The Weekly Market View

September 12 2022

ADCB ASSET MANAGEMENT LIMITED

A technical bounce

As has been the case in recent weeks, central bank policy talk and action was at the centre-stage last week. European Central Bank (ECB) raised its policy interest rates by a record 75bp and indicated that more rate hikes are likely. In what was his last public statement before US Fed policy meeting in September, Chair Jerome Powell indicated that Fed was determined to bring inflation down. Bank of England (BoE) Chief Economist Huw Pill, in his testimony to the parliament, hinted at more interest rate hikes to come. Reacting to this, bond yields especially the short-end of the spectrum, rose. Yields on 2Y USTs reached 3.6%, the highest since November 2007. 10Y UST yields stood at 3.3% after having risen from a four-month low of 2.5% reached on August 2, but are holding below the 11-year high of 3.5% reached on June 14. This caused the 10Y-2Y UST yield curve segment to invert further. Germany's two-year bond yield hit its highest since 2011 on hawkish ECB. Economic data was mixed. Chinese trade, European services PMIs, and German industrial activity were weaker than expected. But US ISM services PMI, and final release of Eurozone Q2 GDP were better than expected. Brightening up the mood somewhat were the pledges by the European Governments for large scale financial packages to help households counter energy bills. UK Prime Minister Truss announced a plan to cap consumer energy bills for 2 years. In Germany, Chancellor Olaf Scholz said the government will spend EUR65bn to shield households and businesses from soaring energy costs. Elsewhere, Finland, Sweden, Switzerland, and the UK introduced measures to help energy generators. After going from being overbought to oversold in a matter of three weeks, global equities posted gains after losing value for three consecutive weeks. DM outperformed EM. Within DM, US outperformed the most. Broader USD fell marginally providing some relief. USD lost against EUR and GBP, but gained vs. JPY.

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Europe: are assets pricing the worst-case?

Thanks to the worsening energy situation, a Euro zone recession now looks more likely. Elevated inflation and soaring gas prices squeeze the real incomes of households. This is happening at a time when monetary policy is tightening, exerting further pressure on consumption. Business sector is likely to be impacted by elevated and rising costs and energy rationing. As such, the export sectors are not able to reap the benefits of weaker EUR as the production remains impaired due to supply side constraints. Yet, any recession is likely to be a mild one in our view. In the Euro area, labor market remains firm. In the UK, fiscal support from the new Prime Minister, still elevated pandemic-era savings of the households, and strong labor market should cushion the blow from higher energy prices. In terms of the monetary policy, both the European Central Bank and the Bank of England are still engaged in a tough fight against inflation. Looking into 2023, a mild recession should slowdown the inflation and thereby allow the central banks to be less hawkish. Turning to the fiscal policy, a more targeted easing could be needed across the continent. The coordinated effort of all members of the European Union might be needed to counter this energy emergency and there might be risks around achieving this too. Of course, fiscal packages that are unfunded are likely to increase the debt burden for the countries which already face a demographic drag.

In terms of implications for financial markets, this weak near-term economic outlook for Europe reinforces our long-standing cross-asset underweight position in the region. We remain negative on the outlook for the EUR and the GBP against the USD. In the European fixed income space, we remain neutral the sovereigns and the investment grade corporate credit but underweight the high-yield segment. Turning to equities, our underweight position in Europe-excluding-UK remains our high-conviction call. We are cognizant of the fact that the valuations for this segment are already cheap and are reflecting the bleak outlook to a considerable extent. However, for now, we remain cautious with a focus on potential downside risks. Elsewhere, within the region, we are overweight internationally exposed UK large caps and remain cautious on domestically oriented UK mid and small cap segments.

Global markets' performance snapshot*

Index Snapshot (World Indices)*

Index	Latest	Weekly %	YTD %
S&P 500	4,067	3.7	-14.7
Dow Jones	32,152	2.7	-11.5
Nasdaq	12,112	4.1	-22.6
DAX	13,088	0.3	-17.6
Nikkei 225	28,215	2.0	-2.0
FTSE 100	7,351	1.0	-0.5
Sensex	59,793	1.7	2.6
Hang Seng	19,362	-0.5	-17.3
Regional Markets			
ADX	9,796	0.4	15.4
DFM	3,361	-1.0	5.2
Tadawul**	11,834	-3.0	4.4
DSM**	12,949	-1.4	11.4
MSM30**	4,513	-1.6	8.8
BHSE**	1,928	0.3	7.3
KWSE**	7,555	-0.6	7.3
MSCI			
MSCI World	2,683	3.0	-17.0
MSCI EM	970	-0.2	-21.2

Global Commodities, Currencies and Rates*

Commodity	Latest	Weekly %	YTD %
Brent USD/bbl	92.8	-0.2	19.4
WTI USD/bbl	86.8	-0.1	15.4
Gold USD/t oz	1,714.4	-0.1	-5.9
Silver USD/t oz	18.8	3.0	-19.3
Platinum USD/t oz	881.0	4.9	-8.1
Copper USD/MT	7,924.0	3.0	-18.7
Alluminium	2,274.0	-1.0	-19.0
Currencies			
EUR USD	1.00	0.9	-11.7
GBP USD	1.16	0.7	-14.4
USD JPY	142.54	1.7	23.8
USD CHF	0.96	-2.1	5.2
Rates	**Latest**	**Weekly (bp)**	**YTD (bp)**
USD Libor 3m	3.24	7.8	302.7
USD Libor 12m	4.20	-1.8	362.0
UAE Eibor 3m	2.85	-2.9	249.0
UAE Eibor 12m	3.77	7.4	302.5
US 3m Bills	2.98	13.0	292.0
US 10yr Treasury	3.32	13.0	182.1

Notes: *Data as of September 09 2022 unless stated otherwise; **Data as of September 08 2022.

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Summary market outlook

Global Yields	10Y UST yields stood at 3.3% after having risen from a four-month low of 2.5% reached on August 2 but are holding below the 11-year high of 3.5% reached on June 14. Yields on 2Y USTs reached 3.6%, the highest since November 2007. This caused the 10Y-2Y UST yield curve segment to invert further. Germany's two-year bond yield hit its highest since 2011 on hawkish ECB. Yields on 10Y JGBs, however, fell. Bond yields and prices are inversely correlated. i.e. when bond yields fall, prices rise 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, a measure of implied volatility in equities fell sharply last week reflecting the strength in equities. VVIX, a measure of volatility in VIX fell too. SKEW index, a measure of tail risks, remained low and stable. MOVE index, which measures implied volatility in bonds, rose marginally and stayed at elevated levels. We expect financial market volatility to stay elevated as the monetary policy normalizes.
Equity Markets	
Local Equity Markets	GCC markets underperformed broader equity benchmarks and recorded losses. This was despite stable oil prices and strong PMI data for the region. Saudi equity market, pressured by real estate and financial sector stocks, underperformed the most. 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 posted gains after losing value for three consecutive weeks. DM outperformed EM. Within DM, US outperformed the most. By sector, materials, consumer discretionary, and health care outperformed while energy, consumer staples, and communication services underperformed the most. 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	HK tech lost 1.6% over the week due to China growth concerns but Nasdaq-100 index gained more than 4% 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	Weakening USD but rising UST yields meant unchanged gold prices for the week. Yet, silver and platinum prices rose strongly. We are overweight gold as a hedge against potential inflation, growth, and geopolitical risks.
Energy	Oil prices remained unchanged as weaker demand outlook was offset by an OPEC+ production cut and doubts over a potential Iran nuclear deal. Overall, over the medium-term we believe that oil prices will remain sustained as the market balances into the new normal.
Industrial Metals	Copper prices rose but aluminium price fell marginally as the USD moved from strength to weakness over the course of the week. Another commodity super-cycle is difficult, yet demand for commodities linked to “green infrastructure” is likely to sustain.
Currencies	
EURUSD	EUR/USD fell sharply in the initial part of the week before rebounding in the latter part to end the week higher. Hawkish ECB, energy package in Germany, and comments from central bankers regarding the recent USD strength – all helped. We expect ECB policy divergence to play a major role in the performance of the euro.
Critical levels	R2 1.0255 · R1 1.0149 · S1 0.9900 · S2 0.9757
GBPUSD	GBP/USD hit a 35-year low last week before rebounding strongly as UK Prime Minister Truss announced a plan to cap consumer energy bills for 2 years. We expect GBP to weaken against USD and stay flat versus the EUR.
Critical levels	R2 1.1790 · R1 1.1689 · S1 1.1447 · S2 1.1306
USDJPY	JPY fell to its 24-year low against the USD and prompted comments (but not actions) from the policy makers in Japan. BoJ policy remains odd-one out and is likely to cause JPY weakness.
Critical levels	R2 147.47 · R1 144.97 · S1 139.99 · S2 137.51

Forthcoming important economic data/events

United States

Date & Time (GST)	Indicator	Period	Expected	Prior
09/13/22 14:00	NFIB Small Business Optimism	Aug	90.5	89.9
09/13/22 16:30	**CPI YoY**	**Aug**	**8.00%**	**8.50%**
09/13/22 16:30	**CPI Ex Food and Energy YoY**	**Aug**	**6.10%**	**5.90%**
09/14/22 16:30	Real Avg Hourly Earning YoY	Aug	--	-3.00%
09/14/22 15:00	MBA Mortgage Applications	9- Sep	--	-0.80%
09/14/22 16:30	PPI Ex Food and Energy MoM	Aug	0.30%	0.20%
09/14/22 16:30	**PPI Final Demand YoY**	**Aug**	**8.80%**	**9.80%**
09/15/22 16:30	**Initial Jobless Claims**	**10- Sep**	**226K**	**222K**
09/15/22 16:30	**Retail sales advance**	**Aug**	**0.00%**	**0.00%**
09/15/22 16:30	**Continuing Claims**	**3- Sep**	**1,477K**	**1,473K**
09/15/22 17:15	Industrial Production MoM	Aug	0.10%	0.60%
09/16/22 17:15	Capacity Utilization	Aug	80.40%	80.30%
09/16/22 18:00	**U. of Mich. Sentiment**	**Sep P**	**59.6**	**58.2**
09/16/22 18:00	**U. of Mich. 1 Yr Inflation**	**Sep P**	**4.60%**	**4.80%**
09/16/22 18:00	**U. of Mich. 5-10 Yr Inflation**	**Sep P**	**2.90%**	**2.90%**

Japan

Date & Time (GST)	Indicator	Period	Expected	Prior
09/12/22 10:00	Machine Tool Orders YoY	Aug p	--	5.50%
09/13/22 03:50	**PPI YoY**	**Aug**	**8.90%**	**8.60%**
09/14/22 08:30	**Industrial Production MoM**	**Jul F**	**--**	**1.00%**
09/14/22 08:30	Capacity Utilization MoM	Jul	--	9.60%
09/15/22 03:50	**Exports YoY**	**Aug**	**24.10%**	**19.00%**
09/15/22 03:50	**Imports YoY**	**Aug**	**46.90%**	**47.20%**

Eurozone

Date & Time (GST)	Indicator	Period	Expected	Prior
09/13/22 10:00	**Germany CPI YoY**	**Aug F**	**7.90%**	**7.90%**
09/13/22 13:00	**Germany ZEW survey expectations**	**Sep**	**-60**	**-55.3**
09/14/22 13:00	**Eurozone Industrial Production WDA YoY**	**Jul**	**0.10%**	**2.40%**
09/11/22 09/16	Germany Wholesale Price Index YoY	Aug	--	19.50%
09/15/22 10:45	France CPI YoY	Aug F	5.80%	5.80%
09/16/22 13:00	Eurozone CPI YoY	Aug F	9.10%	9.10%
09/16/22 13:00	Eurozone CPI Core YoY	Aug F	4.30%	4.30%

United Kingdom

Date & Time (GST)	Indicator	Period	Expected	Prior
09/12/22 10:00	Construction Output YoY	Jul	5.60%	4.10%
09/12/22 10:00	**Manufacturing Production YoY**	**Jul**	**1.50%**	**1.30%**
09/12/22 10:00	Index of Services 3M/3M	Jul	-0.20%	-0.40%
09/13/22 10:00	**Average Weekly Earnings 3M/YoY**	**Jul**	**5.40%**	**5.10%**
09/13/22 10:00	**ILO Unemployment Rate 3Mths**	**Jul**	**3.80%**	**3.80%**
09/14/22 10:00	**CPI YoY**	**Aug**	**10.10%**	**10.10%**
09/14/22 10:00	**CPI Core YoY**	**Aug**	**6.30%**	**6.20%**
09/14/22 10:00	RPI YoY	Aug	12.30%	12.30%
09/16/22 10:00	**Retail Sales Inc Auto Fuel MoM**	**Aug**	**-0.50%**	**0.30%**
09/16/22 10:00	Retail Sales Ex Auto Fuel YoY	Aug	-3.40%	-3.00%

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China and India

Date & Time (GST)	Indicator	Period	Expected	Prior
09/12/22 16:00	**India CPI YoY**	**Aug**	**6.90%**	**6.71%**
09/13/22 09/16	**China 1-Yr Medium-Term Lending Facility Rate**	**15- Sep**	**2.75%**	**2.75%**
09/14/22 09/15	India Exports YoY	Aug	--	2.10%
09/14/22 09/15	India Imports YoY	Aug	--	43.60%
09/15/22 09/30	**India BoP Current Account Balance**	**2Q**	**-$30.30b**	**-$13.40b**
09/16/22 06:00	**China Industrial Production YTD YoY**	**Aug**	**3.60%**	**3.50%**
09/16/22 06:00	**China Retail Sales YTD YoY**	**Aug**	**0.20%**	**-0.20%**
09/16/22 06:00	**China Fixed Assets Ex Rural YTD YoY**	**Aug**	**5.50%**	**5.70%**
09/16/22 06:00	**China Property Investment YTD YoY**	**Aug**	**-7.00%**	**-6.40%**
09/16/22 06:00	China Surveyed Jobless Rate	Aug	5.40%	5.40%

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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