The Weekly Market View

November 7 2022

بنك أبوظبي التجاري
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As high as five

Markets received a setback as the hawkish Fed and strong payroll report dashed hopes of a possible dovish pivot. The Fed raised rates by 75bp as expected, marking its fourth consecutive 75bp rate hike. The Fed statement released prior to the press conference outlined a slight dovish tilt with the FOMC acknowledging that it will consider the cumulative tightening of monetary policy and the lags with which monetary policy affects economic activity. Markets initially reacted positively to the Fed statement. However, Fed Chair Jerome Powell took a hawkish turn at the press conference, signalling that while the slowdown in pace of rate hikes could arrive soon, the terminal rate could be higher than previously indicated at the September meeting. As a result, market expectations of the terminal rate immediately jumped past the 5% level. Strong labour market report released on Friday further intensified hawkish concerns. In the UK, the Bank of England delivered its largest rate hike in 30 years but signalled that future rate hikes may not be as aggressive as priced by the market. Elsewhere, reports of China considering to lift its zero-Covid-19 policy restrictions supported risk appetite, especially in Europe and Emerging markets. Meanwhile, Eurozone inflation surprised on the upside while early growth estimates showed that the region's growth rose only by 0.2% in Q3 22. Global stocks recorded weekly losses of c2.1%, weighed down by the US equities. US equities were the worst performers, led by the technology stocks which suffered on the back of disappointing earnings from some big-tech companies. On the other hand, UK equities rallied with the FTSE 100 rising by c4%, making it the best performer. European equities also recorded gains on hopes of China re-opening. In fixed income, Fed's hawkish tone drove UST yields higher across the curve with the 2yr UST yield touching a 15yr high. Eurozone bond yields rose on strong inflation print. The USD strengthened against the euro and the pound sterling on hawkish Fed bias. Commodities recorded weekly gains despite the USD strength. Oil prices registered weekly gain as the impending EU ban on Russia imports and reports of China re-opening offset the global slowdown concerns. Gold prices rose over the week, despite the hawkish Fed.

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Don't dim the pivot hopes yet

While the Fed's hawkish stance may have poured cold water on those expecting a less hawkish stance, we believe the hopes of Fed pivot still remain. Fed Chair Jay Powell may have ruled out a pause in rate hikes but did not rule out the possibility of slowdown in the rate hikes. The current tightening Fed cycle has been the fastest and the most aggressive in years. But even with the likely upward revisions of peak cycle rate (market expecting around 5%), we are probably now looking at the last leg of the Fed tightening cycle. The impact of Fed's tightening is slowly becoming evident. The recent labour market data, still signalling a tight labour market, has started to show some signs of weakness. The uptick in the unemployment rate and year-on-year stabilisation in average hourly earnings (4.7% in October vs 5% in September) signal that the labour market tightness may have peaked. Separately, the Fed so far has ignored the famous recession predictor- inversion of the 10-2yr UST yield curve and had stated that it is more closely watching the curve trends in the short-end of the yield curve. However, the short-end of the curve is also flashing signs with key parts of the curve inching towards inversion. The 10yr UST-3-month T-bill yield spread briefly inverted in end-October. The Fed's preferred near-term forward spread- the difference between the 3-month T-bill yield in 18 months and the current T-bill yield is now flirting with inversion. Though the Fed still remains focused on inflation and likely to do so in the next few months, the fact the FOMC is also slowly taking into account the lagged impact of the monetary policy indicate that the Fed is unlikely to ignore the growth and financial stability risks for long. We still maintain our long duration stance on USTs (7-10yr UST) vs the global bond benchmark. Historically, the 10yr UST yields have never risen beyond the peak Fed cycle rate. Taking into account the current expectation of a terminal rate of c5%, the room for rally in UST yields is limited. The rise in 10yr UST yields is also inconsistent with the rise in the US recession probabilities.

Global markets' performance snapshot*

Index Snapshot (World Indices)*

Index	Latest	Weekly %	YTD %
S&P 500	3,771	-3.35	-20.89
Dow Jones	32,403	-1.40	-10.83
Nasdaq	10,475	-5.65	-33.04
DAX	13,460	1.63	-15.27
Nikkei 225	27,200	0.35	-4.39
FTSE 100	7,335	4.07	-0.67
Sensex	60,950	1.65	4.63
Hang Seng	24,209	8.73	-29.39
Regional Markets			
ADX	10,482	1.90	23.49
DFM	3,350	0.03	4.84
Tadawul**	11,439	-2.31	2.12
DSM**	12,306	0.36	6.72
MSM30**	4,402	0.01	6.99
BHSE**	1,862	-0.09	3.54
KWSE**	7,365	1.85	5.44
MSCI			
MSCI World	2,507	-2.10	-22.42
MSCI EM	885	4.66	-28.17

Global Commodities, Currencies and Rates*

Commodity	Latest	Weekly %	YTD %
ICE Brent USD/bbl	98.6	2.92	25.17
Nymex WTI USD/bbl	92.6	5.36	21.29
Gold USD/t oz	1,681.9	2.25	-8.54
Silver USD/t oz	20.9	8.30	-11.98
Platinum USD/t oz	964.2	1.71	-1.78
Copper USD/MT	7,905.0	3.15	-18.44
Alluminium	2,348.3	6.48	-16.22
Currencies			
EUR USD	1.00	-0.08	-12.61
GBP USD	1.14	-2.03	-16.31
USD JPY	146.62	-0.66	21.84
USD CHF	1.00	-0.07	8.37
Rates	**Latest**	**Weekly (bp)**	**YTD(bp)**
USD Libor 3m	4.55	11.07	434.12
USD Libor 12m	5.67	29.74	508.33
UAE Eibor 3m	4.29	18.85	392.81
UAE Eibor 12m	4.94	19.59	419.64
US 3m Bills	4.10	5.43	406.99
US 10yr Treasury	4.16	14.61	264.83

Source: Bloomberg | Notes: *Data as of November 4 2022 unless stated otherwise; **Data as of November 3 2022.

Summary market outlook

Global Yields	UST yields edged higher across the curve in reaction to the hawkish Fed outlook. 2Y UST yields rose to the highest level in 15 years. European government bond yields also rose on strong inflation print. Bond yields and prices are inversely correlated. i.e. yields rise when prices fall and vice versa. Overall, we recommend adding duration on USTs (7-10Y segment) as growth slowdown/recession fears rise.
Stress and Risk Indicators	VIX index (measuring implied volatility in equities) declined over the week. VVIX index (measuring volatility of the VIX) and the SKEW index (a measure of tail risks in equities) rose over the week. MOVE index (measure of volatility in bonds) also dropped to the lowest level in more than one month. We expect financial market volatility to stay elevated as the monetary policy normalizes.
Equity Markets	
Local Equity Markets	GCC equities recorded a mixed performance. Abu Dhabi stocks gained c1.9%, outperforming peers. On the other hand, Saudi equities came under pressure, declining by c2.3% over the week. 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 markets.
Global Equity Markets	Global equities (as measured by MSCI All Country World Index) recorded weekly losses, partially paring previous week's gains. DM underperformed EM over the week with EM equities gaining c4.6%. DM underperformance was mainly driven by US equities which underperformed peers. UK equities, on the other hand, were the best performers. We are moderately overweight US, UK, and Asia Pacific; underweight Eurozone and EMs outside Asia. By sector we prefer healthcare, industrials, and communication services. Our strategic preference is for large cap non-cyclical growth with focus on quality. Our other high conviction ideas include clean energy themes (for medium to long-term); aerospace & defence, food security, energy security, and cybersecurity as plays on rising geopolitical tensions and deglobalization; and consumer services, airlines, and hotels, restaurants & leisure as plays on re-opening.
Technology Segments	Nasdaq-100 dropped by c3.8% while Hang Seng Tech Index jumped by c18% over the week. Within the technology sector, we prefer non-cyclical growth over cyclical growth (tech hardware, semiconductors etc.) over a 12-month horizon.
Commodities	
Precious Metals	Gold prices rose over the week, despite hawkish Fed bias and broad USD strength. We are overweight gold as a hedge against potential inflation, growth, and geopolitical risks.
Energy	Oil prices recorded weekly gains as the impending EU ban on Russia imports and reports of China re-opening offset the 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 registered weekly gains with both copper and aluminium prices rising strongly on expectation that China could relax its Covid restrictions. Another commodity super-cycle is difficult, yet demand for commodities linked to "green infrastructure" is likely to sustain.
Currencies	
EURUSD	EUR depreciated against the USD as the Fed signaled a higher terminal rate. We expect ECB policy divergence and growth differentials to play a major role in the performance of the euro.
Critical levels	R2 1.0134 · R1 1.0045 · S1 0.9799 · S2 0.9642
GBPUSD	GBP weakened against the USD with the BoE signaling future rates hikes to be less aggressive than priced by the market and warned of a prolonged economic contraction. We expect GBP to weaken against USD and stay flat versus the EUR.
Critical levels	R2 1.1844 · R1 1.1611 · S1 1.1148 · S2 1.0918
USDJPY	JPY strengthened after the USDJPY reached the 148 level. BoJ policy remains odd-one out and is likely to keep JPY under pressure.
Critical levels	R2 150.22 · R1 148.42 · S1 145.25 · S2 143.88

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Forthcoming important economic data/events

United States

Date & Time (GST)	Indicator	Period	Expected	Prior
11/08/2022	**US mid-term elections**			
11/09/2022 16:00	MBA Mortgage Applications	4-Nov	--	-0.005
11/10/2022 17:30	**CPI MoM**	**Oct**	**0.007**	**0.004**
11/10/2022 17:30	**CPI Ex Food and Energy MoM**	**Oct**	**0.005**	**0.006**
11/10/2022 17:30	**CPI YoY**	**Oct**	**0.081**	**0.082**
11/10/2022 17:30	**CPI Ex Food and Energy YoY**	**Oct**	**0.066**	**0.066**
11/10/2022 17:30	Real Avg Hourly Earning YoY	Oct	--	-0.03
11/10/2022 17:30	Real Avg Weekly Earnings YoY	Oct	--	-0.038
11/10/2022 17:30	Initial Jobless Claims	5-Nov	--	--
11/10/2022 17:30	Continuing Claims	29-Oct	--	--
11/11/2022 19:00	**U. of Mich. Current Conditions**	**Nov P**	**--**	**65.6**
11/11/2022 19:00	**U. of Mich. 1 Yr Inflation**	**Nov P**	**--**	**0.05**
11/11/2022 19:00	**U. of Mich. 5-10 Yr Inflation**	**Nov P**	**--**	**0.029**

Japan

Date & Time (GST)	Indicator	Period	Expected	Prior
11/08/2022 09:00	Leading Index CI	Sep P	98.3	101.3
11/08/2022 09:00	Coincident Index	Sep P	101.1	101.8
11/09/2022 03:50	BoP Current Account Balance	Sep	¥282.1b	¥58.9b
11/09/2022 09:00	**Eco Watchers Survey Current SA**	**Oct**	**--**	**48.4**
11/09/2022 09:00	**Eco Watchers Survey Outlook SA**	**Oct**	**--**	**49.2**
11/10/2022 03:50	Money Stock M2 YoY	Oct	--	3.30%
11/10/2022 10:00	Machine Tool Orders YoY	Oct P	--	4.30%
11/11/2022 03:50	**PPI YoY**	**Oct**	**8.80%**	**9.70%**
11/11/2022 03:50	**PPI MoM**	**Oct**	**0.80%**	**0.70%**

Eurozone

Date & Time (GST)	Indicator	Period	Expected	Prior
11/08/2022 14:00	Eurozone Retail Sales MoM	Sep	--	-0.30%
11/08/2022 14:00	Eurozone Retail Sales YoY	Sep	--	-2.00%
11/10/2022 13:00	**ECB Publishes Economic Bulletin**			
11/11/2022 11:00	Germany CPI MoM	Oct F	--	0.90%
11/11/2022 11:00	**Germany CPI YoY**	**Oct F**	**--**	**10.40%**

United Kingdom

Date & Time (GST)	Indicator	Period	Expected	Prior
11/11/2022 11:00	**Monthly GDP (MoM)**	**Sep**	**--**	**-0.30%**
11/11/2022 11:00	**GDP QoQ**	**3Q P**	**--**	**0.20%**
11/11/2022 11:00	**GDP YoY**	**3Q P**	**--**	**4.40%**
11/11/2022 11:00	Industrial Production YoY	Sep	--	-5.20%
11/11/2022 11:00	Manufacturing Production YoY	Sep	--	-6.70%

China and India

Date & Time (GST)	Indicator	Period	Expected	Prior
11/09/2022 05:30	**China PPI YoY**	**Oct**	**-1.60%**	**0.90%**
11/09/2022 05:30	**China CPI YoY**	**Oct**	**2.40%**	**2.80%**
11/11/2022 16:00	India Industrial Production YoY	Sep	--	-0.80%
11/09/2022-11/15/2022	**China New Yuan Loans CNY**	**Oct**	**800.0b**	**2473.8b**
11/09/2022-11/15/2022	**China Money Supply M2 YoY**	**Oct**	**12.00%**	**12.10%**
11/11/2022-11/20/2022	China FDI YTD YoY CNY	Oct	--	15.60%
11/13/2022-11/16/2022	**China 1-Yr Medium-Term Lending Facility Rate**	**15-Nov**	**2.75%**	**2.75%**

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