The Weekly Market View

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بنك أبوظبي التجاري
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Goldilocks once again?

Last week brought goldilocks back, at least temporarily. Strong economic data (ISM and job market data in the US, and PMIs in China), dovish central banks (US Fed and BoE), and positive news from Pfizer (that its novel COVID-19 oral antiviral treatment candidate (PF-07321332; ritonavir) was found to reduce the risk of hospitalization or death by 89% compared to placebo in non-hospitalized high-risk adults with COVID-19) have all contributed to improved risk sentiment in the markets. Strong earnings season and favourable seasonality supported equity risk further. As a result, equities posted further gains over the week. DMs outperformed EMs. Within DMs, Japan outperformed the most and UK underperformed. Amongst sectors, IT and consumer sectors outperformed while real estate and healthcare underperformed. VIX remained well behaved in the week driven by central bank news flow. SKEW index a measure of tail risks remained fairly contained too. Turning to fixed income, yields on long-term USTs fell as Fed signalled that rate rises do not immediately follow the start of the taper of the asset purchases. Core Eurozone bond yields slipped from earlier highs after ECB President Christine Lagarde pushed back against raising interest rates in 2022. Yields on UK gilts fell as BoE kept rates unchanged. Peripheral Eurozone bond yields fell too. In the FX space, USD gained against GBP but lost marginally against EUR and JPY. Gold prices rose strongly to hit a two-month high as US yields dropped. Prices of silver and platinum increased over the week. Oil prices fluctuated over the week and ended lower as the decision by the OPEC+ to stick to their previous plans to bring back supply only gradually were met by fears that the US might release some of its strategic oil reserves. Expectations that Russia will remove taxes on aluminium exports and boost global supplies caused a sharp fall in prices.

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COP26 and implications for investors

COP26 could indeed be the last best chance to save our planet. Whilst there is always uncertainty around how much can be achieved in one conference; the direction of travel is clearly towards a low-carbon future. The immediate implication is that investors need to consider this theme as more structural and one for the longer-term. COP26 has four broader official goals: mitigation, adaptation, mobilising finance, and collaboration. Under mitigation, carbon pricing, if introduced and implemented fully, could result in profit squeeze for the polluters. Mitigation also implies change in global energy mix entailing not only faster phasing out of fossil fuels but also accelerated deployment of renewables. On the goal of adaptation, investors are likely to do well by simply avoiding companies that have higher climate risks. However, opportunities are in companies that benefit from the government aid to facilitate adaptation (infrastructure, water and agricultural companies). In addition, companies that have lower risk of disruptions to their operations from climate change are likely to emerge relative winners. Here software and digital companies screen well. The third goal of mobilizing finance is likely to accelerate climate investments. Sustainable and green bond issuances are likely to rise. Collaborating to fight the climate change is the fourth goal. Here, whilst the issue being dealt with is serious, collaborating on the battle against climate change could still be strained due to stand-offs and skirmishes between countries. Taking all these together, we think investors need to make ESG considerations at every level of their portfolio construction and maintenance. Having said this, there is no one way to integrate ESG or climate risk mitigation strategies into the portfolios. Also, incorporating ESG factors without conducting a holistic assessment could bring unwarranted risks on to the books. Greenwashing is abound, and investors need to be careful when choosing their financial products.

Global markets' performance snapshot

Index Snapshot (World Indices)

Index	Latest	Weekly %	YTD %
S&P 500	4,698	2.0	25.1
Dow Jones	36,328	1.4	18.7
Nasdaq	15,972	3.1	23.9
DAX	16,054	2.3	17.0
Nikkei 225	29,612	2.5	7.9
FTSE 100	7,304	0.9	13.1
Sensex*	60,068	1.3	25.8
Hang Seng	24,871	-2.0	-8.7
Regional Markets (Sunday to Thursday)			
ADX	8,015	1.8	58.9
DFM	3,108	8.6	24.7
Tadawul	11,752	-0.1	35.2
DSM	11,941	1.1	14.4
MSM30	4,050	-0.3	10.7
BHSE	1,779	2.1	19.4
KWSE	7,202	1.4	29.9
MSCI			
MSCI World	3,232	1.8	20.2
MSCI EM	1,264	-0.1	-2.1

Notes:*Data as of November 04 2021

Global Commodities, Currencies and Rates

Commodity	Latest	Weekly %	YTD %
ICE Brent USD/bbl	82.7	-1.9	59.7
WTI USD/bbl	81.3	-2.8	67.5
Gold USD/t oz	1,818.4	2.0	-4.2
Silver USD/t oz	24.2	1.1	-8.5
Platinum USD/t oz	1,036.2	1.4	-3.3
Copper USD/MT	9,740.0	-2.2	25.8
Alluminium	2,537.8	-6.4	28.2
Currencies			
EUR USD	1.16	0.1	-5.3
GBP USD	1.35	-1.3	-1.3
USD JPY	113.41	-0.5	9.8
CHF USD	0.91	-0.4	-3.0
Rates			
USD Libor 3m	0.14	9.2	-39.4
USD Libor 12m	0.36	0.4	6.0
UAE Eibor 3m	0.29	-15.5	-43.1
UAE Eibor 12m	0.71	7.7	8.4
US 3m Bills	0.04	-21.1	-34.8
US 10yr Treasury	1.45	-6.5	58.9

Summary market outlook

Global Yields	Yields on long-term USTs fell as Fed signaled that rate rises do not immediately follow the start of the taper of the asset purchases. Core Eurozone bond yields slipped from earlier highs after ECB President Christine Lagarde pushed back against raising interest rates in 2022. Yields on UK gilts fell as BoE kept rates unchanged. Peripheral Eurozone bond yields fell too. Overall, we recommend a lower duration stance (5Y USTs) in anticipation of interest rate volatility in the near term.
Stress and Risk Indicators	VIX remained well behaved in the week driven by central bank news flow. SKEW index a measure of tail risks remained fairly contained too. 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	GCC indices posted gains and outperformed broad EM indices. Within the region, UAE stocks driven by capital market reform momentum in Dubai outperformed. According to press, the UAE will list 10 SOEs on DFM. While a timeline has not been provided by the Dubai media office, the Securities and Exchange Higher Committee has approved the establishment of a AED2bn market making fund and the Committee also plans to launch a AED1bn fund to support initial offerings of tech companies. Further, a Dubai Supervisory Committee and special courts for capital markets will be formed, which are part of a wider government strategy to increase the total volume of Dubai's stock markets to AED3trn. 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 markets.
Global Equity Markets	Equities posted further gains over the week. DMs outperformed EMs. Within DMs, Japan outperformed the most and UK underperformed. Amongst sectors, IT and consumer sectors outperformed while real estate and healthcare underperformed. From a strategy view point, we are moderately overweight US, UK, and Asia Pacific; underweight Eurozone and EMs outside Asia. By sector we prefer industrials, IT, and communication services. 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. Yet, in the very near-term, as the new wave of COVID-19 fear subsides, we see opportunities in cyclicals, value, and re-opening sectors.
Technology Segments	Nasdaq-100 rose another c3% over the week taking year-to-date gains to c27%. HKtech index, a measure of Chinese tech equity performance, fell c2% over the week in line with other sectors in China.
Commodities	
Precious Metals	Gold prices rose strongly to hit a two-month high as US yields dropped. Prices of silver and platinum increased over the week. We keep our overweight in gold as a hedge against potential risks on the horizon.
Energy	Oil prices fluctuated over the week and ended lower as the decision by the OPEC+ to stick to their previous plans to bring back supply only gradually were met by fears that the US might release some of its strategic oil reserves. Overall, we believe that oil prices will remain sustained as the market approaches a balance.
Industrial Metals	Expectations that Russia will remove taxes on aluminium exports and boost global supplies caused a sharp fall in prices. While another commodity super-cycle appears difficult, demand for commodities linked to environmental friendly green infrastructure is likely to sustain.
Currencies	
EURUSD	EUR gained against the USD, albeit only marginally, as the interest rate differentials narrowed. Re-opening is a positive for EUR while risk-off sentiment and the easier policy are moderately negative.
Critical levels	R2 1.1822 · R1 1.1695 · S1 1.1477 · S2 1.1386
GBPUSD	GBP weakened as the unchanged BoE policy disappointed investors expecting a rate hike. We expect the cable to be driven by how the BoE policy evolves out over the near-term and to decouple from the EUR.
Critical levels	R2 1.4005 · R1 1.3751 · S1 1.3328 · S2 1.3159
USDJPY	USDJPY fell to a three-week low as support of the positive yield differential between the US and Japan faded slightly. Over the medium-term, BoJ's yield curve targeting should put downward pressure on JPY.
Critical levels	R2 117.04 · R1 115.23 · S1 111.07 · S2 108.72

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

Forthcoming important economic data/events

United States

	Indicator	Period	Expected	Prior	Comments
11/09/21	**NFIB Small Business Optimism**	**Oct**	**99.5**	**99.1**	Consumer price inflation data will be the highlight this week. Market consensus expects the headline inflation to have increased to 5.9% in October (from 5.4% in September) driven by strong gains in both motor fuel prices and food prices. Core CPI (i.e. excluding food and energy) is expected to have risen by 4.3% during October. Elsewhere, NFIB small business optimism, PPI, initial jobless claims, JOLTs job openings during September and preliminary reading of UMich sentiment for November are key data releases.
11/09/21	**PPI Final Demand YoY**	**Oct**	**8.60%**	**8.60%**	
11/10/21	MBA Mortgage Applications	5-Nov	--	-3.30%	
11/10/21	**Initial Jobless Claims**	**6-Nov**	**265k**	**269k**	
11/10/21	Continuing Claims	30-Oct	--	2,105k	
11/10/21	**CPI YoY**	**Oct**	**5.90%**	**5.40%**	
11/10/21	**CPI Ex Food and Energy YoY**	**Oct**	**4.30%**	**4.00%**	
11/10/21	Wholesale Inventories MoM	Sep F	1.10%	1.10%	
11/10-11/14/21	Mortgage Delinquencies	3Q	--	5.47%	
11/12/21	**JOLTS Job Openings**	**Sep**	**10,400k**	**10,439k**	
11/12/21	**U. of Mich. Sentiment**	**Nov P**	**72.5**	**71.7**	

Japan

	Indicator	Period	Expected	Prior	Comments
11/09/21	Labor Cash Earnings YoY	Sep	0.60%	0.70%	PPI is expected to have risen strongly during October. Factory gate prices in Japan are expected to have risen at the fastest pace since September 2008. Machine tool orders is the other key data release.
11/09/21	Bankruptcies YoY	Oct	--	-10.61%	
11/10/21	Money Stock M2 YoY	Oct	4.00%	4.20%	
11/10/21	**Machine Tool Orders YoY**	**Oct P**	**--**	**71.90%**	
11/11/21	**PPI YoY**	**Oct**	**6.90%**	**6.30%**	

Eurozone

	Indicator	Period	Expected	Prior	Comments
11/08/21	Eurozone Sentix Investor Confi.	Nov	15.0	16.9	German trade data will be closely watched. Especially the growth in exports from Germany is expected to provide a strong evidence on the strength of the global economy. French industrial sentiment for October, and Eurozone industrial production for September are likely to provide evidence on the strength of this industrial cycle. ECB's economic bulletin and EU commission's economic forecasts are other important releases.
11/09/21	**Germany Exports SA MoM**	**Sep**	**0.00%**	**-1.20%**	
11/09/21	Germany Imports SA MoM	Sep	0.50%	3.50%	
11/09/21	**Germany ZEW Survey Exp.**	**Nov**	**20.0**	**22.3**	
11/09/21	Germany ZEW Survey Cur. Situation	Nov	18.0	21.6	
11/09/21	Eurozone ZEW Survey Expectations	Nov	--	21	
11/10/21	Bank of France Ind. Sentiment	Oct	100	100	
11/11/21	ECB Publishes Economic Bulletin				
11/11/21	EU Comm. Economic Forecasts				
11/12/21	**Eurozone IP YoY**	**Sep**	**4.10%**	**5.10%**	

United Kingdom

	Indicator	Period	Expected	Prior	Comments
11/11/21	RICS House Price Balance	Oct	65%	68%	GDP print for Q3 is expected to show slowing growth in H2. Market consensus is for the Q3 GDP to have risen 6.8% y-o-y compared to a 23.6% y-o-y growth during Q2. Industrial production, manufacturing production, construction output and index of services are important too.
11/11/21	**GDP YoY**	**3Q P**	**6.80%**	**23.60%**	
11/11/21	**Industrial Production YoY**	**Sep**	**3.10%**	**3.70%**	
11/11/21	Manufacturing Production YoY	Sep	3.10%	4.10%	
11/11/21	Construction Output YoY	Sep	6.90%	10.10%	
11/11/21	**Index of Services MoM**	**Sep**	**0.50%**	**0.30%**	

China and India

Date	Indicator	Period	Expected	Prior	Comments
11/07/21	China Trade Balance (USDbn)	Oct	64.03	66.76	China's trade data for October is expected to provide a quick assessment of the situation in the world's second largest economy. China's aggregate financing during October is another important data release to watch. On inflation front, the divergence between PPI and CPI is expected to have widened further during October. In India, industrial production for September and CPI for October are key data releases this week.
11/07/21	**China Exports YoY**	**Oct**	**22.80%**	**28.10%**	
11/07/21	**China Imports YoY**	**Oct**	**26.20%**	**17.60%**	
11/07/21	China Foreign Reserves (USDbn)	Oct	3,200	3,200	
11/09-11/15/21	**China Aggregate Financing (CNYbn)**	**Oct**	**1,600**	**2,900**	
11/09-11/15/21	China New Yuan Loans (CNYbn)	Oct	800	1,660	
11/10/21	**China CPI YoY**	**Oct**	**1.40%**	**0.70%**	
11/10/21	**China PPI YoY**	**Oct**	**12.50%**	**10.70%**	
11/12/21	India Industrial Production YoY	Sep	4.60%	11.90%	
11/12/21	**India CPI YoY**	**Oct**	**4.33%**	**4.35%**	
11/13-11/16/21	China 1-Yr MTLF Rate	15-Nov	--	2.95%	

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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