The Weekly Market View

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بنك أبوظبي التجاري
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Fear of uncertainty, not risks

Equity markets were volatile through last week. MSCI ACWI fell more than 1% from its all-time high. US equities posted their worst week since June. VIX, a measure of implied volatility, rose sharply and ended the week above the 20 mark. The SKEW index, a measure of tail risks, moderated somewhat during the week but remained elevated. In the fixed income space, yields on 10Y USTs rose marginally following the PPI data release in the US. Core Eurozone bond yields rose in the run up to the ECB meeting, but pared their gains after ECB President Christine Lagarde clarified regarding PEPP that, 'trimming is not tapering'. Yields on peripheral Eurozone bonds and UK gilts rose too. USD strengthened against other major currencies as markets continued to expect the US Fed to lead other central banks in policy tightening. Turning to commodities, gold booked its first weekly loss in five as strength in USD proved to be a headwind. Silver and platinum prices declined rather sharply. Oil prices rose marginally last week as the China's release of its strategic petroleum reserves was more than offset by reduced production in the Gulf of Mexico due to Hurricane Ida. Prices of copper, aluminium, and nickel rose last week despite stronger USD. Especially with aluminium and nickel, supply concerns and strong demand outlook helped.

Over the past weeks, financial markets have been fed with mixed data on growth and inflation, and mixed messages from central bankers on the potential trajectory for the conventional and unconventional monetary policies. Also, perceptions about the path of the COVID-19 virus was mixed too. While the case count data hinted at a potential peak in the Delta variant, health officials have continued to warn against any full removal of restrictions (with the fear that it might derail progress). All this has fed into the uncertain outlook for financial markets. For instance, in our view, uncertainty on the cycle and the policy is evident in the broad range of year-end targets for S&P 500 and 10Y UST yields. It is precisely these uncertainties that financial markets find difficult to digest.

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Fear of falling, not heights

As the global economy moves from the post-pandemic 'rebound' to the 'recovery into a new normal', investors could face a range of uncertainties. These include the emergence of new COVID-19 virus variants, behaviour of the labour market (and labour costs) after a deep shock, central bank dilemma (whether to keep the monetary policy accommodative to aid the nascent recovery or to start tightening so that they begin to accumulate some ammunition to fight the next downturn), emergence of supply-side bottlenecks impacting inflation outlook, weakening consumer confidence, and potential fading of the fiscal policy. Especially in the US, which is not only the largest economy in the World but also the heavy-weight in global equity benchmarks, a range of uncertainties persist. Thanks to the rapid spread of the Delta variant, growth outlook for the US came under pressure recently – resulting in a number of Wall Street economists downgrading their economic projections for this year. The latest round of fiscal stimulus in the US is still not finalised, tax policy environment is uncertain too, and the debt ceiling trap could be looming large for the Biden administration. All these come against the backdrop of the equity index there hovering close to the record high (after scaling new highs consistently through this year) and valuations becoming expansive. Of course, valuations are not price catalysts but elevated valuations mean higher sensitivity to potential risks. Yet, one should not forget that US equity market is rich in quality corporations and innovation themes – which we like for the long-term.

Looking ahead, for the next 16 months, we think investors are best served by maintaining a well-diversified portfolio to counter this broad range of uncertainties – in the US but also globally. In this context, Asian equity markets, after their recent underperformance, could present a reasonably strong diversification opportunity for equity investors in the near to medium-term.

Global markets' performance snapshot

Index Snapshot (World Indices)

Index	Latest	Weekly %	YTD %
S&P 500	4,459	-1.7	18.7
Dow Jones	34,608	-2.2	13.1
Nasdaq	15,115	-1.6	17.3
DAX	15,610	-1.1	13.8
Nikkei 225	30,382	4.3	10.7
FTSE 100	7,029	-1.5	8.8
Sensex*	58,305	0.3	22.1
Hang Seng	26,206	1.2	-3.8
Regional Markets (Sunday to Thursday)			
ADX	7,861	2.7	55.8
DFM	2,908	-0.2	16.7
Tadawul	11,418	0.9	31.4
DSM	11,100	0.3	6.4
MSM30	3,960	-0.4	8.2
BHSE	1,670	0.4	12.1
KWSE	6,810	-0.1	22.8
MSCI			
MSCI World	3,122	-1.3	16.1
MSCI EM	1,309	-0.5	1.4

Notes: *Data as of September 9 2021

Global Commodities, Currencies and Rates

Commodity	Latest	Weekly %	YTD %
Brent USD/bbl	72.9	0.4	40.8
WTI USD/bbl	69.7	0.6	43.7
Gold USD/t oz	1,787.6	-2.2	-5.8
Silver USD/t oz	23.7	-3.9	-10.1
Platinum USD/t oz	960.8	-6.4	-10.4
Copper USD/MT	9,515.0	1.6	22.9
Alluminium	2,916.5	7.4	47.4
Currencies			
EUR USD	1.18	-0.6	-3.3
GBP USD	1.38	-0.2	1.2
USD JPY	109.94	0.2	6.5
CHF USD	0.92	0.5	-3.5
Rates			
USD Libor 3m	0.11	-1.2	-52.1
USD Libor 12m	0.22	0.5	-34.5
UAE Eibor 3m	0.40	45.7	-21.7
UAE Eibor 12m	0.70	72.7	7.1
US 3m Bills	0.04	15.4	-34.8
US 10yr Treasury	1.34	1.4	46.9

Summary market outlook

Global Yields	Yields on 10Y USTs rose marginally following the PPI data release in the US. Core Eurozone bond yields rose in the run up to the ECB meeting, but pared their gains after ECB President Christine Lagarde clarified regarding PEPP that, 'trimming is not tapering'. Yields on peripheral Eurozone bonds and UK gilts rose too. The yield on JGBs remained unchanged and that on China's 10Y government bond increased. Overall, we recommend a lower duration stance (5Y US Treasuries) in anticipation of interest rate volatility in the near term.
Stress and Risk Indicators	VIX rose sharply and ended the week above the 20 mark. The SKEW index has moderated somewhat during the week but remained elevated. 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 outperformed broader equities and EMs. Within the region, equities in Abu Dhabi and Saudi Arabia outperformed and offset the weakness in Dubai and Kuwait stocks. 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	Global equities ended the week lower as concerns of weaker growth and higher inflation impacted sentiment. MSCI ACWI fell more than 1% last week from its all-time high. DM underperformed EM. Within DM, Japan significantly outperformed all other regions. US equities had their worst week since June. Amongst EMs, Asian markets outperformed EMEA and LatAm. Sector wise, with the exception of consumer discretionary, all other 10 sectors posted losses. Utilities, real estate and healthcare underperformed the most. Our equity strategy is to overweight US and UK, and underweight Eurozone and EM outside Asia. We place Asia on watch for an upgrade to overweight. By sector we prefer IT and communication services as long-term plays. We have also identified industry level opportunities to play the vaccine availability in the medium-term. 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	HK Tech index (a measure of large cap Chinese tech names) posted marginal gains last week after rebounding significantly over the past two weeks. ChiNext index rose more than 4% last week while CSI Overseas China internet index lost 0.5%. Nasdaq-100 index lost more than 1% over the past week.
Commodities	
Precious Metals	Gold booked its first weekly loss in five as strength in USD proved to be a headwind. Silver and platinum prices declined too rather sharply. We keep our overweight in gold as a hedge against potential risks on the horizon.
Energy	Oil prices rose marginally last week as the China's release of its strategic petroleum reserves was more than offset by reduced production in the Gulf of Mexico due to Hurricane Ida. Overall, we believe that oil prices will remain sustained as the market approaches a balance.
Industrial Metals	Prices of copper, aluminium, and nickel rose last week despite stronger USD. Especially with aluminium and nickel, supply concerns and strong demand outlook helped. While another commodity super-cycle appears difficult, demand for commodities linked to environmental friendly green infrastructure is likely to sustain.
Currencies	
EURUSD	EUR fell rather sharply from its recent highs against the USD as ECB meeting was less hawkish than expected. Re-opening is a positive for EUR while risk-off sentiment and the easier policy are moderately negative.
Critical levels	R2 1.2041 · R1 1.1927 · S1 1.1682 · S2 1.1551
GBPUSD	Cable retreated from a four week-high as slowing economic growth warranted a delay in interest rate hikes. We expect the cable to be driven by how the re-opening plays out over the near-term and to decouple from the EUR.
Critical levels	R2 1.4156 · R1 1.3997 · S1 1.3641 · S2 1.3444
USDJPY	Despite USD strength, JPY did not lose much against the greenback; and remained in the tight range of last 2 months. Over the medium-term, we believe that BoJ yield curve targeting should put downward pressure on JPY.
Critical levels	R2 111.90 · R1 110.92 · S1 108.84 · S2 107.74

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
09/14/21	NFIB Small Business Optimism	Aug	99.0	99.7	CPI data will be watched closely by market participants as they try to assess what these numbers mean for taper of asset purchases (and eventually interest rate increases) by the US Fed. Economist consensus expects the headline inflation rate for August to have moderated slightly with declines in used car prices and slower hotel price inflation offsetting increases elsewhere. Industrial production, retail sales and initial jobless claims are other important data releases this week.
09/14/21	**CPI YoY**	**Aug**	**5.30%**	**5.40%**	
09/14/21	**CPI Ex Food and Energy YoY**	**Aug**	**4.20%**	**4.30%**	
09/14/21	Real Avg Weekly Earnings YoY	Aug	--	-0.70%	
09/15/21	MBA Mortgage Applications	10-Sep	--	-1.90%	
09/15/21	Empire Manufacturing	Sep	18.0	18.3	
09/15/21	**Industrial Production MoM**	**Aug**	**0.40%**	**0.90%**	
09/16/21	**Retail Sales Advance MoM**	**Aug**	**-0.80%**	**-1.10%**	
09/16/21	**Initial Jobless Claims**	**11-Sep**	**320k**	**310k**	
09/16/21	Continuing Claims	4-Sep	2,740k	2,783k	
09/16/21	Philadelphia Fed Business Outlook	Sep	19.0	19.4	
09/17/21	U. of Mich. Sentiment	Sep P	72.0	70.3	

Japan

	Indicator	Period	Expected	Prior	Comments
09/13/21	PPI YoY	Aug	5.70%	5.60%	Exports are expected to have grown c34% y-o-y in August following a 37% increase in July. Import growth is expected to have accelerated to 40% y-o-y last month.
09/14/21	Industrial Production YoY	Jul F	--	11.60%	
09/15/21	Core Machine Orders YoY	Jul	14.90%	18.60%	
09/16/21	**Exports YoY**	**Aug**	**33.90%**	**37.00%**	
09/16/21	**Imports YoY**	**Aug**	**40.00%**	**28.50%**	

Eurozone

	Indicator	Period	Expected	Prior	Comments
09/13/21	Bank of France Ind. Sentiment	Aug	105	105	Eurozone industrial production for July, and final print of Eurozone CPI for August will be important. Industrial sentiment and CPI in France are the other data releases.
09/15/21	France CPI YoY	Aug F	1.90%	1.90%	
09/15/21	**Eurozone IP WDA YoY**	**Jul**	**6.00%**	**9.70%**	
09/16/21	EU27 New Car Registrations	Aug	--	--	
09/17/21	Eurozone CPI YoY	Aug F	3.00%	2.20%	

United Kingdom

	Indicator	Period	Expected	Prior	Comments
09/14/21	Jobless Claims Change	Aug	--	-7.8k	Job market data will be closely watched. While the unemployment rate is expected to have fallen slightly, the strong June reading for wage growth is likely to have been the peak as base effects wane. CPI and retail sales – both for August – are other key data.
09/14/21	**Average Weekly Earnings 3M/YoY**	**Jul**	**8.20%**	**8.80%**	
09/14/21	**ILO Unemployment Rate 3Mths**	**Jul**	**4.60%**	**4.70%**	
09/15/21	**CPI YoY**	**Aug**	**2.90%**	**2.00%**	
09/15/21	RPI YoY	Aug	4.70%	3.80%	
09/15/21	House Price Index YoY	Jul	12.50%	13.20%	
09/17/21	**Retail Sales Inc Auto Fuel YoY**	**Aug**	**2.70%**	**2.40%**	

China and India

	Indicator	Period	Expected	Prior	Comments
09/13/21	**India CPI YoY**	**Aug**	**5.60%**	**5.59%**	In India, CPI and trade data will be important this week. In China, retail sales, industrial production, and fixed asset investments are all expected to have registered slower y-o-y growth in August compared to the previous month. Yet, production of high-end products such as machinery and electronics is expected to maintain the momentum in near future.
09/13-09/16/21	China 1Y MTLF Rate	15-Sep	--	2.95%	
09/14/21	India Wholesale Prices YoY	Aug	10.78%	11.16%	
09/15/21	China New Home Prices MoM	Aug	--	0.30%	
09/15/21	**China Retail Sales YoY**	**Aug**	**7.00%**	**8.50%**	
09/15/21	**China Industrial Production YoY**	**Aug**	**5.80%**	**6.40%**	
09/15/21	**China Fixed Assets Ex Rural YTD YoY**	**Aug**	**9.00%**	**10.30%**	
09/15/21	China Surveyed Jobless Rate	Aug	5.10%	5.10%	
09/15/21	India Exports YoY	Aug	--	49.90%	
09/15/21	India Imports YoY	Aug	--	63.00%	

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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