

The Weekly Market View

May 9 2021

Mixed start to May

It was a mixed start to the month of May with markets weighing the uncertainty on inflation and Fed's possibility of early taper against the weakness in recent economic data. The week started with concerns on economy overheating as Treasury Secretary Janet Yellen hinted that the rates should be higher against the recovery prospects but later confirmed that her comments were not intended to predict central bank policy. All-time highs seen in copper prices also added to market concerns on inflation. However, incoming economic data showed disappointment, thus easing the inflation worries to some extent. US ISM Manufacturing and Services PMI for April came in below than expectation. More importantly, fears of economy running hot took a step back post the disappointment in April Labour market data. US non-farm payrolls rose only by 266k in April, softer than expected increase of 1000k with the report signalling that the economic recovery could take more time than anticipated. Disappointing economic data spurred a rally in US Treasuries. The 10yr US Treasury yields were on a declining trend over the week, even undeterred by Mrs Yellen's comments. Meanwhile, global equities recorded weekly gain of 1.3% with the DM stocks outperforming EM stocks. Within DM, UK outperformed the most and US underperformed yet delivered a positive return. Sector wise, energy, materials, and financials outperformed the most while IT, consumer discretionary, and communication services underperformed. In currencies, the greenback fell to its lowest level in two months, in reaction to the softer than expected US payroll data. Commodities had a stellar week. Oil prices recorded gains for another week on the back of global recovery prospects. Precious metals gained on labour data miss while industrial metals soared higher, led by all time- highs in copper prices.

Is the job miss just a blip?

April Labour job data miss proved a sigh of relief coming in during a time when markets were getting jittery about the risks of the economy running hot. Clearly, this job miss will dampen expectations of those who feared that the Fed will be compelled to hit the exit button sooner than expected. Digging deep into non-farm payroll data, one should, however, not be concerned about the recovery prospects which could just be postponed but not be stumbled. Industries which witnessed job declines were more on the goods side while service-related industries saw the job numbers rising, pointing to business expectation of possible shift in trend towards service-side as the economy re-opens. The jump in unemployment rate was also due to increase in labour participation rate. In addition, more frequent measure of labour market- weekly jobless claims fell to the lowest level since the onset of the pandemic, signalling that latest job miss could just be a one-time blip. Having said that, with the prospects of recovery now fully being priced in the economic forecasts, economic data is unlikely to surprise on the upside like before. This should also allow the Fed to continue being patient with its current loose monetary policy bias. At the same time, one number to keep an eye out for is the average hourly earnings- signal for rise in inflation risks. In April, average hourly earnings rose by 0.7% mom in April- with the jump indicating that the businesses may have been compelled to hike wages to attract more labours. Talking about inflation, it will be the dominant theme this week with CPI, core CPI and PPI releases. Any significant upside, especially in core CPI will be considered "inflationary" by the market. As such, we remain wary of any inflation related volatility and prefer to stay short-duration on US Treasuries. For our latest view across assets, see our report [Q2 2021 Outlook: A balancing act, April 2021](#) and the chart book [Q2 2021 Outlook Chart book: A balancing act, April 2021](#).

Global markets' performance snapshot

Index Snapshot (World Indices)

Index	Latest	Weekly %	YTD %
S&P 500	4,233	1.2	12.7
Dow Jones	34,778	2.7	13.6
Nasdaq	13,752	-1.5	6.7
DAX	15,400	1.7	12.3
Nikkei 225	29,358	1.9	7.0
FTSE 100	7,130	2.3	10.4
Sensex	49,206	0.9	3.0
Hang Seng	28,611	-0.4	5.1

Regional Markets (Sunday to Thursday)

Index	Latest	Weekly %	YTD %
ADX	6,152	1.7	21.9
DFM	2,664	2.2	6.9
Tadawul	10,228	-1.8	17.7
DSM	10,896	-0.1	4.4
MSM30	3,810	1.3	4.1
BHSE	1,522	2.5	2.1
KWSE	6,252	2.3	12.7

MSCI

Index	Latest	Weekly %	YTD %
MSCI World	2,979	1.4	10.8
MSCI EM	1,349	0.1	4.4

Global Commodities, Currencies and Rates

Commodity	Latest	Weekly %	YTD %
ICE Brent USD/bbl.	68.3	1.5	31.8
Nymex WTI USD/bbl	64.9	2.1	33.8
Gold USD/t oz	1,831.2	3.5	-3.5
Silver USD/t oz	27.4	5.9	4.0
Platinum USD/t oz	1,256.0	4.4	17.1
Copper USD/MT	10,361.0	4.1	33.8
Alluminium	2,524.2	5.6	27.5

Currencies

Pair	Latest	Weekly %	YTD %
EUR USD	1.22	1.2	-0.4
GBP USD	1.40	1.2	2.3
USD JPY	108.60	-0.6	-4.9
CHF USD	0.90	-1.3	-1.7

Rates

Instrument	Latest	Weekly %	YTD %
USD Libor 3m	0.16	-8.2	-32.0
USD Libor 12m	0.27	-2.7	-20.0
UAE Eibor 3m	0.45	27.4	-11.5
UAE Eibor 12m	0.61	-8.1	-6.3
US 3m Bills	0.01	100.0	-91.3
US 10yr Treasury	1.58	-3.0	72.7

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Summary market outlook

Global Yields 10yr USTs yields edged lower helped by the lackluster economic data. US IG and US HY performed well. In Europe, core bond yields jumped after ECB policymaker hinted at reduction in purchases. Overall, we recommend a lower duration stance (5yr bonds US Treasuries) in anticipation of interest rate volatility in the near term.

Stress and Risk Indicators VIX index dropped back last week, hovering around the 17 level. 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 underperformed both EM and ACWI benchmarks, and posted losses in aggregate. However, much of the weakness came from Saudi index which was pulled down by petrochemicals and banks sectors. Kuwait and UAE equities posted strong gains though. Kuwait index was helped by the strong performance from a heavy-weight industrial company which delivered positive corporate action. 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 market.

Global Equity Markets MSCI ACWI gained 1.3% over the past week. DM outperformed EM. Within DM, UK outperformed the most and US underperformed yet delivered a positive return. EM weakness came largely from Asia which was in turn led down by China and Taiwan. Strong performance from Brazil, Russia, South Africa and Mexico were noteworthy. Sector wise, energy, materials, and financials outperformed the most while IT, 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 Global IT, communication services, and consumer discretionary all posted small losses during the week. Both US and Chinese new economy segments came under pressure on comments on potential rate rises by US Treasury Secretary Janet Yellen, but subsequently recovered as Secretary Yellen attempted to walk back from her previous comments and on weak job market data in the US.

Commodities

Precious Metals Gold prices posted gains on back of downbeat jobs reports and weakening dollar bias. We maintain our overweight in gold as a hedge against potential risks on the horizon.

Energy Oil prices continued to rise through the week, as strong China trade data bolstered the global recovery prospects. Overall, we believe that oil prices are likely to remain sustained as the market approaches a balance.

Industrial Metals Copper prices rose to their all-time highs as demand and supply outlooks remain favourable. Alluminum prices too rose to their highest levels since 2018. While another commodity super-cycle appears difficult, demand for commodities linked to environmental friendly green infrastructure is likely to sustain.

Currencies

EURUSD The euro gained versus the greenback with vaccine progress in the region. We expect movements in major currencies to be influenced by how the virus cases, re-opening of the economies, and the policy support unfold.

Critical levels R2 1.2481 R1 1.2323 S1 1.1856 S2 1.1547

GBPUSD The pound sterling appreciated versus the dollar. BoE policy next week will be key. We expect the cable to be driven by how the re-opening plays out over the near-term and therefore to some extent further decouple from the EUR.

Critical levels R2 1.4227 R1 1.4106 S1 1.3766 S2 1.3547

USDJPY The Japanese yen gained versus the dollar with the decline in UST yields. Over the medium-term, we believe that BoJ yield curve targeting should put downward pressure on JPY.

Critical levels R2 112.51 R1 110.55 S1 107.06 S2 105.53

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

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Forthcoming important economic data/events

United States



	Indicator	Period	Expected	Prior	Comments
05/12/21	MBA Mortgage Applications	May 7	--	-0.9%	
05/12/21	CPI YoY	Apr	3.6%	2.6%	
05/12/21	CPI Ex Food and Energy YoY	Apr	2.3%	1.6%	
05/12/21	Real Avg Hourly Earning YoY	Apr	--	1.5%	Focus will be on inflation releases. Markets will be closely assessing the core CPI print to check for rise other than base-effects. PPI release and retail sales data will also be important.
05/13/21	Initial Jobless Claims	8-May	495k	498k	
05/13/21	Continuing Claims	1-May	3640k	3690k	
05/13/21	PPI Final Demand YoY	Apr	5.8%	4.2%	
05/13/21	PPI Ex Food and Energy YoY	Apr	3.7%	3.1%	
05/14/21	Retail Sales Advance MoM	Apr	1.0%	9.7%	
05/14/21	Capacity Utilization	Apr	75.1%	74.4%	
05/14/21	U. of Mich. Sentiment	May P	90.1	88.3	

Japan



	Indicator	Period	Expected	Prior	Comments
05/12/21	Coincident Index	Mar P	92.9	89.9	Economic watchers survey to throw light on the continued softness in business sentiment.
05/13/21	BoP Current Account Balance	Mar	2764.7b	2916.9b	
05/13/21	Eco Watchers Survey Current SA	Apr	47	49	
05/14/21	Money Stock M2 YoY	Apr	9.4%	9.5%	

Eurozone



	Indicator	Period	Expected	Prior	Comments
05/11/21	ZEW Survey Expectations	May	--	66.3	ZEW Survey expectations, German CPI and industrial production in focus.
05/12/21	German CPI YoY	Apr F	2.0%	2.0%	
05/12/21	Industrial Production WDA YoY	Mar	11.8%	-1.6%	

United Kingdom



	Indicator	Period	Expected	Prior	Comments
05/12/21	GDP QoQ	1Q P	-1.6%	1.3%	Focus will be on the 1Q advance estimate of GDP which is likely to show slowdown in growth in 1Q.
05/12/21	GDP YoY	1Q P	-6.1%	-7.3%	
05/12/21	Industrial Production MoM	Mar	1.0%	1.0%	
05/12/21	Industrial Production YoY	Mar	2.9%	-3.5%	
05/12/21	Manufacturing Production YoY	Mar	3.7%	-4.2%	

China and India



	Indicator	Period	Expected	Prior	Comments
This week	Foreign Direct Investment YoY CNY (CH)	Apr	--	--	In China and India, CPI release will be the main focus this week. In China, CPI is likely to have picked up slightly in April while in India, CPI is expected to have slowed to 4.1%yoy. China's April releases of Money supply, New yuan loans, aggregate financing will also be important.
This week	Aggregate Financing CNY (CH)	Apr	2290.0b	3341.6b	
This week	Money Supply M2 YoY (CH)	Apr	9.2%	9.4%	
This week	New Yuan Loans CNY	Apr	1600b	2730b	
05/11/21	CPI YoY (CH)	Apr	1%	0.4%	
05/11/21	PPI YoY (CH)	Apr	6.5%	4.4%	
05/12/21	CPI YoY (IN)	Apr	4.1%	5.52%	
This week	Exports YoY (IN)	Apr		60.3%	
05/14/21	Wholesale Prices YoY (IN)	Apr	9.13%	7.39%	

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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