The Weekly Market View

November 28 2021

بنك أبوظبي التجاري
ADCB
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Concerns of a variant

For the past year or so, SARS-CoV-2, the virus that causes COVID-19 disease has not been a major concern for the financial markets which have been reassured on the one hand by progress on vaccines and medicines, and on the other hand by accommodative policies by the central banks and governments. COVID-19 has fallen relatively far down on the list of investor concerns in recent months. This sense of complacency was challenged last week. Concerns of a new virus variant, which was labelled a 'variant of concern', sparked a sell-off in financial assets that are most exposed to the pandemic and resulted in a dash to safe havens. On Friday, global equities and oil prices were hit by their hardest falls for more than a year. Safe havens including gold, US treasuries, and Japanese yen saw a strong bid. Thin trading volumes thanks to a shortened US trading day arguably exacerbated these moves. UST yields fell sharply on Friday amidst the flight to safe havens. However, earlier in the week, yields rose on the reappointment of Jerome Powell as the Fed Chair, hawkish comments from some Fed members, and the minutes of FOMC meeting showing some policymakers advocated for a quicker taper. Equities were hit by a sharp risk-aversion on Friday as concerns of the new variant intensified. All major equity regions posted losses over the week. EM EMEA, led down by South Africa and Russia, underperformed the most. DMs outperformed EMs. Japan and US outperformed albeit posted losses in absolute terms. VIX ended the week at a nine month-high. VVIX – a measure of volatility in VIX hit a ten month-high. However, SKEW index a measure of tail risks remained flat over the week. Broader USD fell sharply as expectations for interest rate hikes in the US fell. Commodity prices exhibited mixed trends.

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A variant of concern

The Technical Advisory Group on SARS-CoV-2 Virus Evolution – an independent group of experts that periodically monitors and evaluates the evolution of SARS-CoV-2 – was convened on 26 November to assess the SARS-CoV-2 variant: B.1.1.529 which is now named Omicron. According to the World Health Organization (WHO), based on the evidence presented indicative of a detrimental change in COVID-19 epidemiology, the Technical Advisory Group has advised WHO that this variant should be designated as a "variant of concern". As a result, many countries swiftly introduced restrictions on travel from southern African countries. Financial markets rapidly reacted to the news regarding the possibility of this variant to be able to evade the existing COVID-19 vaccines and spread more quickly than the Delta variant. As financial market participants, we think it is important to have humility and acknowledge that we do not have all necessary information about the virus variant to assess the damage it could cause to financial markets. Whilst there are reasons to worry, we should also keep in mind that Omicron's epidemiological and clinical correlation is not fully established yet. Over the next few weeks we are likely to get more scientific clarity on the situation. On the portfolio positioning, whilst we have not gone completely risk-off, we have been working with the assumption that emergence of new strains of virus is one of the key risks facing financial markets. We have been advocating staying invested in a more diversified portfolio of assets. From an asset allocation point of view, we are neutral equities and alternatives, underweight fixed income, and overweight cash and liquidity. Within equities, we have taken a more diversified portfolio stance with a preference for large caps, growth, and quality. On the fixed income side, two months ago, we cut risk further by downgrading emerging market local currency debt to an underweight and added to our cash positions. US treasuries remained an overweight in our portfolios as we considered them risk hedges. Within alternatives, we prefer strategies that are less correlated to equities. We are overweight gold and underweight industrial commodities. All this suggest a more diversified, and to some extent defensive, positioning (see here). In short, in absence of clarity with the new virus variant, we think staying invested in a diversified portfolio of assets is prudent.

Global markets' performance snapshot

Index Snapshot (World Indices)

Index	Latest	Weekly %	YTD %
S&P 500	4,595	-2.2	22.3
Dow Jones	34,899	-2.0	14.0
Nasdaq	15,492	-3.5	20.2
DAX	15,257	-5.6	11.2
Nikkei 225	28,752	-3.3	4.8
FTSE 100	7,044	-2.5	9.0
Sensex	57,107	-4.2	19.6
Hang Seng	24,081	-3.9	-11.6
Regional Markets (Sunday to Thursday)			
ADX	8,454	1.3	67.6
DFM	3,170	-2.9	27.2
Tadawul	11,299	-3.5	30.0
DSM	11,791	-1.3	13.0
MSM30	4,118	1.3	12.6
BHSE	1,779	-0.7	19.4
KWSE	7,128	-2.1	28.5
MSCI			
MSCI World	3,132	-2.7	16.4
MSCI EM	1,223	-3.6	-5.3

Global Commodities, Currencies and Rates

Commodity	Latest	Weekly %	YTD %
Brent USD/bbl	72.7	-7.8	40.4
WTI USD/bbl	68.2	-10.4	40.5
Gold USD/t oz	1,802.6	-2.3	-5.0
Silver USD/t oz	23.2	-5.9	-12.3
Platinum USD/t oz	958.3	-7.3	-10.6
Copper USD/MT	9,630.0	0.1	24.4
Alluminium	2,632.5	-2.5	33.0
Currencies			
EUR USD	1.13	0.2	-7.4
GBP USD	1.33	-0.8	-2.4
USD JPY	113.38	-0.5	9.8
CHF USD	0.92	-0.5	-4.1
Rates	**Latest**	**Weekly (bp)**	**YTD (bp)**
USD Libor 3m	0.18	1.2	-6.3
USD Libor 12m	0.47	8.0	13.0
UAE Eibor 3m	0.36	-0.9	-15.3
UAE Eibor 12m	0.72	1.0	6.6
US 3m Bills	0.04	-0.3	-2.0
US 10yr Treasury	1.47	-7.3	56.0

Summary market outlook

Global Yields	UST yields fell sharply on Friday amidst the flight to safe havens. However, earlier in the week, yields rose on the reappointment of Jerome Powell as the Fed Chair, hawkish comments from some Fed members, and the minutes of FOMC meeting showing some policymakers advocated for a quicker taper. Core Eurozone bond yields ended roughly flat after the coronavirus news dragged them off the week's highs. Peripheral Eurozone bond yields stayed higher on inflation, as did UK gilt yields. Yields on JGBs ended the week unchanged. Overall, we recommend a lower duration stance (5Y USTs) in anticipation of interest rate volatility in the near term.
Stress and Risk Indicators	VIX ended the week at a nine month-high. VVIX – a measure of volatility in VIX hit a ten month-high. However, SKEW index a measure of tail risks remained flat over the week. 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 equity markets lost value in aggregate and performed broadly in line with EM aggregates last week. This was the case despite local markets remaining closed on Friday when the risk-off hit equity markets across the globe. Saudi Arabian equities faced risk-aversion following drone attacks on the Kingdom. On Sunday, equity market in Saudi Arabia posted its biggest one-day loss in more than a year. Equities in Abu Dhabi and Oman not only outperformed but also posted gains over the week. We stay 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 were hit by a sharp risk-aversion on Friday as concerns of the new virus variant intensified. On the last trading day of the week MSCI ACWI fell by the most in 13 months. All major equity regions posted losses over the week. EM EMEA, led down by South Africa and Russia, underperformed the most. DMs outperformed EMs. Japan and US outperformed albeit posted losses in absolute terms. 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, small caps, and re-opening sectors.
Technology Segments	Nasdaq-100 index fell c3% in line with the broader market. HKtech index fell c5% over the week on concerns of increased regulatory tightening for the segment.
Commodities	
Precious Metals	Gold prices fell over the week but had a strong bid on Friday as risk-off mood dominated. Silver and platinum prices fell during the week. We keep our overweight in gold as a hedge against potential risks on the horizon.
Energy	Oil price fell sharply last week as concerns about the potential new virus variant clouded the demand outlook. Earlier in the week, oil prices rose as the impact of the US releasing its strategic petroleum reserves was much more muted than feared. Overall, we believe that oil prices will remain sustained as the market balances.
Industrial Metals	Industrial metals rose through to Thursday on positive China news flow but fell on Friday on risk-off. While another commodity super-cycle is difficult, demand for commodities linked to "green infrastructure" is likely to sustain.
Currencies	
EURUSD	EUR rose against the greenback whose weakness was caused by dialed down-expectations for a Fed rate hike. Increased restrictions will be clear negative for EUR; risk-off sentiment and dovish ECB are moderately negative.
Critical levels	R2 1.1904 · R1 1.1611 · S1 1.1105 · S2 1.0892
GBPUSD	Cable fell to its lowest level this year on concerns of the new virus variant and potentially lower interest rates. We expect the GBP to be driven by how the BoE policy evolves over the near-term and to decouple from the EUR.
Critical levels	R2 1.4040 · R1 1.3688 · S1 1.3132 · S2 1.2928
USDJPY	Japanese Yen rose sharply against the USD not only on the bid for safe haven but also on the weakness in the greenback. Over the medium-term, BoJ's yield curve targeting should put downward pressure on JPY.
Critical levels	R2 116.67 · R1 115.02 · S1 112.23 · S2 111.09

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
11/29/21	Pending Home Sales MoM	Oct	0.80%	-2.30%	November US job market data will be the highlight this week. Market consensus expects the nonfarm payrolls to increase by 535k (compared with an increase of 531k during October) taking the unemployment rate down to 4.5% (from 4.6% in October). With the labour force participation expected to improve at the margin (rising to 61.7% in November from 61.6% in October), average hourly earnings are expected to have risen by c5%. This job market data is likely to be read in tandem with real-time indicators like the ISM Manufacturing index (which is expected to show an acceleration in expansion) and ISM Services Index (where growth is expected to decelerate, albeit at the margin). Conference Board consumer confidence index is expected to show moderating trends in consumption.
11/29/21	Dallas Fed Manf. Activity	Nov	17.0	14.6	
11/30/21	FHFA House Price Index MoM	Sep	1.20%	1.00%	
11/30/21	S&P CoreLogic CS 20-City YoY NSA	Sep	19.35%	19.66%	
11/30/21	MNI Chicago PMI	Nov	67.0	68.4	
11/30/21	**Conf. Board Consumer Confidence**	**Nov**	**110.7**	**113.8**	
12/01/21	MBA Mortgage Applications	26-Nov	--	1.80%	
12/01/21	**ADP Employment Change**	**Nov**	**525k**	**571k**	
12/01/21	Markit US Manufacturing PMI	Nov F	59.1	59.1	
12/01/21	Construction Spending MoM	Oct	0.40%	-0.50%	
12/01/21	**ISM Manufacturing**	**Nov**	**61.1**	**60.8**	
12/01/21	**US Federal Reserve Beige Book**				
12/02/21	**Initial Jobless Claims**	**27-Nov**	**250k**	**199k**	
12/02/21	Continuing Claims	20-Nov	2,000k	2,049k	
12/03/21	**Change in Nonfarm Payrolls**	**Nov**	**535k**	**531k**	
12/03/21	**Unemployment Rate**	**Nov**	**4.50%**	**4.60%**	
12/03/21	**Average Hourly Earnings YoY**	**Nov**	**5.00%**	**4.90%**	
12/03/21	Labor Force Participation Rate	Nov	61.70%	61.60%	
12/03/21	Markit US Services PMI	Nov F	57.0	57.0	
12/03/21	**ISM Services Index**	**Nov**	**65.0**	**66.7**	
12/03/21	Factory Orders	Oct	0.50%	0.20%	
12/03/21	Durable Goods Orders	Oct F	--	-0.50%	

Japan

	Indicator	Period	Expected	Prior	Comments
11/29/21	**Retail Sales YoY**	**Oct**	**1.10%**	**-0.60%**	Retail sales, industrial production, and job market data are likely to provide a 'hard' data assessment for October. Manufacturing PMI, services PMI, vehicle sales, and consumer confidence data – all for November – are expected to provide a more real-time assessment of the economy, especially in the context of the new fiscal stimulus announced.
11/30/21	Job-To-Applicant Ratio	Oct	1.17	1.16	
11/30/21	Jobless Rate	Oct	2.80%	2.80%	
11/30/21	**Industrial Production YoY**	**Oct P**	**-4.40%**	**-2.30%**	
11/30/21	Housing Starts YoY	Oct	5.80%	4.30%	
12/01/21	Jibun Bank Japan PMI Mfg	Nov F	--	54.2	
12/01/21	Vehicle Sales YoY	Nov	--	-30.20%	
12/02/21	Monetary Base YoY	Nov	--	9.90%	
12/02/21	**Consumer Confidence Index**	**Nov**	**--**	**39.2**	
12/03/21	Jibun Bank Japan PMI Services	Nov F	--	52.1	

Eurozone

	Indicator	Period	Expected	Prior	Comments
11/29/21	Eurozone Consumer Confidence	Nov F	--	-6.8	Many data releases including consumer confidence, CPI, retail sales, and PMIs are expected to provide a deeper look at the bloc's economy. In terms of inflation, economists' consensus expectations are for price rises to have accelerated during November. Of course the falling energy prices are anticipated to provide some relief. However, the base effects point to higher inflation. Unemployment rate is projected to have moderated further during October.
11/29/21	Eurozone Economic Confidence	Nov	117.5	118.6	
11/29/21	Eurozone Industrial Confidence	Nov	14.0	14.2	
11/29/21	Eurozone Services Confidence	Nov	17.0	18.2	
11/29/21	**Germany CPI YoY**	**Nov P**	**5.00%**	**4.50%**	
11/30/21	**France CPI YoY**	**Nov P**	**2.60%**	**2.60%**	
11/30/21	**Eurozone CPI Core YoY**	**Nov P**	**2.30%**	**2.00%**	
11/30/21	**Eurozone CPI Estimate YoY**	**Nov**	**4.50%**	**4.10%**	
12/01/21	Germany Retail Sales NSA YoY	Oct	-1.70%	-0.70%	
12/01/21	Markit Eurozone Manufacturing PMI	Nov F	58.6	58.6	
12/01/21	**OECD Economic Outlook**				
12/02/21	Eurozone Unemployment Rate	Oct	7.30%	7.40%	
12/02/21	Eurozone PPI YoY	Oct	19.00%	16.00%	
12/03/21	Markit Eurozone Services PMI	Nov F	56.6	56.6	
12/03/21	**Eurozone Retail Sales YoY**	**Oct**	**1.40%**	**2.50%**	

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United Kingdom

	Indicator	Period	Expected	Prior	Comments
11/29/21	Mortgage Approvals	Oct	70.0k	72.6k	House price growth is expected to moderate further during November. At its peak in June this year, growth in house prices was c13% y-o-y.
12/01/21	**Nationwide House Px NSA YoY**	**Nov**	**9.30%**	**9.90%**	
12/01/21	Markit UK PMI Manufacturing SA	Nov F	58.2	58.2	
12/03/21	Markit/CIPS UK Services PMI	Nov F	58.6	58.6	

China and India

	Indicator	Period	Expected	Prior	Comments
11/30/21	**China NBS Non-manufacturing PMI**	**Nov**	**51.3**	**52.4**	In China, official PMIs are likely to point to a more moderate growth during November. In India, Q3 GDP is expected to show a growth of 8.2% y-o-y helped by the receding second wave of the pandemic.
11/30/21	**China NBS Manufacturing PMI**	**Nov**	**49.8**	**49.2**	
11/30/21	**India GDP YoY**	**3Q**	**8.20%**	**20.10%**	
12/01/21	Caixin China PMI Mfg	Nov	50.5	50.6	
12/01/21	**Markit India PMI Mfg**	**Nov**	**--**	**55.9**	
12/03/21	Caixin China PMI Services	Nov	51.0	53.8	
12/03/21	**Markit India PMI Services**	**Nov**	**--**	**58.4**	

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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