The Weekly Market View

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بنك أبوظبي التجاري
ADCB
ASSET MANAGEMENT LIMITED

Reassessing…

Over the recent weeks, financial markets have been reassessing the global macro outlook given the resilience of growth and its potential implications for inflation and rates. Factors like better-than-expected economic growth, BoJ's tweak to its JGB yield caps, US credit rating downgrade by Fitch, increased issuance by the US treasury, Japan and China reducing their UST holdings, and low summer trading volumes, have all contributed to a sharp rise in US rates. Even the real rates (i.e. rates adjusted for inflation) have risen sharply to their multi-year highs. This has caused financial markets to turn volatile and post losses. For the context, S&P 500 index has dropped c5% in August and is on pace for the worst month this year.

Turning to macro-economic data releases last week, in the US, retail sales, industrial production, housing starts and Philadelphia Fed manufacturing outlook survey were all better than expected. This positive growth outlook alongside the FOMC Meeting minutes which highlighted "significant upside to inflation" meant that rates moved further higher in the US. In the UK, data last week pointed to acceleration in wage growth, rising unemployment, weaker-than-expected retail sales, and higher-than-expected inflation. Elsewhere within Europe, German ZEW expectations were better than expected but the current conditions component disappointed. Eurozone industrial production data delivered a positive surprise. In Japan, Q2 GDP growth was much higher than expected and CPI slowed in line with expectations. In China, weak data (weaker-than-expected industrial production, retail sales, and fixed asset investments), rising unemployment, and falling home prices have all pressed the policy makers to respond. PBoC, the central bank there, not only cut its policy interest rates and increased injections of short-term liquidity into banking system, but also intervened to stop the slide of the Chinese currency. In addition, the China Securities Regulatory Commission unveiled a series of reforms within an objective to revive the investor confidence in financial markets there. In terms of financial market performances last week, rates moved higher further. Yields on 10Y USTs are now close to their highest level since 2007 and while yields on 10Y UK Gilt yields and 10Y French bonds rose to the highest since 2008 and 2012 respectively. USD moved higher – especially against EUR and JPY. Commodity prices fell. Equity markets registered their biggest weekly drop since March.

Outlook for US consumer

Part of the move higher in real rates is a result of better economic growth. In that context, private consumption or household consumption accounted for c68% of the US Nominal GDP in Q2'23. With that high contribution, the fortunes of the US economic growth rely heavily on the outlook for consumers. Indeed, it was the resilient consumer that helped the US avoid a recession thus far in 2023. We look at this rather important segment through five different lenses of activity, sentiment, income, inflation, and balance sheet. On the activity front, overall real consumer spending growth remains positive and accelerated in July. Looking at some of the latest trends, it is becoming clear that strength in consumption is not just a reopening story anymore. Instead, consumption is seeing an improvement across a broad range of categories that were not disrupted by the pandemic. Regarding consumer confidence, both the popular soft measures – University of Michigan Consumer sentiment index, and Conference Board's consumer confidence index – have been improving in recent months. This is in line with improvement in the broader economic sentiment and falling inflation. On income, the US job market remains strong. Continued job gains, and strong wage growth support the dynamic of higher income growth. Falling inflation has certainly helped in boosting real incomes and this in turn can turn supportive for consumption looking ahead. Household balance sheet remains strong with net worth-to-disposable personal income ratio remaining near its all-time high despite falling recently. However, restart of student loan payments is likely to be a drag on growth during 2023. Overall debt delinquency rates remain low while the credit card delinquencies picked up recently. Taking all these together, we believe that consumer spending remains the source of strength for the US economy with growth in that segment expected to accelerate in Q4'23. But we continue to monitor risks for this important segment which could come from deterioration in sentiment or from sticky inflation.

Global markets' performance snapshot

Index Snapshot (World Indices)*

Index	Latest	Weekly %	YTD %
S&P 500	4,370	-2.1	13.8
Dow Jones	34,501	-2.2	4.1
Nasdaq	13,291	-2.6	27.0
DAX	15,574	-1.6	11.9
Nikkei 225	31,451	-3.2	20.5
FTSE 100	7,262	-3.5	-2.5
Sensex	64,949	-0.6	6.8
Hang Seng	17,951	-5.9	-9.3
Regional Markets			
ADX	9,801	-0.8	-4.0
DFM	4,051	-0.3	21.4
Tadawul**	11,451	-0.8	8.6
DSM**	10,572	-1.9	-1.0
MSM30**	4,785	0.3	-1.8
BHSE**	1,953	-1.0	3.0
KWSE**	7,124	-0.6	-2.3
MSCI			
MSCI World	2,898	-2.5	11.3
MSCI EM	964	-3.3	0.8

Global Commodities, Currencies and Rates*

Commodity	Latest	Weekly %	YTD %
Brent USD/bbl	84.8	-2.3	-1.3
WTI USD/bbl	81.3	-2.3	1.2
Gold USD/t oz	1,892.5	-1.3	4.2
Silver USD/t oz	22.8	0.4	-4.2
Platinum USD/t oz	904.0	-0.8	-12.3
Copper USD/MT	8,213.8	-0.5	-1.8
Alluminium	2,089.3	-1.7	-11.1
Currencies			
EUR USD	1.09	-0.7	1.5
GBP USD	1.27	0.3	5.2
USD JPY	145.39	0.3	10.9
Rates	**Latest**	**Weekly (bp)**	**YTD (bp)**
SOFR	5.30	0.0	100.0
UAE Eibor 3m	5.31	-6.9	100.4
UAE Eibor 12m	5.48	16.5	43.8
US 3m Bills	5.28	0.0	98.0
US 10yr Treasury	4.25	8.1	42.0
German 10yr Bund	2.62	-0.1	5.8
UK 10yr Gilt	4.68	14.9	100.7

Source: Bloomberg, and ADCB Asset Management
Notes: *Data as of August 18 2023 unless stated otherwise; **Data as of August 17 2023

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Summary market outlook

Global Yields	Yields on 10Y USTs rose for a fifth week in a row as a resilient US economy added to worries over fears of interest rates staying higher for longer. UK 10Y gilts rose as inflation remains strong in the UK. 10Y JGB bond yields rose. Yields on German 10Y bunds declined over the past 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) over other DM sovereigns.
Stress and Risk Indicators	VIX index (measure of implied volatility in equities) increased while MOVE index (measure of bond volatility) declined over the week. 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 markets declined with the exception of Oman. Fears over China's sluggish economic recovery coupled with concerns over global interest rates staying higher were the main rippling effect for the Gulf index. 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 declined with Hang Seng leading the decline as worries over the property market in China coupled with its poor economic data signalled weak demand recovery for the Chinese economy. A lacklustre reaction by the PBOC extended fears. Staying in Asia, the Nikkei had its biggest weekly loss in 8 months despite Japan's Q2 GDP rising 6% way over expectations. Japanese equities declined due to fears of rising yields coupled with rippling effects of China's outlook. Within the US, resilient economic data including a decrease in jobless claims, caused investors to worry over whether rate cuts were coming later than expected. EM underperformed DM over the week. 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 2.22% while HK Tech index fell 7.73% last week. Both segments were impacted by rising rates but the latter got an additional headwind in the form of weaker China macro outlook.
Commodities	
Precious Metals	Precious metals were mixed as gold and platinum fell due to resilient US economic data and a stronger USD. Silver prices increased over the week which were supported by investment in solar energy utilities. We prefer gold as a hedge against potential inflation, growth, and geopolitical risks.
Energy	Both Brent and WTI benchmarks posted first weekly loss in 8 weeks due to concerns about global demand. 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 aluminium underperforming copper. Both metals declined due to disappointing economic data from top consumer, 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 a fourth week in a row. We expect euro to stabilize and record a better performance in 2023 compared to 2022.
Critical levels	R2 1.0901 · R1 1.0894 · S1 1.0875 · S2 1.0863
GBPUSD	The GBP strengthened against the dollar over the week on high UK inflation data. We expect GBP to strengthen versus the USD with the BoE likely to remain the most hawkish of the lot.
Critical levels	R2 1.2772 · R1 1.2757 · S1 1.2722 · S2 1.2702
USDJPY	JPY weakened against the USD – reaching a nine-month low on Thursday. 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 145.86 · R1 145.61 · S1 145.13 · S2 144.90

Forthcoming important economic data/events

United States

Date & Time (GST)	Indicator	Period	Expected	Prior
08/22/2023 18:00	Existing Home Sales	Jul	4.15m	4.16m
08/22/2023 18:00	Richmond Fed Manufact. Index	Aug	--	-9
08/23/2023 15:00	MBA Mortgage Applications	18-Aug	--	-0.80%
08/23/2023 17:45	**S&P Global US Manufacturing PMI**	**Aug P**	**49**	**49**
08/23/2023 17:45	**S&P Global US Services PMI**	**Aug P**	**52**	**52.3**
08/23/2023 18:00	New Home Sales	Jul	707k	697k
08/24/2023 16:30	**Initial Jobless Claims**	**19-Aug**	**--**	**239k**
08/24/2023 16:30	Chicago Fed Nat Activity Index	Jul	--	-0.32
08/24/2023 16:30	**Continuing Claims**	**12-Aug**	**--**	**1,716k**
08/24/2023 16:30	Durable Goods Orders	Jul P	-4.00%	4.60%
08/25/2023 18:00	**U. of Mich. Sentiment**	**Aug F**	**71.2**	**71.2**
08/25/2023 18:00	U. of Mich. Current Conditions	Aug F	--	77.4
08/25/2023 18:00	**U. of Mich. 1 Yr Inflation**	**Aug F**	**--**	**3.30%**
08/25/2023 18:00	**U. of Mich. 5-10 Yr Inflation**	**Aug F**	**--**	**2.90%**
08/25/2023	**Jackson Hole Symposium – Jerome Powell's Speech**			

Japan

Date & Time (GST)	Indicator	Period	Expected	Prior
08/23/2023 04:30	**Jibun Bank Japan PMI Mfg**	**Aug P**	**--**	**49.6**
08/23/2023 04:30	**Jibun Bank Japan PMI Services**	**Aug P**	**--**	**53.8**
08/23/2023 10:00	Machine Tool Orders YoY	Jul F	--	-19.80%
08/25/2023 03:30	**Tokyo CPI YoY**	**Aug**	**3.00%**	**3.20%**
08/25/2023 03:30	**Tokyo CPI Ex-Fresh Food YoY**	**Aug**	**2.90%**	**3.00%**
08/25/2023 03:50	PPI Services YoY	Jul	1.20%	1.20%
08/25/2023 09:30	Nationwide Dept Sales YoY	Jul	--	7.00%

Eurozone

Date & Time (GST)	Indicator	Period	Expected	Prior
08/21/2023 10:00	**Germany PPI YoY**	**Jul**	**-4.50%**	**0.10%**
08/22/2023 12:00	**Eurozone ECB Current Account SA**	**Jun**	**--**	**9.1b**
08/23/2023 12:00	**Eurozone HCOB Manufacturing PMI**	**Aug P**	**42.3**	**42.7**
08/23/2023 12:00	**Eurozone HCOB Services PMI**	**Aug P**	**50.4**	**50.9**
08/23/2023 18:00	Eurozone Consumer Confidence	Aug P	-14	-15.1
08/23/2023 11:30	**Germany HCOB Manufacturing PMI**	**Aug P**	**38**	**38.8**
08/23/2023 11:30	**Germany HCOB Services PMI**	**Aug P**	**51.2**	**52.3**
08/23/2023 11:15	**France HCOB Manufacturing PMI**	**Aug P**	**--**	**45.1**
08/23/2023 11:15	**France HCOB Services PMI**	**Aug P**	**--**	**47.1**
08/24/2023 10:45	France Manufacturing Confidence	Aug	--	100
08/25/2023 10:00	Germany GDP SA QoQ	2Q F	0.00%	0.00%
08/25/2023 12:00	**Germany IFO Business Climate**	**Aug**	**86.7**	**87.3**
08/25/2023 12:00	**Germany IFO Expectations**	**Aug**	**83.5**	**83.5**

United Kingdom

Date & Time (GST)	Indicator	Period	Expected	Prior
08/23/2023 12:30	**S&P Global/CIPS Manufacturing PMI**	**Aug P**	**--**	**45.3**
08/23/2023 12:30	**S&P Global/CIPS Services PMI**	**Aug P**	**--**	**51.5**
08/25/2023 03:01	GfK Consumer Confidence	Aug	-29	-30

China and India

Date & Time (GST)	Indicator	Period	Expected	Prior
08/27/2023 05:30	China Industrial Profits YTD YoY	Jul	--	-16.80%

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