

The Weekly Market View

April 10 2023

Mixed data = Mixed markets

Last week saw mixed economic data and policy actions which resulted in mixed market performances. Global composite PMI picked up in March, rising by 1.3pts to 53.4. On the manufacturing side, the headline PMI fell to 49.6 from 49.9. Moreover, reported manufacturing PMIs came below consensus expectations across the board – India was a notable exception though. Suppliers' delivery times improved, input price pressures continue to ease, but job losses were noted across some markets. The services sector was the bright spot – with most economies registering improving momentum and posting better than expected final readings. Elsewhere, Japan's Tankan large manufacturing survey disappointed. In the US, ISM manufacturing, ISM services, JOLTs job openings, ADP employment, and jobless claims all showed negative surprises. German industrial orders and industrial production both surprised to the upside. Even central banks' policy outcomes were mixed – Reserve Bank of Australia kept policy rates unchanged as expected, Reserve Bank of New Zealand raised rates more than expected, and Reserve Bank of India kept rates unchanged in a surprise move (markets expected a 25bp hike). The most anticipated data release of last week was that of US unemployment. Nonfarm payrolls increased by 236k jobs last month (consensus: 239k). Data for February was revised higher to show 326k jobs (previous: 311k). The unemployment rate dipped to 3.5% in March from 3.6% in the prior month. Wage growth y-o-y slowed to 4.2% (4.6% last month).

Is CRE the next vulnerability hotspot?

The Commercial Real Estate (CRE) industry could be negatively impacted by the banking sector stress in two different ways – impaired lending, and reduced buying of senior tranches of securitization. Especially in the US, regional banks (which have been the source of crisis) have sizable exposure to CRE market. Retail banks' exposure to CRE lending has grown in recent years with 70% of the core CRE debt coming from regional banks. These linkages become more important given the 'non-amortizing' nature of CRE mortgages, which tend to be of 5–10-year terms. CRE also has imminent refinancing needs. For the context, as per Morgan Stanley, USD450bn out of the USD5trn in total CRE debt matures this year and needs refinancing. A total of USD2.5trn CRE debt is set to mature over the next five years – c40% of this came from the banking sector. Given the recent fall in capital value of real estate, refinancing might prove problematic for some – especially for those that have extended loan to value ratios or limited free cash flows post debt servicing. For example, Investment Manager AEW estimates that in the UK, France, and Germany, between 2023 and 2025, there will be a shortfall of EUR24bn between the amount of debt due to be repaid at maturity and the amount of new debt available to repay it. Further, delinquency rates are also on the rise. Sectors like retail and offices - which contribute c64% of the credit expiring this year – is also where the delinquency rates have been high in 2022. In summary, banking sector stress comes at a time of acute refinancing needs of the CRE sector. This should put additional pressure on CRE prices. Office sector – where vacancy rates are at, or near, all-time highs – is likely to face cash-flow interruptions and a potential fall in property values. Residential mortgages might be the least impacted in this category. Gap between residential mortgage rates and treasury yields have widened over the recent weeks and could remain wide as banks remain selective in lending. Public market real estate segments have reacted much quicker than private markets. However, lower interest rates will remove a major drag on this asset class.

Global markets' performance snapshot*

Index Snapshot (World Indices)*			
Index	Latest	Weekly %	YTD %
S&P 500**	4,105	-0.1	6.9
Dow Jones**	33,485	0.6	1.0
Nasdaq**	12,088	-1.1	15.5
DAX**	15,598	-0.2	12.0
Nikkei 225	27,518	-1.9	5.5
FTSE 100**	7,742	1.4	3.9
Sensex**	59,833	1.4	-1.7
Hang Seng**	20,331	-0.3	2.8
Regional Markets			
ADX	9,462	0.3	-7.3
DFM	3,411	0.1	2.2
Tadawul**	10,906	2.5	3.4
DSM**	10,342	2.5	-3.2
MSM30**	4,756	-1.2	-2.4
BHSE**	1,886	-0.2	-0.5
KWSE**	6,969	-1.3	-4.4
MSCI			
MSCI World	2,790	0.0	7.2
MSCI EM	987	-0.3	3.2

Source: Bloomberg, and ADCB Asset Management

Notes: *Data as of April 07 2023 unless stated otherwise; **Data as of April 06 2023.

Global Commodities, Currencies and Rates*

Commodity	Latest	Weekly %	YTD %
Brent USD/bbl**	85.1	6.7	-0.9
WTI USD/bbl**	80.7	6.6	0.5
Gold USD/t oz	2,008.4	1.6	10.6
Silver USD/t oz**	24.9	3.1	4.9
Platinum USD/t oz**	999.0	1.8	-3.1
Copper USD/MT**	8,806.8	-2.2	5.3
Alluminium**	2,292.3	-3.6	-2.4
Currencies			
EUR USD	1.09	0.5	1.8
GBP USD	1.24	0.6	2.6
USD JPY	132.15	-0.5	0.8
Rates			
	Latest	Weekly (bp)	YTD (bp)
SOFR**	4.81	-6.0	51.0
USD Libor 3m**	5.20	0.5	43.1
USD Libor 12m**	5.13	-18.0	-35.6
UAE Eibor 3m	4.99	7.9	68.0
UAE Eibor 12m	4.79	-19.3	-25.6
US 3m Bills	4.73	5.0	43.0
US 10yr Treasury	3.40	-8.1	-43.2

Kishore Muktinutalapati

Head - Investment Strategy

Tel: +971 (0)2 696 2358

kishore.muktinutalapati@adcb.com

Prerana Seth

Fixed Income Strategist

Tel: +971 (0)2 696 2878

prerana.seth@adcb.com

Mohammed Al Hemeiri

Analyst

Tel: +971 (0)2 696 2236

mohammed.alhemeiri@adcb.com

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Summary market outlook

Global Yields Weaker-than-expected economic data and increasing concerns of recession caused 10Y UST yields to fall during the week. However, following the US job market data release on Friday, UST yields jumped higher as markets started to price in the possibility of a 25bp rate hike at the Fed meeting. Yields on 10Y German bunds fell as Eurostat data showed that EU home prices fell in Q4 2023 for the first time since 2015, dropping by a record amount. Eurozone PPI slowed for a fifth consecutive month and by more than expected in February. Speculation that BoJ could amend its yield curve targeting policy pushed yields on 10Y JGBs higher over the week. 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).

Stress and Risk Indicators VIX index (measure of implied volatility in equities) fell further last week. MOVE Index (measure of bond volatility) rose marginally. FX volatility rose marginally as USD weakened and strengthened subsequently. We expect financial market volatility to stay elevated as the monetary policy normalizes and markets weigh recession probabilities.

Equity Markets

Local Equity Markets GCC equities posted gains over the week and outperformed global benchmarks. This was despite World Bank's new economic projections pointing to economic growth in GCC more than halving in 2023. Higher oil prices of course helped regional sentiment. Saudi, Qatar, and UAE equities posted gains over the past 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 market indices.

Global Equity Markets Global equities posted flat returns last week. Europe and Canada outperformed while Japan underperformed the most. By global sectors, energy, health care and utilities outperformed the most. We are overweight North America, and Asia Pacific ex Japan; underweight Europe and EMs outside Asia. By sector we prefer healthcare, and industrials. Our strategic preference is for large cap non-cyclical growth with focus on quality. Our other high conviction ideas include HK equities and Chinese hotels & leisure (beneficiaries of the post-pandemic reopening of the Chinese economy), Cybersecurity and Chinese Semiconductors (play on rising deglobalisation risks and national security prominence), and US Diversified banks over US Regional banks (Diversified banks in the US do not have same risks that regional banks carry).

Technology Segments Nasdaq-100 index and HK Tech lost 0.9% and 1.5% respectively. Within technology, we prefer non-cyclical growth over cyclical growth (tech hardware, semiconductors etc.) over a 12-month horizon.

Commodities

Precious Metals Gold prices rose to a 13-month high, and just below their all-time high of USD2,056/toz reached on March 8 2022. Silver and platinum prices rose too. We are overweight gold as a hedge against potential inflation, growth, and geopolitical risks.

Energy Crude oil prices rose for the third straight week as OPEC+ decided to reduce its combined output. Overall, over the medium-term we believe that oil prices will remain sustained as the market balances into the new normal.

Industrial Metals Copper and aluminium prices fell on weaker manufacturing PMIs across the globe. Another commodity super-cycle is difficult, yet demand for commodities linked to "green infrastructure" is likely to sustain.

Currencies

EURUSD EUR/USD gained on hawkish comments from ECB Governing Council Members but lost following the US jobs report. We expect euro to stabilize and record a better performance in 2023 compared to 2022.

Critical levels R2 1.1074 R1 1.0989 S1 1.0804 S2 1.0704

GBPUSD Helped by weaker USD, GBP/USD rose through initial days of the week but fell after the US jobs report. We expect GBP to weaken against EUR and stay flat versus the USD.

Critical levels R2 1.2656 R1 1.2537 S1 1.2287 S2 1.2156

USDJPY Though JPY weakened against the USD following the US jobs data, USDJPY ended the week lower. Yen is likely to strengthen in 2023 as interest rate differentials tighten, and as broad USD weakens.

Critical levels R2 135.30 R1 133.73 S1 130.61 S2 129.06

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Forthcoming important economic data/events

United States

Date & Time (GST)	Indicator	Period	Expected	Prior
04/10/2023 18:00	Wholesale Inventories MoM	Feb F	0.20%	0.20%
04/11/2023 14:00	NFIB Small Business Optimism	Mar	--	90.9
04/12/2023 15:00	MBA Mortgage Applications	7-Apr	--	-4.10%
04/12/2023 16:30	CPI YoY	Mar	5.20%	6.00%
04/12/2023 16:30	CPI Ex Food and Energy YoY	Mar	5.60%	5.50%
04/12/2023 16:30	Real Avg Hourly Earning YoY	Mar	--	-1.30%
04/12/2023 22:00	FOMC Meeting Minutes	22-Mar	--	--
04/13/2023 16:30	Initial Jobless Claims	8-Apr	--	--
04/13/2023 16:30	Continuing Claims	1-Apr	--	--
04/13/2023 16:30	PPI Final Demand MoM	Mar	0.00%	-0.10%
04/13/2023 16:30	PPI Ex Food and Energy YoY	Mar	--	4.40%
04/14/2023 16:30	Retail Sales Advance MoM	Mar	-0.40%	-0.40%
04/14/2023 16:30	Retail Sales Ex Auto MoM	Mar	-0.40%	-0.10%
04/14/2023 17:15	Capacity Utilization	Mar	78.70%	78.00%
04/14/2023 17:15	Industrial Production MoM	Mar	0.30%	0.00%
04/14/2023 18:00	U. of Mich. Sentiment	Apr P	64	62
04/14/2023 18:00	U. of Mich. Current Conditions	Apr P	--	66.3
04/14/2023 18:00	U. of Mich. 1 Yr Inflation	Apr P	--	3.60%
04/14/2023 18:00	U. of Mich. 5-10 Yr Inflation	Apr P	--	2.90%

Japan

Date & Time (GST)	Indicator	Period	Expected	Prior
04/10/2023 03:50	BoP Current Account Balance	Feb	¥2,378.2b	-¥1,976.6b
04/10/2023 10:00	Eco Watchers Survey Current SA	Mar	--	52
04/10/2023 10:00	Eco Watchers Survey Outlook SA	Mar	--	50.8
04/11/2023 10:00	Machine Tool Orders YoY	Mar P	--	-10.70%
04/12/2023 03:50	PPI YoY	Mar	7.20%	8.20%
04/12/2023 03:50	Core Machine Orders MoM	Feb	-6.20%	9.50%

Eurozone

Date & Time (GST)	Indicator	Period	Expected	Prior
04/11/2023 12:30	Eurozone Sentix Investor Confidence	Apr	--	-11.1
04/11/2023 13:00	Eurozone Retail Sales YoY	Feb	--	-2.30%
04/14/23 10:00	Wholesale Price Index YoY	Mar	--	8.90%
04/13/2023 10:00	Germany CPI YoY	Mar F	--	7.40%
04/13/2023 10:00	Germany CPI EU Harmonized YoY	Mar F	--	7.80%
04/13/2023 13:00	Eurozone Industrial Production WDA YoY	Feb	--	0.90%
04/14/2023 10:45	France CPI EU Harmonized YoY	Mar F	--	6.60%
04/14/2023 10:45	France CPI YoY	Mar F	--	5.60%

United Kingdom

Date & Time (GST)	Indicator	Period	Expected	Prior
04/13/2023 03:01	RICS House Price Balance	Mar	--	-48%
04/13/2023 10:00	Monthly GDP (3M/3M)	Feb	--	0.00%
04/13/2023 10:00	Industrial Production YoY	Feb	--	-4.30%
04/13/2023 10:00	Manufacturing Production YoY	Feb	--	-5.20%
04/13/2023 10:00	Index of Services 3M/3M	Feb	--	0.00%
04/13/2023 10:00	Construction Output YoY	Feb	--	0.60%
04/13/2023 12:30	BoE Bank Liabilities/Credit Conditions Surveys			

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China and India



Date & Time (GST)	Indicator	Period	Expected	Prior
04/10/23-04/15/23	China Aggregate Financing CNY	Mar	4,565.0b	3,160.0b
04/11/2023 05:30	China CPI YoY	Mar	1.00%	1.00%
04/11/2023 05:30	China PPI YoY	Mar	-2.50%	-1.40%
04/12/2023 16:00	India Industrial Production YoY	Feb	5.60%	5.20%
04/12/2023 16:00	India CPI YoY	Mar	5.80%	6.44%
04/13/2023	China Exports YTD YoY	Mar	--	-6.80%
04/13/2023	China Imports YTD YoY	Mar	--	-10.20%
04/14/2023 15:30	India Exports YoY	Mar	--	-8.80%
04/14/2023 15:30	India Imports YoY	Mar	--	-8.20%

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