrial metal prices ended mixed last week with aluminium prices declining while copper price jumped. Another commodity super-cycle is difficult, yet demand for commodities linked to "green infrastructure" is likely to sustain.

Currencies								
EURUSD	The euro ended flat versus the dollar as the strong Eurozone CPI print raised ECB policy tightening prospects. We expect ECB policy divergence to play a major role in the performance of the euro.							
Critical levels	R2	1.0749	R1	1.0734	S1	1.0707	S2	1.0695
GBPUSD	The GBP weakened versus the US dollar. We expect GBP to weaken against USD and stay flat versus the EUR.							
Critical levels	R2	1.2532	R1	1.2512	S1	1.2475	S2	1.2458
USDJPY	The Japanese Yen weakened versus the US dollar as the BoJ maintained its loose monetary policy bias. Over the near to medium-term, BoJ's yield curve targeting should put downward pressure on JPY.							
Critical levels	R2	131.23	R1	130.67	S1	130.36	S2	130.11

Forthcoming important economic data/events

United States

Date & Time (GST)	Indicator	Period	Expected	Prior
06/08/22 15:00	MBA Mortgage Applications	3- Jun	--	-2.30%
06/08/22 18:00	Wholesale Inventories MoM	Apr F	2.10%	2.10%
06/09/22 16:30	**Initial Jobless Claims**	**4- Jun**	**--**	**--**
06/09/22 16:30	Continuing Claims	28- May	--	--
06/10/22 16:30	**CPI YoY**	**May**	**8.20%**	**8.30%**
06/10/22 16:30	**CPI Ex Food and Energy YoY**	**May**	**5.90%**	**6.20%**
06/10/22 16:30	Real Avg Hourly Earning YoY	May	--	-2.60%
06/10/22 18:00	**U. of Mich. Sentiment**	**Jun P**	**59**	**58.4**
06/10/22 18:00	U. of Mich. 1 Yr Inflation	Jun P	--	5.30%
06/10/22 18:00	U. of Mich. 5-10 Yr Inflation	Jun P	--	3.00%

Japan

Date & Time (GST)	Indicator	Period	Expected	Prior
06/07/22 03:30	Household Spending YoY	Apr	-1.00%	-2.30%
06/07/22 03:30	Labor Cash Earnings YoY	Apr	1.50%	1.20%
06/08/22 03:50	**GDP SA QoQ**	**1Q F**	**-0.30%**	**-0.20%**
06/08/22 03:50	BoP Current Account Balance	Apr	¥498.9b	¥2549.3b
06/09/22 03:50	Money Stock M2 YoY	May	3.60%	3.60%
06/09/22 10:00	**Machine Tool Orders YoY**	**May P**	**--**	**25.00%**
06/10/22 03:50	**PPI YoY**	**May**	**10.20%**	**10.00%**

Eurozone

Date & Time (GST)	Indicator	Period	Expected	Prior
06/07/22 03:30	Eurozone Sentix Investor Confidence	May F	--	-21.1
06/08/22 03:50	**Germany Industrial Production SA MoM**	**May P**	**--**	**7.40%**
06/08/22 03:50	Eurozone GDP SA QoQ	1Q F	0.30%	0.30%
06/09/22 03:50	**Eurozone ECB MPC Meeting**	**9- Jun**	**No Change**	
06/09/22 03:50	**France Bank of France Ind. Sentiment**	**May P**	**3.60%**	**3.50%**
06/09/22 10:00	Germany Wholesale Price Index YoY	May F	--	54.4

United Kingdom

Date & Time (GST)	Indicator	Period	Expected	Prior
06/06/22 12:00	New Car Registrations YoY	May	--	-15.80%
06/07/22 12:30	**S&P Global/CIPS UK Services PMI**	**May F**	**51.8**	**51.8**
06/13/22 10:00	Construction Output YoY	Apr	--	4.70%
06/13/22 10:00	**Industrial Production YoY**	**Apr**	**--**	**0.70%**
06/13/22 10:00	Manufacturing Production YoY	Apr	--	1.90%

China and India

Date & Time (GST)	Indicator	Period	Expected	Prior
06/07/22	China Foreign Reserves	May	$3110.00b	$3119.72b
06/08/22 08:30	**India RBI MPC**	**8- Jun**	**No Change**	
06/09/22 06/15	China Aggregate Financing CNY	May	2000.0b	910.2b
06/09/22 06/15	China New Yuan Loans CNY	May	1200.0b	645.4b
06/09/22 06/15	China Money Supply M2 YoY	May	10.00%	10.50%
06/10/22 05:30	**China CPI YoY**	**May**	**2.20%**	**2.10%**
06/10/22 16:00	India Industrial Production YoY	Apr	5.80%	1.90%
06/13/22	China 1-Yr Medium-Term Lending Facility Rate	15- Jun	2.85%	2.85%
06/13/22	**India CPI YoY**	**May**	**--**	**7.79%**

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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