The Weekly Market View

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بنك أبوظبي التجاري ADCB ASSET MANAGEMENT LIMITED

When doves speak hawkish

Last week saw top US Federal Reserve officials begin to sketch out in more detail the path towards the 'eventual' policy normalisation. Fed vice-chair Richard Clarida laid the foundation for scaling back the Central Bank's asset purchases (currently running at USD120bn/month) and also set the stage for a potential interest rate rise in 2023. Fed Governor Christopher Waller indicated the possibility of reduction in bond purchases possibly starting in October. Of course, the economic momentum remains strong despite the spread of COVID-19 Delta variant, inflation is printing above the US Fed target, and the latest job market data (for July, released on 6 August) seemed to point to a strong (and inclusive) recovery. This development is in line with our argument that "Potential policy normalization – especially on the monetary side – should be natural given the strong rebound/recovery in the economy" (see Quarterly Investment View, July 2021).

Thanks to hawkish comments from the Fed, and the stronger-than-expected US employment growth during July, long-term nominal UST yields rose last week after five consecutive weeks of declines. The real yields on long-term USTs rose after falling for six straight weeks. However, bond yields in major markets outside the US fell on growth disappointments there. Global equities, as measured by MSCI ACWI, rose further to reach a new all-time on Thursday before dropping on Friday. EMs outperformed DMs marginally over the past week. Strength in EM Asia was able to offset weakness in EM LatAm. In the developed world, UK and Japan outperformed while Europe-ex-UK and Canada underperformed – all in USD terms. Broader USD strength was noticed and this created some headwinds for commodity prices. Gold prices fell as stronger USD and improved risk sentiment weighed. More cyclical precious metals silver and platinum saw higher losses over the week. Spreading Delta variant of COVID-19 and stronger USD caused a steep fall in oil prices. Both Brent and WTI benchmarks posted losses which were largest in several months. Industrial metal prices softened on USD strength.

Near-term opportunities

Our regular readers would be aware of our thesis of '2021 – the year of two halves', and our strategic focus on structural growth and quality in our portfolios (for details see our recent investment strategy outlook note Quarterly Investment View, July 2021). Thanks to concerns of peak growth momentum and the rapid spread of COVID-19 Delta variant, the shift to quality/safety was more pronounced than we expected – of course, this was favourable to our positioning. For instance, quality factor outperformed broader benchmarks by c6% since mid-March; growth factor delivered 10% more than value factor since mid-May; and US outperformance relative to rest of the world since mid-June now stands at 8%. All this was facilitated by a drop in 10Y UST yields from 1.74% at end-March to 1.17% on 3 August; a large portion of this drop came from a decline in real yields (from -0.64% at end-March to -1.20% on 3 August).

Looking ahead, in the very near-term (2-3 months), we expect cyclical and value themes to fare better before structural growth and quality can once again pick up the baton of outperformance. As we argued in our report (The Weekly Market View, July 25 2021), peak growth doesn't mean contraction. In our view, markets have overly priced the 'base-effect-driven' moderation of growth expected in H2 2021; and a re-pricing is likely to come over the next months in our view, as concerns of weakening growth abate. We note that while the global economic surprises have moderated they remain elevated. Vaccinated countries are seeing fewer hospitalizations in relation to the rising COVID-19 Delta variant case counts and therefore it is not unreasonable to expect re-opening to remain on track in those countries. While the monetary policy support is likely peaking, we should not forget that the policy makers are willing to be flexible to address any weakness in the economy. Corporate earnings picture is strong too. For MSCI ACWI, EPS growth is expected to be c41% in 2021 and c10% in 2022. 2022 EPS estimates have upside in our view.

Kishore Muktinutalapati
Equity Strategist
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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Global markets' performance snapshot

Index Snapshot (World Indices)

Index	Latest	Weekly %	YTD %
S&P 500	4,437	0.9	18.1
Dow Jones	35,209	0.8	15.0
Nasdaq	14,836	1.1	15.1
DAX	15,761	1.4	14.9
Nikkei 225	27,820	2.0	1.4
FTSE 100	7,123	1.3	10.3
Sensex	54,278	3.2	13.7
Hang Seng	26,179	0.8	-3.9
Regional Markets (Sunday to Thursday)			
ADX	7,419	1.4	47.1
DFM	2,820	2.0	13.2
Tadawul	11,209	1.8	29.0
DSM	10,908	1.4	4.5
MSM30	4,002	-0.7	9.4
BHSE	1,615	1.1	8.4
KWSE	6,566	-0.2	18.4
MSCI			
MSCI World	3,098	0.9	15.2
MSCI EM	1,293	1.2	0.1

Global Commodities, Currencies and Rates

Commodity	Latest	Weekly %	YTD %
Brent USD/bbl	70.7	-7.4	36.5
WTI USD/bbl	68.3	-7.7	40.7
Gold USD/t oz	1,763.0	-2.8	-7.1
Silver USD/t oz	24.3	-4.6	-7.8
Platinum USD/t oz	983.6	-6.5	-8.3
Copper USD/MT	9,529.5	-2.2	23.1
Alluminium	2,573.3	-1.1	30.0
Currencies			
EUR USD	1.18	-0.9	-3.7
GBP USD	1.39	-0.2	1.5
USD JPY	110.25	0.5	6.8
CHF USD	0.91	1.0	-3.2
Rates			
USD Libor 3m	0.13	6.5	-47.4
USD Libor 12m	0.23	-1.5	-32.2
UAE Eibor 3m	0.42	14.1	-17.6
UAE Eibor 12m	0.62	-21.7	-5.0
US 3m Bills	0.04	6.3	-26.1
US 10yr Treasury	1.30	6.1	42.0

Summary market outlook

Global Yields	Thanks to hawkish comments from the Fed, and the stronger-than-expected US employment growth during July, long-term nominal UST yields rose last week after five consecutive weeks of declines. The real yields on long-term USTs rose after falling for six straight weeks. In the Eurozone, concerns about rising COVID-19 cases and softer-than-expected data caused core bond yields to drift lower. Peripheral Eurozone bond yields and UK gilt yields fell too. The yield on 10Y JGBs fell slightly. 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 index fell sharply as risk-appetite improved. The SKEW index moderated to a two-month low. 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	MSCI GCC index rose another 2% during the week despite the weakness in oil prices. With the exception of Kuwait and Oman, performances of equities across the region were positive and strong. UAE and Saudi equities led with outperformance. Within UAE, Dubai stocks outperformed the most. 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, as measured by MSCI ACWI, rose further to reach a new all-time on Thursday before dropping on Friday. EMs outperformed DMs marginally over the past week. Strength in EM Asia was able to offset weakness in EM LatAm. In the developed world, UK and Japan outperformed while Europe-ex-UK and Canada underperformed – all in USD terms. Sector wise, financials, IT and utilities outperformed; materials, consumer staples and communication services underperformed. Our equity strategy is to overweight US and UK, and underweight Eurozone and EM outside Asia. We are neutral Asia and prefer structural growth opportunities there. By sector we prefer IT and communication services as long-term plays and energy as a cyclical play. 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.
Technology Segments	Nasdaq-100 index rose another 1% over the past week taking its year-to-date gains to c17%. NYSE FANG+ index too posted strong gains over the week. HK Tech index, a measure of performance of Chinese technology shares, fell another 1% taking its year-to-date losses to 21%. However, ChiNext index – an independent market that offers exposure to Chinese companies engaged in innovation – rose c1% during the past week.
Commodities	
Precious Metals	Gold prices fell as stronger USD and improved risk sentiment weighed. More cyclical silver and platinum saw higher losses over the week. We keep our overweight in gold as a hedge against potential risks on the horizon.
Energy	Spreading Delta variant of COVID-19 and stronger USD caused a steep fall in oil prices over the past week. Both Brent and WTI benchmarks posted losses which were largest in several months. Overall, we believe that oil prices will remain sustained as the market approaches a balance.
Industrial Metals	Industrial metal prices softened on USD strength. While another commodity super-cycle appears difficult, demand for commodities linked to environmental friendly green infrastructure is likely to sustain.
Currencies	
EURUSD	Data surprises in the US and disappointments in Eurozone meant weaker EUR against the greenback. Re-opening is a positive for EUR while risk-off sentiment and the easier policy are moderately negative.
Critical levels	R2 1.2013 · R1 1.1887 · S1 1.1694 · S2 1.1627
GBPUSD	Cable was weaker on broader USD strength. GBP hit its strongest level since February 2020 against EUR. 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 1.4220 · R1 1.4046 · S1 1.3635 · S2 1.3398
USDJPY	Broader USD strength and a risk-on environment meant USD appreciation against JPY. Over the medium-term, we believe that BoJ yield curve targeting should put downward pressure on JPY.
Critical levels	R2 113.15 · R1 111.70 · S1 108.76 · S2 107.27

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
08/09/21	**JOLTS Job Openings**	**Jun**	**9,270k**	**9,209k**	US inflation is arguably the most important data release this week. Especially after hot inflation prints in recent weeks, markets do expect some moderation at least in y-o-y terms. It will be interesting to watch trends in some of the items that have contributed to strong rises in overall consumer prices over the past months. For instance, used car prices have moderated somewhat over the past month indicating some relief on that front. Elsewhere, nonfarm productivity and Unit Labour Costs data are important too.
08/10/21	NFIB Small Business Optimism	Jul	102.0	102.5	
08/10/21	**Nonfarm Productivity**	**2Q P**	**3.20%**	**5.40%**	
08/10/21	**Unit Labor Costs**	**2Q P**	**0.90%**	**1.70%**	
08/11/21	MBA Mortgage Applications	6-Aug	--	-1.70%	
08/11/21	**CPI YoY**	**Jul**	**5.30%**	**5.40%**	
08/11/21	**CPI Ex Food and Energy YoY**	**Jul**	**4.30%**	**4.50%**	
08/12/21	**Initial Jobless Claims**	**7-Aug**	**375k**	**385k**	
08/12/21	Continuing Claims	31-Jul	2,880k	2,930k	
08/12/21	**PPI Final Demand YoY**	**Jul**	**7.10%**	**7.30%**	
08/12/21	**PPI Ex Food and Energy YoY**	**Jul**	**5.60%**	**5.60%**	
08/13/21	U. of Mich. Sentiment	Aug P	81.2	81.2	

Japan

	Indicator	Period	Expected	Prior	Comments
08/11/21	**Machine Tool Orders YoY**	**Jul P**	**--**	**96.60%**	Machine tool orders and PPI are key data releases this week.
08/12/21	PPI YoY	Jul	5.00%	5.00%	

Eurozone

	Indicator	Period	Expected	Prior	Comments
08/09/21	Eurozone Sentix Investor Conf.	Aug	29.0	29.8	Germany/Eurozone ZEW expectations and Eurozone sentix investor confidence are likely to provide some insight into activity in August. Final inflation data for July is unlikely to provide any surprises.
08/10/21	**Germany ZEW Expectations**	**Aug**	**55.0**	**63.3**	
08/10/21	Eurozone ZEW Expectations	Aug	--	61.2	
08/11/21	Germany CPI YoY	Jul F	3.80%	3.80%	
08/12/21	**Eurozone IP YoY**	**Jun**	**10.40%**	**20.50%**	
08/13/21	France CPI YoY	Jul F	1.20%	1.20%	

United Kingdom

	Indicator	Period	Expected	Prior	Comments
08/12/21	**RICS House Price Balance**	**Jul**	**76%**	**83%**	House price balance likely softened in July from after hitting the highest level since 1988 in June. Q2 GDP growth is expected to be stellar.
08/12/21	**GDP YoY**	**2Q P**	**22.10%**	**-6.10%**	
08/12/21	Industrial Production YoY	Jun	9.40%	20.60%	
08/12/21	Manufacturing Production YoY	Jun	13.40%	27.70%	

China and India

	Indicator	Period	Expected	Prior	Comments
08/09/21	**China CPI YoY**	**Jul**	**0.80%**	**1.10%**	In China, inflation and monetary conditions will be closely watched. On inflation, whilst the July PPI inflation is expected to remain elevated at 8.8% y-o-y, CPI inflation is expected to fall below 1.0%. In India, inflation is expected to slow on account of lower food prices. Of course, higher domestic oil prices might have fed into higher consumer prices.
08/09/21	**China PPI YoY**	**Jul**	**8.80%**	**8.80%**	
08/09/-08/15/21	**China Aggregate Financing CNY**	**Jul**	**1,700.0b**	**3,670.0b**	
08/09-08/15/21	**China Money Supply M2 YoY**	**Jul**	**8.70%**	**8.60%**	
08/09-08/15/21	**China New Yuan Loans CNY**	**Jul**	**1,200.0b**	**2,120.0b**	
08/12/21	India Industrial Production YoY	Jun	13.50%	29.30%	
08/12/21	**India CPI YoY**	**Jul**	**5.79%**	**6.26%**	
08/12-08/15/21	India Exports YoY	Jul	--	48.30%	
08/12-08/15/21	India Imports YoY	Jul	--	98.30%	
08/13-08/16/21	China 1Y MTLF Rate	15-Aug	--	2.95%	

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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