

The Weekly Market View

September 11 2023

Good is bad

"Good news is bad news" narrative was back last week as positive economic data out of the US raised the prospects of continued DM central bank tightening. In terms of economic data, it was a light week. US Institute for Supply Management's August report showed that services sector activity unexpectedly jumped to the highest level since February. Weekly jobless claims report came in lower than expected, indicating continued strength in labor demand. This came against the recent rise in the unemployment rate (from 3.5% to 3.8%) seen in August. Fed members in their comments stressed on the possible pause at the September meeting but indicated that they remain data dependent. In Eurozone, latest data pointed to bleak economic activity. Eurozone 2Q23 GDP was revised lower to 0.1% q-o-q from initial estimate of 0.4% q-o-q. Investor sentiment deteriorated with the Sentix index declining at the beginning of September. In the UK, BoE Governor Andrew Bailey signaled that the central bank was nearer to the end of rate cycle. In Japan, the second estimate for 2Q23 GDP was revised down to 4.8% q-o-q, from 6.0% in the first reading. In China, the private Caixin Global survey of services activity fell and came in below expectations while exports and imports declined but less than expected. UST yields rose across the curve digesting the positive US economic outlook. Short-term bond yields moved higher as markets adjusted November rate hike prospects upwards. Global aggregate bonds recorded marginal losses, as a result, led by Global Treasuries. Global equity markets also came under pressure with DM equities underperforming EM peers. All equity sectors registered losses with the exception of energy. In commodities, oil prices rallied as Russia and Saudi Arabia extended supply cuts. Gold prices declined on stronger USD and higher UST yields. The USD strengthened to the strongest level in six months.

Bond market anomaly

The latest bout of bond market underperformance has been spurred by UST yield curve steepening. This type of steepening called the bear steepening has been driven by higher long-term bond yields where 10yr UST yields have risen by almost 50bp while the short-term yields have remained anchored. Bear curve steepening is one of the unusual non-parallel curve trends observed in history of the UST yield curve movements. In fact, historical monthly data over almost 47 years shows that bear steepening occurs only close to 15% of the time compared to other yield curve shifts. Not only bear steepening occurs less frequently, lasts for shorter duration but is also rare to occur during the current stage of economic cycle. It is more evident during the recovery/early expansion stage when growth and inflation both are rising and the Fed is in later stage of easing cycle. What has caused this recent bear steepening? The answer is a combination of factors which includes resilient economic data, the return of "higher for longer" narrative and rising concerns over US Treasury bond supply. We believe that the current bear steepening – a bond market anomaly during the current phase of economic cycle- is unlikely to last. For it to last, we need to see factors of early expansion where in addition to growth, inflation is also rising. Long-term bond yields recently have been mainly driven by higher real rates whereas forward inflation expectations have been unchanged. In fact, actual inflation data shows that inflation is declining rather than increasing. Not to forget we are currently in the final stages of Fed tightening cycle and not the beginning of the rate cycle. Past six Fed tightening cycles have shown that the 10yr UST yield tends to peak before the final Fed hike of the cycle. We expect UST yield curve to mostly bear flatten till the last Fed rate hike and then start to bull steepen subsequently. While bond market volatility could continue until the markets get the timing of last rate hike but we expect limited upside in long-term yields. On the other hand, US HY has benefitted the most amidst the bear curve trend driven by rising rates. Since the beginning of the year, in 5 out of 8 months, the yield curve shifts have been driven by rising rates. The asset class tends to do well due to its short-duration characteristics and has even outperformed global equities in August. Better cash holdings of US HY companies and lower funding needs has made them resilient to tightening bank lending to corporates. However, risks remain especially amidst the extremely tight valuations and spread compression being near record lows. Hence we expect there is limited scope for significant US HY outperformance.

Global markets' performance snapshot

Index Snapshot (World Indices)*

Index	Latest	Weekly %	YTD %
S&P 500	4,457	-1.29	16.10
Dow Jones	34,577	-0.75	4.31
Nasdaq	13,762	-1.93	31.48
DAX	15,740	-0.63	13.05
Nikkei 225	32,607	-0.32	24.72
FTSE 100	7,478	0.18	0.35
Sensex	66,599	1.85	9.46
Hang Seng	18,202	-0.98	-9.26

Regional Markets

ADX	9,691	-0.98	-5.10
DFM	4,067	-0.55	21.92
Tadawul**	11,216	-2.40	6.45
DSM**	10,238	0.42	-3.13
MSM30**	4,690	-2.27	-3.32
BHSE**	1,942	-0.53	2.44
KWSE**	7,010	0.06	-3.69

MSCI

MSCI World	2,949	-1.36	13.30
MSCI EM	974	-1.20	1.83

source: Bloomberg, and ADCB Asset Management

Notes: *Data as of September 08 2023 unless stated otherwise; **Data as of September 07 2023.

Global Commodities, Currencies and Rates*

Commodity	Latest	Weekly %	YTD %
ICE Brent USD/bbl	90.7	2.37	5.30
Nymex WTI USD/bbl	87.5	2.29	8.40
Gold USD/t oz	1,919.1	-1.08	5.43
Silver USD/t oz	22.9	-5.22	-3.94
Platinum USD/t oz	896.6	-6.98	-16.19
Copper USD/MT	8,225.0	-3.41	-1.93
Alluminium	2,146.7	-2.48	-8.63

Currencies

EUR USD	1.07	-0.74	0.15
GBP USD	1.25	-0.97	3.44
USD JPY	147.83	1.10	10.47

Rates

	Latest	Weekly (bp)	YTD(bp)
SOFR	5.31	0.00	101.00
UAE Eibor 3m	5.24	2.47	92.62
UAE Eibor 12m	5.56	9.94	45.08
US 3m Bills	5.44	3.39	109.97
US 10yr Treasury	4.26	8.53	38.93
German 10yr Bund	2.61	6.20	4.30
UK 10yr Gilt	4.42	-0.52	75.53

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Summary market outlook

Global Yields Yields on global government bonds rose on the back of higher-for-longer interest rate expectations. Yields on 10Y UST, 10Y German Bunds and 10Y JGBs all increased. 10Y UK Gilts declined on rising expectations of BOE rate pause. 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 VIX index (measure of implied volatility in equities) increased over the week while the MOVE index (measure of bond volatility) rose. 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 mostly declined despite rising oil prices with the exception of Qatar, which rose from gains in the petrochemical industry, and Kuwait remained relatively unchanged. 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 equities came under pressure digesting strong US economic data and declining growth momentum in China and Europe. DM underperformed EM. Within DM, Canada and Europe underperformed the most while UK equities outperformed on prospects of BoE pause. All global sectors recorded decline with the exception of energy. 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 declined 1.36% while HK Tech index also declined 2.05% last week. Rising bond yields put pressure on the sector over the week.

Commodities

Precious Metals Gold prices declined on the back of stronger USD and rising UST yields. Silver and Platinum prices however declined significantly. We prefer gold as a hedge against potential inflation, growth, and geopolitical risks.

Energy Both Brent and WTI benchmarks rose well over 2% rising to a nine month high due to an extension of further supply cuts from large producers Saudi Arabia and Russia. Over the near-term to medium-term, we expect oil prices to move sideways but with significant volatility.

Industrial Metals Industrial metal prices declined with copper underperforming aluminum on the back of a stronger USD and weak economic recovery growth in China. 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 the seventh week in a row. We expect euro to stabilize and record a better performance in 2023 compared to 2022.

Critical levels

R2	1.0855	R1	1.0777	S1	1.0654	S2	1.0609
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GBPUSD The GBP declined 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	1.2716	R1	1.2592	S1	1.2395	S2	1.2322
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USDJPY The JPY weakened against the USD on broad USD strength. 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	149.09	R1	148.46	S1	146.61	S2	145.39
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Forthcoming important economic data/events

United States



Date & Time (GST)	Indicator	Period	Expected	Prior
09/12/2023 14:00	NFIB Small Business Optimism	Aug	91.3	91.9
09/13/2023 15:00	MBA Mortgage Applications	8-Sep	--	-2.90%
09/13/2023 16:30	CPI YoY	Aug	3.60%	3.20%
09/13/2023 16:30	CPI Ex Food and Energy YoY	Aug	4.30%	4.70%
09/13/2023 16:30	Real Avg Hourly Earning YoY	Aug	--	1.10%
09/14/2023 16:30	Retail Sales Advance MoM	Aug	0.10%	0.70%
09/14/2023 16:30	PPI Final Demand MoM	Aug	0.40%	0.30%
09/14/2023 16:30	Initial Jobless Claims	9-Sep	--	216k
09/14/2023 16:30	Continuing Claims	2-Sep	--	1679k
09/14/2023 16:30	PPI Ex Food and Energy YoY	Aug	2.20%	2.40%
09/15/2023 17:15	Industrial Production MoM	Aug	0.10%	1.00%
09/15/2023 17:15	Capacity Utilization	Aug	79.30%	79.30%
09/15/2023 18:00	U. of Mich. Sentiment	Sep P	69.4	69.5
09/15/2023 18:00	U. of Mich. Expectations	Sep P	--	65.5
09/15/2023 18:00	U. of Mich. 1 Yr Inflation	Sep P	--	3.50%
09/15/2023 18:00	U. of Mich. 5-10 Yr Inflation	Sep P	--	3.00%

Japan



Date & Time (GST)	Indicator	Period	Expected	Prior
09/13/2023 03:50	PPI YoY	Aug	3.30%	3.60%
09/14/2023 03:50	Core Machine Orders MoM	Jul	-0.90%	2.70%
09/14/2023 08:30	Industrial Production MoM	Jul F	--	-2.00%
09/14/2023 08:30	Capacity Utilization MoM	Jul	--	3.80%
09/15/2023 08:30	Tertiary Industry Index MoM	Jul	0.30%	-0.40%

Eurozone



Date & Time (GST)	Indicator	Period	Expected	Prior
09/11/2023 09:16	Germany Wholesale Price Index MoM	Aug	--	-0.20%
09/12/2023 13:00	Germany ZEW Survey Expectations	Sep	-15.1	-12.3
09/12/2023	Germany Current Account Balance	Jul	--	29.6b
09/13/2023 13:00	Eurozone Industrial Production WDA YoY	Jul	-0.40%	-1.20%
09/14/2023 16:15	Eurozone ECB Main Refinancing Rate	14-Sep	4.38%	4.25%
09/14/2023 16:15	Eurozone ECB Marginal Lending Facility	14-Sep	4.75%	4.50%
09/14/2023 16:15	Eurozone ECB Deposit Facility Rate	14-Sep	3.88%	3.75%
09/15/2023 10:45	France CPI EU Harmonized YoY	Aug F	--	5.70%
09/15/2023 10:45	France CPI YoY	Aug F	--	4.80%

United Kingdom



Date & Time (GST)	Indicator	Period	Expected	Prior
09/12/2023 10:00	Claimant Count Rate	Aug	--	4.00%
09/12/2023 10:00	Jobless Claims Change	Aug	--	29.0k
09/12/2023 10:00	Average Weekly Earnings 3M/YoY	Jul	--	8.20%
09/12/2023 10:00	ILO Unemployment Rate 3Mths	Jul	4.50%	4.20%
09/13/2023 10:00	Monthly GDP (3M/3M)	Jul	--	--
09/13/2023 10:00	Industrial Production YoY	Jul	--	0.70%
09/13/2023 10:00	Manufacturing Production YoY	Jul	--	3.10%
09/14/2023 03:01	RICS House Price Balance	Aug	--	-53%

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China and India

Date & Time (GST)	Indicator	Period	Expected	Prior
09/12/2023 16:00	India Industrial Production YoY	Jul	5.30%	3.70%
09/12/2023 16:00	India CPI YoY	Aug	7.10%	7.44%
09/13/2023 09/15	India Exports YoY	Aug	--	-15.90%
09/13/2023 09/15	India Imports YoY	Aug	--	-17.00%
09/14/2023 10:30	India Wholesale Prices YoY	Aug	-0.60%	-1.36%
09/15/2023 05:20	China 1-Yr Medium-Term Lending Facility Rate	15-Sep	2.50%	2.50%
09/15/2023 06:00	China Industrial Production YTD YoY	Aug	3.80%	3.80%
09/15/2023 06:00	China Retail Sales YTD YoY	Aug	6.80%	7.30%
09/15/2023 06:00	China Fixed Assets Ex Rural YTD YoY	Aug	3.30%	3.40%

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