The Weekly Market View

May 15 2023

بنك أبوظبي التجاري ADCB

ASSET MANAGEMENT LIMITED

Subdued

Last week risk sentiment was subdued amidst the looming debt ceiling, credit tightening concerns, and inflation release. Debt ceiling concerns have aggravated with the scheduled meeting between President Biden, House Speaker Kevin McCarthy and other congressional leaders being postponed. The US Congressional Budget Office report released last Friday warned that there is 'significant risk' of US default in the first half of June without debt ceiling increase. In economic releases, headline US CPI slowed to a 4.9% yoy in April versus 5.0% in March while core inflation rose 5.5% yoy versus 5.6% yoy in March. US producer prices rose 0.2% mom in April, versus 0.3% mom expected- recording the smallest increase since January 2021. The University of Michigan's preliminary reading of consumer sentiment came in at the lowest level since November 2022 but consumers' long-term inflation expectations jumped to the highest level since 2011. In Europe, ECB president Christine Lagarde signaled that more had to be done in terms of tackling inflation pressure. More importantly, in the UK, the BoE raised its key interest rate by a quarter point to 4.25% and upgraded both growth and inflation forecasts with no recession expected. In Japan, BoJ Governor Kazuo Ueda hinted that the central bank could consider an exit from yield curve control strategy if the inflation targets are achieved on a sustainable basis but recent wage gains have been subdued. In China, data disappointed (CPI, PPI, New loans, Imports) pointing to the economy losing growth momentum. Global equity markets ended the week unchanged. Global bond yields edged higher as market pared some of the rate cut expectations priced in. USD strengthened, recording its first weekly gain since February. Commodities tumbled amidst strong dollar bias. Oil prices posted losses for the fourth consecutive week.

Good, bad and ugly

Recent inflation release provided the markets with good news that disinflation is in progress. There is evidence of price pressures waning in core services inflation, in particular the Fed's preferred measure- core inflation excluding housing has also showed signs of moderation. While the recent inflation print support the likelihood of a pause at the upcoming June meeting, market pricing of rate cuts further into the year still look excessive. The current levels of inflation- headline, core, core services and particularly the sticky component of inflation are still high compared to the historical levels and way above the Fed's 2% inflation target goal. Concerns over credit tightening and talks of a credit crunch triggered by the banking sector crisis is also influencing market pricing of rate expectations. The recent Fed's quarterly survey of senior loan officer opinion – confirmed that banks tightened standards and pulled back lending in the first quarter of the year. However, these standards were already tightening before the March banking sector crisis and appear to be a result of the Fed's aggressive monetary tightening. The survey showed that bank tightened standards more for loans to small firms and demand for commercial & industrial loans also declined across firms. US corporate spreads are not fully accounting for the credit tightening which is underway. As such we expect US corporate spreads, particularly US HY spreads to be vulnerable. Our analysis on the historical performance of US corporate spreads post the last (previous six) Fed rate hikes showed that the spreads on average have peaked 6 months after the last Fed rate hike. CCC spreads have led the spread tightening, as expected. In the near term, debt ceiling concerns are likely to weigh on the market sentiment as we move closer to the X-date (estimated to be 1st June by the US Treasury). Yields on 1-month US Treasuries maturing closer to 1st June and US 1yr CDS spreads have jumped to record high. While we expect that a deal will be finalised just in time to avoid US default (our base case), we are well positioned to weather the risk with our overweight on 7-10yr US Treasuries and our preference for quality (*US debt ceiling risks- financial market implications, 21 February 2023*). Looking at the 2011 debt impasse episode, long-term UST yields had declined going into the debt ceiling deadline as investors rushed into safe-have assets.

Global markets' performance snapshot*

Index Snapshot (World Indices)*

Index	Latest	Weekly %	YTD %
S&P 500	4,124	-0.29	7.41
Dow Jones	33,301	-1.11	0.46
Nasdaq	12,285	0.40	17.37
DAX	15,914	-0.30	14.29
Nikkei 225	29,388	0.79	13.08
FTSE 100	7,755	-0.31	4.06
Sensex	62,028	1.59	1.95
Hang Seng	24,209	-2.11	-0.77
Regional Markets			
ADX	9,635	-0.73	-5.64
DFM	3,559	-0.67	6.69
Tadawul**	11,393	2.46	8.30
DSM**	10,742	0.96	-0.11
MSM30**	4,667	-1.22	-3.14
BHSE**	1,937	1.58	2.40
KWSE**	6,947	-1.23	-5.31
MSCI			
MSCI World	2,809	-0.45	7.94
MSCI EM	973	-0.88	1.74

Global Commodities, Currencies and Rates*

Commodity	Latest	Weekly %	YTD %
ICE Brent USD/bbl	74.2	-1.50	-14.25
Nymex WTI	70.0	-1.82	-13.28
Gold USD/t oz	2,010.8	-0.30	10.39
Silver USD/t oz	24.0	-6.61	0.07
Platinum USD/t oz	1,053.0	-0.89	-1.53
Copper USD/MT	8,240.0	-2.92	-1.75
Alluminium	2,222.0	-4.26	-5.43
Currencies			
EUR USD	1.08	-1.54	1.41
GBP USD	1.25	-1.41	3.06
USD JPY	135.70	0.67	3.57
Rates	**Latest**	**Weekly**	**YTD(bp)**
SOFR	5.05	-1.00	75.00
USD Libor 3m	5.32	-1.86	55.10
USD Libor 12m	5.26	5.63	-22.61
UAE Eibor 3m	5.33	12.04	101.54
UAE Eibor 12m	5.20	0.83	9.95
US 3m Bills	5.15	-4.94	80.93
US 10yr Treasury	3.46	2.55	-41.23

Source: Bloomberg, and ADCB Asset Management

Notes: *Data as of May 12 2023 unless stated otherwise; **Data as of May 11 2023.

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Summary market outlook

Global Yields	10Y UST yields decreased during the initial days of the week but rose subsequently on University of Michigan survey reporting upbeat consumer inflation. Yields on 10Y German bunds were mixed throughout the week but ended higher. Yield on 10Y JGBs fell over the course of the week on sluggish wage growth. 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).
Stress and Risk Indicators	VIX index (measure of implied volatility in equities) ending the week marginally lower. MOVE Index (measure of bond volatility) decreased throughout the week. We expect financial market volatility to stay elevated as the monetary policy normalizes and markets weigh recession probabilities.
Equity Markets	
Local Equity Markets	MSCI GCC were mixed with oil prices declining over the week. Within the region Saudi Arabia, Bahrain and Qatar posted gains while Abu Dhabi, Dubai, Oman and Kuwait 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 ended the week unchanged. Overall, EM equities underperformed DM peers. In DM, Japan outperformed peers while Europe and UK underperformed in USD terms. We are overweight North America, and Asia Pacific ex Japan; underweight Europe and EMs outside Asia. By sector we prefer healthcare, and industrials. Our strategic preference is for large cap non-cyclical growth with focus on quality. Our other high conviction ideas include HK equities and Chinese hotels & leisure (beneficiaries of the post-pandemic reopening of the Chinese economy), Cybersecurity and Chinese Semiconductors (play on rising deglobalisation risks and national security prominence), and US Diversified banks over US Regional banks (Diversified banks in the US do not have same risks that regional banks carry).
Technology Segments	Nasdaq-100 index recorded marginal gains. HK tech posted marginal losses of 0.47%.
Commodities	
Precious Metals	Precious metal prices declined over the week as the USD rebounded. Silver prices declined the most by 6.61%, Gold recorded marginal decline. We are overweight gold as a hedge against potential inflation, growth, and geopolitical risks.
Energy	Oil prices declined for the 4th week in a row on global slowdown concerns. Overall, over the medium-term we believe that oil prices will remain sustained as the market balances into the new normal.
Industrial Metals	Industrial metals decreased over the week on downbeat China economic data. Aluminum prices declined 4.26% while copper prices fell by 2.92%. Another commodity super-cycle is difficult, yet demand for commodities linked to “green infrastructure” is likely to sustain.
Currencies	
EURUSD	EUR/USD decreased as US debt ceiling concerns fueled safe-haven demand for the USD. We expect euro to stabilize and record a better performance in 2023 compared to 2022.
Critical levels	R2 1.088 · R1 1.0872 · S1 1.0851 · S2 1.0838
GBPUSD	GBP/USD dropped on broad USD strength despite BoE signaling another rate hike after raising rates. We expect GBP to weaken against EUR and stay flat versus the USD.
Critical levels	R2 1.2488 · R1 1.2477 · S1 1.245 · S2 1.2434
USDJPY	USD/JPY rose over the week despite the BoJ Governor Ueda hinting that they could consider an end to YCC policy if conditions are met. Yen is likely to strengthen in 2023 as interest rate differentials tighten, and as broad USD weakens.
Critical levels	R2 135.62 · R1 136.35 · S1 135.70 · S2 135.32

Forthcoming important economic data/events

United States

Date & Time (GST)	Indicator	Period	Expected	Prior
05/15/23 16:30	Empire Manufacturing	May	-5	10.8
05/16/23 16:30	**Retail Sales Advance MoM**	**Apr**	**0.70%**	**-1.00%**
05/16/23 17:15	**Industrial Production MoM**	**Apr**	**0.00%**	**0.40%**
05/16/23 17:15	Capacity Utilization	Apr	79.70%	79.80%
05/16/23 18:00	**NAHB Housing Market Index**	**May**	**45**	**45**
05/17/23 15:00	**MBA Mortgage Applications**	**12-May**	**--**	**6.30%**
05/17/23 16:30	**Housing Starts**	**Apr**	**1398k**	**1420k**
05/17/23 16:30	Building Permits	Apr	1430k	1413k
05/18/23 16:30	Initial Jobless Claims	13-May	--	--
05/18/23 16:30	Continuing Claims	6-May	--	--
05/18/23 16:30	Philadelphia Fed Business Outlook	May	-20	-31.3
05/18/23 18:00	Existing Home Sales	Apr	4.25m	4.44m
05/18/23 18:00	**Leading Index**	**Apr**	**-0.60%**	**-1.20%**

Japan

Date & Time (GST)	Indicator	Period	Expected	Prior
05/17/23 03:50	GDP Annualized SA QoQ	1Q P	0.80%	0.10%
05/17/23 03:50	**GDP SA QoQ**	**1Q P**	**0.20%**	**0.00%**
05/17/23 08:30	**Industrial Production MoM**	**Mar F**	**--**	**0.80%**
05/17/23 08:30	Capacity Utilization MoM	Mar	--	3.90%
05/18/23 03:50	**Trade Balance**	**Apr**	**-Â¥544.3b**	**-Â¥754.5b**
05/18/23 03:50	Trade Balance Adjusted	Apr	-Â¥1037.7b	-Â¥1209.9b
05/18/23 03:50	Exports YoY	Apr	3.00%	4.30%
05/18/23 03:50	Imports YoY	Apr	-0.60%	7.30%
05/19/23 03:30	**Natl CPI YoY**	**Apr**	**3.50%**	**3.20%**
05/19/23 03:30	**Natl CPI Ex Fresh Food, Energy YoY**	**Apr**	**4.10%**	**3.80%**

Eurozone

Date & Time (GST)	Indicator	Period	Expected	Prior
05/15/23 13:00	**Eurozone Industrial Production WDA YoY**	**Mar**	**1.90%**	**2.00%**
05/16/23 13:00	**Germany ZEW Survey Expectations**	**May**	**-5**	**4.1**
05/16/23 13:00	**Eurozone GDP SA QoQ**	**1Q P**	**0.10%**	**0.10%**
05/16/23 13:00	Eurozone GDP SA YoY	1Q P	1.30%	1.30%
05/17/23 13:00	**Eurozone CPI YoY**	**Apr F**	**7.00%**	**6.90%**
05/17/23 13:00	**Eurozone CPI Core YoY**	**Apr F**	**5.60%**	**5.60%**
05/18/23 12:00	Eurozone ECB Publishes Economic Bulletin			
05/19/23 10:00	**Germany PPI YoY**	**Apr**	**4.80%**	**7.50%**
05/20/23-05/22/23	France Retail Sales SA YoY	Apr	--	-5.60%

United Kingdom

Date & Time (GST)	Indicator	Period	Expected	Prior
05/16/23 10:00	**Claimant Count Rate**	**Apr**	**--**	**3.90%**
05/16/23 10:00	**Jobless Claims Change**	**Apr**	**--**	**28.2k**
05/16/23 10:00	Average Weekly Earnings 3M/YoY	Mar	--	5.90%
05/16/23 10:00	**ILO Unemployment Rate 3Mths**	**Mar**	**3.80%**	**3.80%**
05/19/23 03:01	GfK Consumer Confidence	May	--	-30

China and India

Date & Time (GST)	Indicator	Period	Expected	Prior
05/15/23 15:30	India Exports YoY	Apr	--	-13.90%
05/15/23 15:30	India Imports YoY	Apr	--	-7.90%
05/16/23 06:00	**China Industrial Production YTD YoY**	**Apr**	**4.90%**	**3.00%**
05/16/23 06:00	China Retail Sales YTD YoY	Apr	8.20%	5.80%
05/16/23 06:00	China Fixed Assets Ex Rural YTD YoY	Apr	5.70%	5.10%

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