The Weekly Market View

August 30 2021

ADCB ASSET MANAGEMENT LIMITED

Risk sentiment rebounds

Risk sentiment improved as growth concerns took a backseat. Markets were supported by the FDA's full approval to Pfizer-BioNTech Covid-19 vaccine, positive economic data and most importantly, relatively dovish Fed outlook at the Jackson Hole meeting. In his much anticipated speech at the Jackson Hole Symposium, Fed Chair Jay Powell signalled that the taper was on cards, but stopped from indicating a definite start date for the taper. In addition, fears over Delta variant abated with signs of cases peaking. Economic data showed signs of stabilization but was mostly positive. Weekly Jobless Claims jumped for the first time in five weeks, yet remained near post-pandemic lows. US manufacturing and services PMI growth subsided, but both remained well above the 50 level in the expansionary territory. Slight drop was also reported in the Euro Area flash PMI. Amidst the positive risk sentiment, equity markets bounced back after selling-off in the previous week. EM equities outperformed the DMs stocks. Within EMs, LatAm markets outperformed the most. In the developed world, Canada, Japan, and UK outperformed the most. Sector wise, with the exception of defensive sectors like consumer staples, health care and utilities, gains were broad-based. More cyclical sectors like energy and materials outperformed the most. In the bond markets, US Treasury yields recorded weekly gain, despite registering a drop post the Fed Chair Powell's speech on Friday. US credit spreads tightened on account of improved risk appetite. In Europe, core and periphery bond yields tracked the move higher in UST yields. In the currency market, US dollar ended the week lower, in reaction to Jay Powell's speech on Friday. Elsewhere, gold prices gained with the weakness in dollar. Oil prices rallied with reports of decline in crude inventories and supply shortage due to a fire in Mexico oil company.

Taper is on the cards, not immediately but soon

The highly anticipated Jackson Hole meeting may have turned out to be a non-event with the Fed failing to point at any start date for the bond taper. However, "taper is on the cards" was the message in Fed's Powell's speech. Another important message was that any sort of reduction or the pace of reduction of the asset purchases will not be indicative of future policy rate lift-off and that inflation and employment goals will be more stringent for rate hikes to materialise. Bond markets immediately reacted by finally starting to de-link the taper of asset purchases from prospective Fed rate hikes. The front-end rates – which point to aggressive market expectation of rate hikes- eased while the yield curve steepened. We believe that the intermediate part of the curve will continue to benefit as markets adjust their aggressive expectations. On the other hand, long-term bond yields remain vulnerable given the levels at which they are trading versus the Fed's long-term neutral rate. While delta variant concerns pose risk and growth may have started to roll over, future economic prospects still remain promising. Taper announcement could also spook volatility in the long-dated bonds and long-duration fixed income assets. Our analysis of 2013 taper tantrum period shows that the long-duration fixed income assets were most impacted during the taper tantrum sell-off. In the event of taper-related volatility, along with long-dated USTs, US IG could come under pressure given the relative duration extension seen compared to 2013 taper tantrum period. US HY bonds were immune to the 2013 taper tantrum but could become vulnerable due the current tight spread levels. In terms of sector, financials and basic industries had recorded the largest spread widening during 2013 taper tantrum period. In emerging markets, EM local currency bonds could face pressure with many EM central banks forced to normalise monetary policy. On the other hand, EM USD corporate were less impacted during 2013 taper tantrum due to their low-duration characteristics.

Overall, we maintain a short-duration stance on USTs, neutral on US IG and EM USD sovereign bonds with a preference for Asia IG and an underweight on US HY. For details on allocation, see our recent investment strategy outlook note Quarterly Investment View, July 2021.

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Index Snapshot (World Indices)

Index	Latest	Weekly %	YTD %
S&P 500	4,509	1.5	20.1
Dow Jones	35,456	1.0	15.8
Nasdaq	15,130	2.8	17.4
DAX	15,852	0.3	15.5
Nikkei 225	27,725	2.3	0.7
FTSE 100	7,148	0.8	10.6
Sensex	56,125	1.4	17.5
Hang Seng	25,408	2.2	-6.7
Regional Markets (Sunday to Thursday)			
ADX	7,625	0.1	51.3
DFM	2,900	2.2	16.3
Tadawul	11,129	-0.7	28.2
DSM	11,103	0.6	6.2
MSM30	3,963	-0.5	8.4
BHSE	1,667	1.7	11.9
KWSE	6,791	1.8	22.8
MSCI			
MSCI World	3,110	1.7	16.5
MSCI EM	1,266	4.3	-1.4

Global Commodities, Currencies and Rates

Commodity	Latest	Weekly %	YTD %
ICE Brent USD/bbl	72.7	11.5	40.3
Nymex WTI	68.7	10.3	41.7
Gold USD/t oz	1,817.6	2.0	-4.3
Silver USD/t oz	24.0	4.3	-9.0
Platinum USD/t oz	1,012.5	1.5	-5.6
Copper USD/MT	9,323.0	4.8	20.8
Alluminium	2,610.8	4.0	33.5
Currencies			
EUR USD	1.18	0.8	-3.4
GBP USD	1.38	1.0	0.7
USD JPY	109.84	0.1	6.0
CHF USD	0.91	-0.6	-2.9
Rates	**Latest**	**Weekly**	**YTD(bp)**
USD Libor 3m	0.12	-0.8	-11.8
USD Libor 12m	0.24	-0.1	-10.7
UAE Eibor 3m	0.25	-9.2	-26.0
UAE Eibor 12m	0.44	-0.7	-21.7
US 3m Bills	0.05	0.3	-1.3
US 10yr Treasury	1.31	5.2	39.4

Summary market outlook

Global Yields	10yr UST yields posted gains ahead of the Jackson Hole meeting. US credit spreads tightened with US HY recording strong gains. Core Eurozone bonds tracked the move higher in UST yield. 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 ended lower after rising sharply ahead of the Jackson Hole meeting. 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	Overall GCC markets underperformed broader equities last week. MSCI GCC index ended the week flat despite the sharp bounce in oil prices. Within the region, weakness in Saudi equities offset the strength elsewhere – for instance in Dubai and Kuwaiti equities. 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	Equity markets bounced back last week after selling-off in the previous week as growth scare subsided. EMs outperformed DMs. Within EMs, LatAm markets outperformed the most. In the developed world, Canada, Japan, and UK outperformed the most. Sector wise, with the exception of defensive sectors like consumer staples, health care and utilities, gains were broad-based. More cyclical sectors like energy and materials outperformed the most. 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. 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	Strength was observed in the technology space across the board. In the US, Nasdaq-100 index rose 2%. NYSE FANG+ index which also includes some US-listed Chinese technology companies rose 4%. HK tech index gained c7% during the week after experiencing acute weakness in recent weeks. News flow around Chinese technology sector remained volatile. On Thursday, an official at the Central Financial and Economic Affairs Commission pointed out that the recent policies are not aimed at private or foreign-funded enterprises. On Friday, the WSJ reported that China plans to ban US IPOs for companies with large amounts of sensitive consumer data.
Commodities	
Precious Metals	Precious metals posted gains in reaction to relatively dovish Jackson Hole outcome and weaker dollar bias. We keep our overweight in gold as a hedge against potential risks on the horizon.
Energy	Oil prices rallied on reports of decline in crude inventories and supply related issues in Mexico. Overall, we believe that oil prices will remain sustained as the market approaches a balance.
Industrial Metals	Industrial metal prices gained on the back of weaker dollar bias and risk-on sentiment. While another commodity super-cycle appears difficult, demand for commodities linked to environmental friendly green infrastructure is likely to sustain.
Currencies	
EURUSD	The euro strengthened on upbeat German data and on broad dollar weakness. Re-opening is a positive for EUR while risk-off sentiment and the easier policy are moderately negative.
Critical levels	R2 1.1844 · R1 1.1820 · S1 1.1753 · S2 1.1710
GBPUSD	The pound sterling gained versus the dollar post the relatively dovish comments from Fed's Powell. 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 1.3843 · R1 1.3803 · S1 1.3702 · S2 1.3641
USDJPY	The yen was flat versus the dollar, despite the broad dollar weakness. Over the medium-term, we believe that BoJ yield curve targeting should put downward pressure on JPY.
Critical levels	R2 110.453 · R1 110.147 · S1 109.657 · S2 109.473

Note: R2, R1, S2 and S1 refer to Bloomberg calculated weekly technical resistance and support levels.

Forthcoming important economic data/events

United States

Date	Indicator	Period	Expected	Prior	Comments
09/01/21	**MBA Mortgage Applications**	**27- Aug**	**--**	**1.60%**	Market focus will be on the labor market data, especially post the latest Jackson Hole Meeting. Also, initial jobless claims, PMI and ISM Manufacturing are important. In addition, Durable goods orders and MBA Mortgage applications will be closely watched.
09/01/21	**Markit Manufacturing PMI**	**Aug F**	**61.2**	**61.2**	
09/01/21	**ISM Manufacturing**	**Aug**	**58.5**	**59.5**	
09/02/21	Initial Jobless Claims	28- Aug	345K	353K	
09/02/21	Continuing Claims	21- Aug	2800K	2862K	
09/02/21	Trade Balance	Jul	-$71.0b	-$75.7b	
09/02/21	**Factory Orders**	**Jul**	**0.30%**	**1.50%**	
09/02/21	**Durable Goods Orders**	**Jul F**	**-0.10%**	**-0.10%**	
09/03/21	**Change in Nonfarm Payrolls**	**Aug**	**750K**	**943K**	
09/03/21	**Unemployment Rate**	**Aug**	**5.20%**	**5.40%**	
09/03/21	**Average Hourly Earnings MoM**	**Aug**	**0.30%**	**0.40%**	
09/03/21	**Labor Force Participation Rate**	**Aug**	**61.80%**	**61.70%**	
09/03/21	**Underemployment Rate**	**Aug**	**--**	**9.20%**	
09/03/21	Markit Services PMI	Aug F	55.2	55.2	

Japan

Date	Indicator	Period	Expected	Prior	Comments
08/31/21	Jobless Rate	Jul	2.90%	2.90%	Retail sales for July and the PMI print for August are the main focus
08/31/21	Industrial Production YoY	Jul P	11.20%	23.00%	
09/01/21	Jibun Bank PMI Mfg	Aug F	--	52.4	
09/03/21	Jibun Bank PMI Services	Aug F	--	43.5	
09/03/21	Jibun Bank Japan PMI Composite	Aug F	--	45.9	

Eurozone

Date	Indicator	Period	Expected	Prior	Comments
08/30/21	Consumer Confidence	Aug F	--	-5.3	All attention will be on Eurozone PMI. GDP and CPI are also important.
08/31/21	GDP YoY	Jun	8.80%	14.60%	
08/31/21	France CPI YoY	Aug P	1.70%	1.20%	
09/01/21	Germany CPI YoY	Jul	-1.00%	4.20%	
09/01/21	Markit Eurozone Manufacturing PMI	Aug F	61.5	61.5	
09/01/21	Unemployment Rate	Jul	7.60%	7.70%	
09/03/21	Markit Eurozone Services PMI	Aug F	59.7	59.7	

United Kingdom

Date	Indicator	Period	Expected	Prior	Comments
09/01/21	**Nationwide House Px NSA YoY**	**Aug**	**8.60%**	**10.50%**	PMI releases and nationwide house price data will be closely tracked.
09/01/21	**Markit PMI Manufacturing SA**	**Aug F**	**60.1**	**60.1**	
09/03/21	Markit/CIPS Services PMI	Aug F	55.5	55.5	
09/03/21	Markit/CIPS Composite PMI	Aug F	55.3	55.3	

China and India

Date	Indicator	Period	Expected	Prior	Comments
08/31/21	**China Non-manufacturing PMI**	**Aug**	**52**	**53.3**	Focus will be on the China PMI release for August. Also GDP will be important in India.
08/31/21	**China Manufacturing PMI**	**Aug**	**50.1**	**50.4**	
08/31/21	China Composite PMI	Aug	--	52.4	
08/31/21	**India GDP YoY**	**2Q**	**21.00%**	**1.60%**	
09/01/21	**China Caixin PMI Mfg**	**Aug**	**50.1**	**50.3**	
09/01/21	**India Markit PMI Mfg**	**Aug**	**--**	**55.3**	

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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