

# The Weekly Market View

September 4 2023

## Just about right

Financial markets received more information that showed that global macroeconomic conditions could be 'just about right' – without being either overly inflationary or overly recessionary. Macro information last week arrived broadly in four different categories of job markets, consumers, inflation, and manufacturing activity. Starting with the job market, in the US ADP employment monthly change disappointed while non-farm payrolls were much better than expected. Unemployment rate in the US hit a 17-month high but that was on the back of increased labor force participation which was the highest since the pandemic began in 2020. Average hourly earnings grew slightly less than expected in August. However, in Germany unemployment rate was in line with expectations but the employment change disappointed. Turning to consumer, in the US while the personal income growth was weaker than expected in July personal spending was better than expected. In Germany, the GfK consumer confidence index and retail sales growth both disappointed. Moving to inflation, US personal consumption expenditure price indices – both headline and core – were in line with expectations. In the Eurozone, while inflation continued to moderate, the numbers reported were slightly higher than expected. Now turning to manufacturing, we received evidence that the global manufacturing activity may be close to bottoming out. S&P global manufacturing PMI hit a three-month high with increasingly more number of countries registering growth in the manufacturing sector (i.e. PMI above 50). Especially in China the Caixin manufacturing PMI not only surprised the market consensus on the upside but also the number came above 50. An upside surprise in US manufacturing payrolls also supported this view of the manufacturing bottoming out. Against this backdrop, market expectations for a Fed pause over the remainder of the year rose. UST yields fell but the curve bull-steepened. Yields on 10 year JGBs, UK gilts, and German government bonds fell. USD was stable helping commodities to post gains. Equity markets also posted strong gains over the past week.

## Steepening is not frightening

Having lived with the inverted 10Y-2Y yield curves for more than a year now and with the curve inversion reaching its deepest level since early 1980s, financial markets continue to climb the wall of the recession worry. The argument that is now made by the market sceptics is that "while yield curves invert before recession, recession doesn't occur till the yield curve begins to steepen." Simply put, steepening is the un-inversion of the yield curve. Also, a special situation of curve steepening is "bull steepening" – this is when the yields fall across the yield curve, but they fall more at the short-end of the spectrum compared to the long-end. What could cause this so-called bull steepening of the yield curve from extremely inverted levels? We looked at the history and found that it is central banks engaging in interest rate cuts that would trigger such steepening moves. In terms of financial market performance, bull steepening of the yield curves is less frequent but tends to cause weakness in risk assets and the USD. Looking at the last 30 years, we found 44 months of bull steepening of the 10Y-2Y yield curve segment in the US treasuries. The average performance of the MSCI All Country World Index, our benchmark for equities, was -0.9% while the global bond index rose 1.6% on average. The broader US dollar index on average lost 1% over these episodes. During these months of yield curve steepening, volatility also rose for risk assets. However, looking at each of the 44 months of bull steepening in the yield curve, we found that all these episodes are not made equal. Only those that coincided with large economic stresses were bad for equities. For example, bull steepening occurred during periods of Russian financial crisis (1998), dot-com bubble (2000), 9/11 attacks (2001), stock market crash of summer 2002, Global financial crisis of 2008/09, and the global pandemic of early 2020. Of course, periods of economic stress coincide with equity market losses and simultaneously with a rise in expectations of interest rate cuts from central banks with the latter also triggering a bull steepening of the yield curve. Outside such major economic shocks, bull steepening of yield curves was more benign for equity market performance. For instance, in about half of the 44 instances of bull steepening, equity markets posted positive returns. So, it is always important to put the yield curve dynamics into the broader macro context.

## Global markets' performance snapshot

Index Snapshot (World Indices)*			
Index	Latest	Weekly %	YTD %
S&P 500	4,516	2.5	17.6
Dow Jones	34,838	1.4	5.1
Nasdaq	14,032	3.3	34.1
DAX	15,840	1.3	13.8
Nikkei 225	32,711	3.4	25.4
FTSE 100	7,465	1.7	0.2
Sensex	65,387	0.8	7.5
Hang Seng	18,382	2.4	-7.1
Regional Markets			
ADX	9,787	0.2	-4.2
DFM	4,090	-0.2	22.6
Tadawul**	11,491	0.2	9.0
DSM**	10,195	-1.9	-4.6
MSM30**	4,799	0.6	-1.5
BHSE**	1,952	-0.1	3.0
KWSE**	7,006	-0.5	-3.9
MSCI			
MSCI World	2,990	2.7	14.9
MSCI EM	986	1.5	3.1

Source: Bloomberg, and ADCB Asset Management

Notes: \*Data as of September 01 2023 unless stated otherwise; \*\*Data as of August 31 2023.

## Global Commodities, Currencies and Rates\*

Commodity	Latest	Weekly %	YTD %
Brent USD/bbl	88.6	4.8	3.1
WTI USD/bbl	85.6	7.2	6.6
Gold USD/t oz	1,939.3	1.8	6.8
Silver USD/t oz	24.2	0.6	2.0
Platinum USD/t oz	983.0	3.6	-4.7
Copper USD/MT	8,479.3	1.9	1.4
Alluminium	2,190.3	3.6	-6.8
Currencies			
EUR USD	1.08	-0.2	0.7
GBP USD	1.26	0.1	4.1
USD JPY	146.25	-0.1	11.5
Rates			
	Latest	Weekly (bp)	YTD (bp)
SOFR	5.31	1.0	101.0
UAE Eibor 3m	5.21	-17.1	90.4
UAE Eibor 12m	5.46	-12.0	41.4
US 3m Bills	5.30	-4.0	100.0
US 10yr Treasury	4.19	-4.7	35.6
German 10yr Bund	2.55	-1.1	-1.7
UK 10yr Gilt	4.43	-1.7	76.1

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## Summary market outlook

Global Yields	Yields on global government bonds declined on weaker than expected economic data in the US including increasing unemployment which could pressure the fed to pause rate hikes. Yields on 10Y UST, 10Y UK Gilts, 10Y German Bunds and 10Y JGBs all declined. 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) over other DM sovereigns.
Stress and Risk Indicators	Both VIX index (measure of implied volatility in equities) and the MOVE index (measure of bond volatility) declined significantly over the week and have declined for a second week in a row. We expect recession probabilities and uncertainty around the timing of the first rate cut from the Fed to feed into financial market volatility.

## Equity Markets

Local Equity Markets	GCC equity market prices were mixed with Oman outperforming the region's equity markets while Qatar underperformed. The mixed GCC performance was led by multiple factors as investors digested economic data from China and the US. A gain in oil prices gave some support. We stay neutral GCC equities within our global equity framework. Stable 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. We would look to play benchmark transformation over next years.
Global Equity Markets	Global equity prices rose last week as fresh global economic data gave a sense of direction for the markets to form their projections on, as MSCI All Country World Index rose 2.54%. DM equities outperformed EM. The Nasdaq and Nikkei outperformed, rising over 3%. We are overweight North America, and Asia Pacific; underweight EMs outside Asia and significantly underweight Europe. Our strategic preference is for large cap non-cyclical growth with focus on quality. We prefer Japanese equity exposure through local indices on a FX-hedged basis. Our other high conviction ideas include HK equities and Chinese hotels & leisure (beneficiaries of the post-pandemic reopening of the Chinese economy), and Cybersecurity and Chinese Semiconductors (play on rising deglobalisation risks and national security prominence). For long-term investors, we have identified 13 different themes to play disruptive trends in the global economy.
Technology Segments	Nasdaq-100 index rose 3.67% while HK Tech index also rose 2.97% last week. Falling bond yields helped the sector performance in the US.

## Commodities

Precious Metals	Gold prices rose 1.31% on the back of an increase in US unemployment data and bets that the Fed would pause interest rate hikes. Platinum also rose 1.63% however silver declined slightly by 0.16%. We prefer gold as a hedge against potential inflation, growth, and geopolitical risks.
Energy	Both Brent and WTI benchmarks rose significantly to their highest level in 7 months on the back of tighter supply expectations with Brent inching closer to the 90USD/bbl level. Over the near-term to medium-term, we expect oil prices to move sideways but with significant volatility.
Industrial Metals	Industrial metal prices increased as investors are more optimistic about an economic rebound in top consumer China with their manufacturing activity surprising to the upside in August. Both copper and aluminium prices rose. In our view, another commodity super-cycle is difficult, yet demand for commodities linked to "green infrastructure" is likely to sustain. We prefer copper for the near-term.

## Currencies

EURUSD	The EUR weakened versus the USD for a sixth week in a row. We expect euro to stabilize and record a better performance in 2023 compared to 2022.							
Critical levels	R2	1.0828	R1	1.0814	S1	1.0779	S2	1.0758
GBPUSD	The GBP rose against the USD. We expect GBP to strengthen versus the USD with the BoE likely to remain the most hawkish of the lot.							
Critical levels	R2	1.2661	R1	1.2645	S1	1.2598	S2	1.2567
USDJPY	JPY strengthened against the USD for a third straight week. Yen is likely to remain weak in the near-term in absence of hawkish BoJ bias, but could strengthen once the Fed takes a dovish turn.							
Critical levels	R2	146.73	R1	146.56	S1	146.12	S2	145.85

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## Forthcoming important economic data/events

### United States



Date & Time (GST)	Indicator	Period	Expected	Prior
09/05/2023 18:00	Factory Orders	Jul	-2.50%	2.30%
09/05/2023 18:00	Durable Goods Orders	Jul F	--	-5.20%
09/06/2023 15:00	MBA Mortgage Applications	1-Sep	--	2.30%
09/06/2023 16:30	Trade Balance	Jul	-\$67.5b	-\$65.5b
09/06/2023 17:45	S&P Global US Services PMI	Aug F	--	51
09/06/2023 18:00	ISM Services Index	Aug	52.4	52.7
09/06/2023 22:00	Federal Reserve Releases Beige Book			
09/07/2023 16:30	Nonfarm Productivity	2Q F	3.70%	3.70%
09/07/2023 16:30	Initial Jobless Claims	2-Sep	--	228k
09/07/2023 16:30	Continuing Claims	26-Aug	--	1725k
09/08/2023 18:00	Wholesale Inventories MoM	Jul F	--	-0.10%
09/08/2023 23:00	Consumer Credit	Jul	\$16.000b	\$17.847b

### Japan



Date & Time (GST)	Indicator	Period	Expected	Prior
09/04/2023 03:50	Monetary Base YoY	Aug	--	-1.30%
09/05/2023 03:30	Household Spending YoY	Jul	-2.40%	-4.20%
09/05/2023 04:30	Jibun Bank Japan PMI Services	Aug F	--	54.3
09/07/2023 09:00	Leading Index CI	Jul P	107.8	108.9
09/07/2023 09:00	Coincident Index	Jul P	114.2	115.1
09/08/2023 03:30	Labor Cash Earnings YoY	Jul	2.40%	2.30%
09/08/2023 03:50	GDP Annualized SA QoQ	2Q F	5.60%	6.00%
09/08/2023 03:50	GDP SA QoQ	2Q F	1.40%	1.50%
09/08/2023 03:50	GDP Deflator YoY	2Q F	3.40%	3.40%
09/08/2023 09:00	Eco Watchers Survey Current SA	Aug	54.5	54.4
09/08/2023 09:00	Eco Watchers Survey Outlook SA	Aug	53.4	54.1

### Eurozone



Date & Time (GST)	Indicator	Period	Expected	Prior
09/04/2023 12:30	Eurozone Sentix Investor Confidence	Sep	--	-18.9
09/05/2023 11:50	France HCOB Services PMI	Aug F	46.7	46.7
09/05/2023 11:55	Germany HCOB Services PMI	Aug F	47.3	47.3
09/05/2023 12:00	HCOB Eurozone Services PMI	Aug F	48.3	48.3
09/05/2023 13:00	Eurozone PPI YoY	Jul	--	-3.40%
09/06/2023 10:00	Germany Factory Orders WDA YoY	Jul	-3.90%	3.00%
09/06/2023 13:00	Eurozone Retail Sales YoY	Jul	-1.10%	-1.40%
09/07/2023 10:00	Germany Industrial Production WDA YoY	Jul	-2.10%	-1.70%
09/07/2023 13:00	Eurozone GDP SA QoQ	2Q F	0.30%	0.30%
09/07/2023 13:00	Eurozone GDP SA YoY	2Q F	0.60%	0.60%
09/08/2023 10:00	Germany CPI YoY	Aug F	6.10%	6.10%
09/08/2023 10:00	Germany CPI EU Harmonized YoY	Aug F	6.40%	6.40%
09/08/2023 10:45	France Industrial Production YoY	Jul	--	-0.30%
09/08/2023 10:45	France Manufacturing Production YoY	Jul	--	-0.20%

### United Kingdom



Date & Time (GST)	Indicator	Period	Expected	Prior
09/05/2023 12:00	New Car Registrations YoY	Aug	--	28.30%
09/05/2023 12:30	S&P Global/CIPS UK Services PMI	Aug F	48.7	48.7
09/06/2023 12:30	S&P Global/CIPS UK Construction PMI	Aug	--	51.7

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## China and India

Date & Time (GST)	Indicator	Period	Expected	Prior
09/05/2023 05:45	China Caixin PMI Services	Aug	53.5	54.1
09/05/2023 09:00	India S&P Global PMI Services	Aug	--	62.3
09/07/2023	India Foreign Reserves	Aug	--	\$3204.27b
09/07/2023	China Exports YoY	Aug	-7.80%	-14.50%
09/07/2023	China Imports YoY	Aug	-8.80%	-12.40%
09/07/2023	China Trade Balance	Aug	\$68.45b	\$80.60b
09/09/2023 05:30	China CPI YoY	Aug	--	-0.30%
09/09/2023 05:30	China PPI YoY	Aug	--	-4.40%
09/09/2023 09/15	China Money Supply M2 YoY	Aug	--	10.70%
09/09–09/15/2023	China New Yuan Loans CNY	Aug	--	345.9b

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