The Weekly Market View

June 19 2023

ADCB ASSET MANAGEMENT LIMITED

A lighter (left) tail makes bears fail

Recent weeks have seen some reduction in left tail risks allowing risk assets like equities to post strong gains. This momentum continued into last week. US headline CPI for May printed at 4.0% y-o-y (consensus: 4.1%, prior: 4.9%) at the slowest pace since March 2021 while the core CPI came in at 5.3% y-o-y (consensus: 5.2%, prior: 5.5%). US retail sales grew in May against expectations for a decline. UMich consumer sentiment index showed improving sentiment and falling inflation expectations. US FOMC kept rates unchanged at its June meeting. The FOMC summary of economic projections indicated higher peak rates but also better growth during 2023. In the UK, data showed that the job market was tight and that the economic activity expanded during April after contracting in March. In Eurozone, industrial production data surprised positively. Germany's ZEW survey showed mixed picture with a positive surprise on 'expectations' and a negative surprise on 'current situation'. The ECB raised interest rates by 25bp as expected but sounded hawkish about the future monetary policy. In Japan, BoJ held to its dovish stance as widely anticipated. China grabbed attention too thanks to a range of headlines. Activity (industrial production, retail sales, and fixed asset investments) and credit data missed market expectations. Property prices edged down sequentially. Chinese President Xi met with Bill Gates in Beijing, and hoped for "continued friendship between the peoples of the two countries". US Secretary Antony Blinken is in Beijing on June 18 and 19. Secretary Blinken will be the highest-ranking US official to visit China in Biden Administration. Premier Li Qiang presided over the State Council meeting on June 16 to discuss policy measures to promote economic recovery. The PBoC cut both OMO reverse repo rate and MLF rate by 10bps. Taking all these into consideration, bond yields rose, USD weakened against EUR and GBP, and equity markets moved higher. In commodities, energy and industrial segments gained while precious metal prices fell.

Why we tactically remain overweight equities

In our view, global growth will likely hold up well over the next 3 months. While some traditional yield curve related indicators point to imminent recession, we note that several other indicators including strong job market point to resilience. Broadly, consumer remains in good shape. While manufacturing sector is stable, mini-inventory correction is underway. Services sector continues to be strong across the board. Tighter labour market is driving the need to automate and indirectly helping the medium-term growth in productivity. Uncertainties around the growth trajectory are plentiful. In absence of any major inflationary shocks, disinflation process should continue over the next 3 months. Inflation could prove to be sticky in Europe. In the US, inflation should start to surprise on the downside as movements in rental component turn favorable. Despite concerns, we do not yet see tangible signs of a wage-price spiral. Long-term inflation expectations remain well-anchored too. We believe that the Fed is largely done with interest rate hikes for this cycle. However, we continue to see risks tilted towards a more hawkish Fed than to a more dovish Fed. To that extent, we do not rule out another 25bp-50bp rate hikes from the Fed. We do not fight the Fed till it remains data dependent. ECB and BoE have further tightening to do. BoJ should turn hawkish later this year. Markets have repriced a more hawkish Fed. Yet, the uncertainty about the timing of the first rate-cut is likely be a source of volatility in financial markets – especially for bonds. Equity positioning has improved over recent months but is far from a crowded-trade. While there is value in bonds over the long-term, near-term trajectory is unclear. Our strategy is to be overweight equities, and underweight fixed income. A sharp deterioration in the global growth outlook owing to unforeseen systemic risks, much stickier inflation needing central banks to turn even more hawkish, and a rapid deterioration in investor sentiment are key risks to our positioning.

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Global markets' performance snapshot

Index Snapshot (World Indices)*

Index	Latest	Weekly %	YTD %
S&P 500	4,410	2.6	14.9
Dow Jones	34,299	1.3	3.5
Nasdaq	13,690	3.3	30.8
DAX	16,358	2.6	17.5
Nikkei 225	33,706	4.5	29.2
FTSE 100	7,643	1.1	2.6
Sensex	63,385	1.2	4.2
Hang Seng	20,040	3.4	1.3
Regional Markets			
ADX	9,447	0.8	-7.5
DFM	3,789	2.5	13.6
Tadawul**	11,516	1.1	9.2
DSM**	10,271	0.6	-3.8
MSM30**	4,681	0.3	-3.9
BHSE**	1,956	0.1	3.2
KWSE**	7,004	1.5	-4.0
MSCI			
MSCI World	2,962	2.7	13.8
MSCI EM	1,030	2.8	7.7

Global Commodities, Currencies and Rates*

Commodity	Latest	Weekly %	YTD %
Brent USD/bbl	76.6	2.4	-10.8
WTI USD/bbl	71.8	2.3	-10.6
Gold USD/t oz	1,959.4	-0.2	7.9
Silver USD/t oz	24.0	-1.4	1.2
Platinum USD/t oz	987.0	-1.4	-4.3
Copper USD/MT	8,555.0	2.5	2.3
Alluminium	2,230.7	0.1	-5.1
Currencies			
EUR USD	1.09	1.7	2.2
GBP USD	1.28	2.0	6.0
USD JPY	141.84	1.8	8.2
Rates	**Latest**	**Weekly (bp)**	**YTD (bp)**
SOFR	5.06	1.0	76.0
USD Libor 3m	5.51	-3.1	74.6
USD Libor 12m	5.88	9.5	39.7
UAE Eibor 3m	5.14	-14.8	82.8
UAE Eibor 12m	5.33	-12.8	29.3
US 3m Bills	5.09	-2.0	79.0
US 10yr Treasury	3.77	1.6	-6.7

Source: Bloomberg, and ADCB Asset Management
Notes: Notes: *Data as of June 16 2023 unless stated otherwise; **Data as of June 15 2023.

Summary market outlook

Global Yields	Yields on 10Y USTs rose slightly over the past week on hawkish comments from the Fed. In Eurozone, yields on 10Y German bunds rose sharply while yields on 10Y Italian bonds fell. In the UK, bond yields rose sharply with 2Y yields rising more than 10Y yields. In Japan, yields on both 10Y and 2Y JGBs fell. Bond yields and prices are inversely correlated. i.e. yields rise when prices fall and vice versa. Overall, we maintain our slight duration exposure with preference for USTs (7-10Y segment) over other DM sovereigns.
Stress and Risk Indicators	VIX index (measure of implied volatility in equities) dropped further to a new post-pandemic low. MOVE Index (measure of bond volatility) declined further despite hawkish central banks. We expect recession probabilities and uncertainty around the timing of the first rate cut from the Fed to feed into financial market volatility.
Equity Markets	
Local Equity Markets	GCC equity markets posted gains but underperformed their emerging market and global benchmarks. Within the region, Dubai, and Kuwait stocks outperformed the most while smaller markets like Bahrain and Oman underperformed. We stay neutral GCC equities within our global equity framework. Stable 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. We would look to play benchmark transformation over next years.
Global Equity Markets	Global equities posted strong gains last week with MSCI ACWI rising 2.7%. Amongst major regions, Europe-ex-UK and APAC-ex-Japan outperformed while Japan and Canada underperformed in USD terms. Sector wise, IT and consumer discretionary were the top performers while energy and utilities underperformed the most. We are overweight North America, and Asia Pacific; underweight EMs outside Asia and significantly underweight Europe. Our strategic preference is for large cap non-cyclical growth with focus on quality. We prefer Japanese equity exposure through local indices in local currency terms. Our other high conviction ideas include HK equities and Chinese hotels & leisure (beneficiaries of the post-pandemic reopening of the Chinese economy), and Cybersecurity and Chinese Semiconductors (play on rising deglobalisation risks and national security prominence). For long-term investors, we have identified 13 different themes to play disruptive trends in the global economy.
Technology Segments	Nasdaq-100 index rose c4% over the past week. However, HK Tech index posted solid gains of c8% on continued expectations of policy stimulus in China.
Commodities	
Precious Metals	Precious metal prices fell on hawkish central bank commentary and actions. Gold prices continued to exhibit a sideways movement for the past few weeks. We are overweight gold as a hedge against potential inflation, growth, and geopolitical risks.
Energy	Oil prices increased last week on record-high Chinese refinery throughput and falling US oil rig count. OPEC’s recent production cuts continue to help. Over the near-term to medium-term we expect oil prices to move sideways but with significant volatility.
Industrial Metals	Industrial metal prices showed mixed trends – copper prices rose while aluminium prices were unchanged over the week. Another commodity super-cycle is difficult, yet demand for commodities linked to “green infrastructure” is likely to sustain. We prefer copper for the near-term.
Currencies	
EURUSD	EUR appreciated against the USD on relatively more hawkish ECB. EUR/JPY rose to a 15-year high. We expect euro to stabilize and record a better performance in 2023 compared to 2022.
Critical levels	R2 1.1118 · R1 1.1028 · S1 1.0790 · S2 1.0642
GBPUSD	GBP/USD traded higher as UK economic data (higher than expected average weekly earnings) supported expectations of further BoE tightening. We expect GBP to strengthen versus the USD with the BoE likely to remain the most hawkish of the lot.
Critical levels	R2 1.3078 · R1 1.2948 · S1 1.2587 · S2 1.2356
USDJPY	Hawkish Fed and dovish BoJ meant further rise in USD/JPY. Yen is likely to remain weak in the near-term in absence of hawkish BoJ bias, but could strengthen once the Fed takes a dovish turn.
Critical levels	R2 143.82 · R1 142.82 · S1 139.91 · S2 138.00

Forthcoming important economic data/events

United States

Date & Time (GST)	Indicator	Period	Expected	Prior
06/19/23 18:00	NAHB Housing Market Index	Jun	50	50
06/20/23 16:30	Building Permits	May	1435k	1416k
06/20/23 16:30	**Housing Starts**	**May**	**1400k**	**1401k**
06/21/23 15:00	**MBA Mortgage Applications**	**16-Jun**	**--**	**7.20%**
06/22/23 16:30	Current Account Balance	1Q	-$218.2b	-$206.8b
06/22/23 16:30	**Initial Jobless Claims**	**17-Jun**	**--**	**--**
06/22/23 16:30	**Continuing Claims**	**10-Jun**	**--**	**--**
06/22/23 18:00	**Existing Home Sales**	**May**	**4.25m**	**4.28m**
06/22/23 18:00	Leading Index	May	-0.80%	-0.60%
06/23/23 17:45	**S&P Global US Manufacturing PMI**	**Jun P**	**48.5**	**48.4**
06/23/23 17:45	**S&P Global US Services PMI**	**Jun P**	**--**	**54.9**

Japan

Date & Time (GST)	Indicator	Period	Expected	Prior
06/20/23 08:30	**Industrial Production MoM**	**Apr F**	**--**	**-0.40%**
06/20/23 08:30	Capacity Utilization MoM	Apr	--	0.80%
06/20/23 10:00	Machine Tool Orders YoY	May F	--	-22.20%
06/23/23 03:30	**Natl CPI YoY**	**May**	**3.20%**	**3.50%**
06/23/23 03:30	**Natl CPI Ex Fresh Food YoY**	**May**	**3.10%**	**3.40%**
06/23/23 04:30	**Jibun Bank Japan PMI Mfg**	**Jun P**	**--**	**50.6**
06/23/23 04:30	**Jibun Bank Japan PMI Services**	**Jun P**	**--**	**55.9**

Eurozone

Date & Time (GST)	Indicator	Period	Expected	Prior
06/20/23 10:00	Germany PPI YoY	May	--	4.10%
06/20/23 12:00	Eurozone ECB Current Account SA	Apr	--	31.2b
06/22/23 10:45	France Manufacturing Confidence	Jun	--	99
06/22/23 18:00	Eurozone Consumer Confidence	Jun P	--	-17.4
06/23/23 11:15	**HCOB France Manufacturing PMI**	**Jun P**	**--**	**45.7**
06/23/23 11:15	**HCOB France Services PMI**	**Jun P**	**--**	**52.5**
06/23/23 11:30	**HCOB Germany Manufacturing PMI**	**Jun P**	**--**	**43.2**
06/23/23 11:30	**HCOB Germany Services PMI**	**Jun P**	**--**	**57.2**
06/23/23 12:00	**HCOB Eurozone Manufacturing PMI**	**Jun P**	**--**	**44.8**
06/23/23 12:00	**HCOB Eurozone Services PMI**	**Jun P**	**--**	**55.1**

United Kingdom

Date & Time (GST)	Indicator	Period	Expected	Prior
06/21/23 10:00	**CPI YoY**	**May**	**8.50%**	**8.70%**
06/21/23 10:00	**CPI Core YoY**	**May**	**--**	**6.80%**
06/21/23 10:00	RPI YoY	May	--	11.40%
06/22/23 15:00	**Bank of England Bank Rate**	**22-Jun**	**--**	**4.50%**
06/23/23 09:30	Nationwide Dept Sales YoY	May	--	8.60%
06/23/23 10:00	Retail Sales Inc Auto Fuel MoM	May	--	0.50%
06/23/23 10:00	Retail Sales Ex Auto Fuel YoY	May	--	-2.60%
06/23/23 12:30	**S&P Global/CIPS UK Manufacturing PMI**	**Jun P**	**--**	**47.1**
06/23/23 12:30	**S&P Global/CIPS UK Services PMI**	**Jun P**	**--**	**55.2**

China and India

Date & Time (GST)	Indicator	Period	Expected	Prior
06/15/23-06/30/23	India BoP Current Account Balance	1Q	$3.00b	-$18.20b
06/20/23 05:15	**China 5-Year Loan Prime Rate**	**20-Jun**	**4.20%**	**4.30%**
06/20/23 05:15	**China 1-Year Loan Prime Rate**	**20-Jun**	**3.55%**	**3.65%**

ADCB ASSET MANAGEMENT LIMITED

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