The Weekly Market View

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ADCB ASSET MANAGEMENT LIMITED

Good news is bad?

Markets digested the upbeat payroll data at the end of the last week, raising signs of a more aggressive Fed stance and defying signs of growth deceleration while US-China tensions flared following US House Speaker Nancy Pelosi's visit to Taiwan. July labour market data showed that non-farm payrolls rose by 528k, more than double the consensus expectations. The unemployment rate declined to the pre-pandemic level of 3.5%. Wage growth also surged, a key concern for the Fed's fight against inflation, with the average hourly earnings rising by 0.5% on a m-o-m basis and by 5.2% on y-o-y basis. The strong jobs report drove market expectations of September rate hike higher with the markets now pricing in a strong possibility of another 75bp rate hike. In other data releases, weekly jobless claims rose in line with expectations. ISM survey showed that economic activity in manufacturing and services sector surprised on the upside. In the UK, the Bank of England raised its key policy rate by 50bp, the highest rate increase in 27 years and signalled an impending recession. In Eurozone, final July PMI data indicated the sharpest deceleration in manufacturing activity since the onset of the pandemic. Global equities ended the week mixed with the MSCI ACWI relatively unchanged. EM stocks outperformed DM peers. In DM, Japanese equities were the best performers. UST yields rose across the curve, led by short-end, as the strong payrolls report pushed rate hike expectations, more than offsetting the safe-haven demand seen in the first half of the week due to escalating US-China tensions. The curve further flattened with deepening of inversions evident in various segments. USD strengthened on the back of hawkish Fed expectations. Gold recorded its third weekly gain, despite the strong dollar bias as US-China tensions buoyed demand for safe-havens. Oil prices declined on EIA reports of higher US inventories and concerns of global economic slowdown.

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No summer break

While the job market returning to pre-pandemic levels should be applauded by the Biden Administration, it is not all good news for the US central bank. Strong labour market and higher wage gains, at a time when inflation is a concern, only adds pressure on the Fed to become more aggressive. Job gains have also poured cold water on the ongoing debate whether the US economy is in recession. This is the third time in history when the GDP growth rate has been negative for two consecutive quarters with the backdrop of positive growth in consumer spending and strength in job market. In fact, this is the strongest the labour market has been during any two consecutive quarters of US contraction. This also should allow the Fed to keep focusing on inflation while keeping growth concerns aside just for now. With the ease in recession concerns, the rates markets were quick in reversing the pricing of a dovish Fed pivot. Market are now expecting a 75bp rate hike at the September meeting and the Fed fund rate to peak at around 3.6% in March 2023. With the Fed abandoning its forward guidance and being more data dependent, we could witness a rise in volatility in markets. Between now and the next Fed meeting, there are two key inflation reports, Jackson Hole Symposium and one more payroll report. Signs of inflation peaking are important to bring back the pricing of a dovish narrative. Flaring geopolitical risks with the recent escalation of US-China tensions also add to the uncertainty ahead for the investors. Overall, we believe it is important to stay disciplined and diversified. In fixed income, we still maintain our overweight stance on US Treasuries with preference for the 7-10yr UST segment. While recession risks may have slightly pulled back, the US economy is still likely to undergo a mid-cycle slowdown. Besides, the 10yr UST yields had already touched the current market-implied peak Fed fund rate of c3.6% in June. While volatility is likely to remain ahead of the September Fed meeting, we believe there is limited upside room for the 10yr UST yields. For discussions and positioning see our Q3 2022 Outlook: Delayed, not derailed, July 2022.

Global markets' performance snapshot*

Index Snapshot (World Indices)*

Index	Latest	Weekly %	YTD %
S&P 500	4,145	0.4	-13.0
Dow Jones	32,803	-0.1	-9.7
Nasdaq	12,658	2.2	-19.1
DAX	13,574	0.7	-14.5
Nikkei 225	28,176	1.3	-1.9
FTSE 100	7,440	0.2	0.7
Sensex	58,388	1.4	0.2
Hang Seng	24,209	0.2	-14.4
Regional Markets			
ADX	9,916	2.6	16.8
DFM	3,317	-0.6	3.8
Tadawul**	12,292	1.1	8.3
DSM**	13,377	1.9	15.1
MSM30**	4,667	3.0	12.7
BHSE**	1,900	-0.3	5.7
KWSE**	7,733	0.2	9.5
MSCI			
MSCI World	2,762	0.2	-14.8
MSCI EM	995	0.9	-18.6

Global Commodities, Currencies and Rates*

Commodity	Latest	Weekly %	YTD %
ICE Brent USD/bbl	94.9	-13.7	22.1
Nymex WTI USD/bbl	89.0	-9.7	18.3
Gold USD/t oz	1,775.5	0.5	-3.1
Silver USD/t oz	19.9	-2.3	-14.7
Platinum USD/t oz	936.3	4.1	-4.0
Copper USD/MT	7,830.5	0.4	-19.2
Alluminium	2,426.8	-3.0	-13.4
Currencies			
EUR USD	1.02	-0.4	-10.5
GBP USD	1.21	-0.8	-10.8
USD JPY	135.01	1.3	14.9
USD CHF	0.96	1.0	5.1
Rates	**Latest**	**Weekly (bp)**	**YTD(bp)**
USD Libor 3m	2.87	7.8	265.8
USD Libor 12m	3.86	15.3	327.7
UAE Eibor 3m	2.79	8.6	242.8
UAE Eibor 12m	3.45	13.8	270.8
US 3m Bills	2.47	15.4	244.0
US 10yr Treasury	2.83	17.8	131.7

Notes: *Data as of August 5 2022 unless stated otherwise; **Data as of August 4 2022

Summary market outlook

Global Yields	10Y UST yields jumped over the week as the strong payroll data offset the safe-haven appetite seen during the first half of the week due to escalation of US-China tensions. Yields on core Eurozone bonds rose, tracking the rise in UST yields. UK Gilt yields jumped after the BoE rate hike. 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 (we now focus on the 7-10Y segment) as growth slowdown/recession fears rise.
Stress and Risk Indicators	VIX index, a measure of implied volatility in equities, jumped in the first half of the week due to flaring US-China tensions but settled later to end the week lower. VVIX, a measure of volatility in the VIX, ended the week flat. SKEW index, a measure of tail risks, jumped to the highest level in three months. Yet, MOVE index, a measure of implied volatility in bonds, moved slightly higher. We expect financial market volatility to stay elevated as the monetary policy normalizes.
Equity Markets	
Local Equity Markets	GCC stock markets recorded gains over the week with the exception of Dubai and Bahrain. Oman, Abu Dhabi, and Qatar led the outperformance while Dubai underperformed. 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 years are all balanced by lack of structural growth plays in the equity markets.
Global Equity Markets	Global equities had a mixed week with the MSCI ACWI ending unchanged. EM outperformed DM. In DM, Japan was the best performer while UK underperformed. 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	Nasdaq-100 index gained c2% over the week while HK tech index also rose by c2%. Within technology, we prefer non-cyclical growth over cyclical growth (tech hardware, semiconductors etc.) over a 12-month horizon.
Commodities	
Precious Metals	Gold recorded its third weekly gain, despite broad USD strength, on the back of increased safe-haven demand due to rising geopolitical risks. We are overweight gold as a hedge against potential inflation, growth, and geopolitical risks.
Energy	Oil prices declined over the week on EIA reports of higher US inventories and demand concerns due to recession fears. Overall, over the medium-term we believe that oil prices will remain sustained as the market balances into the new normal.
Industrial Metals	Industrial metal prices ended mixed last week with aluminium prices declining while copper price rose. Another commodity super-cycle is difficult, yet demand for commodities linked to "green infrastructure" is likely to sustain.
Currencies	
EURUSD	The euro weakened versus the USD as strong labor market data raised the possibility of aggressive Fed rate hikes. We expect ECB policy divergence to play a major role in the performance of the euro.
Critical levels	R2 1.0371 · R1 1.0277 · S1 1.0106 · S2 1.0029
GBPUSD	The GBP weakened versus the USD on broad dollar strength. We expect GBP to weaken against USD and stay flat versus the EUR.
Critical levels	R2 1.2412 · R1 1.2243 · S1 1.1954 · S2 1.1834
USDJPY	The yen depreciated versus the dollar. BoJ policy remains odd-one out and is likely to cause JPY weakness.
Critical levels	R2 138.73 · R1 136.87 · S1 131.78 · S2 128.55

Forthcoming important economic data/events

United States

Date & Time (GST)	Indicator	Period	Expected	Prior
08/09/22 14:00	NFIB Small Business Optimism	Jul	89.5	89.5
08/10/22 15:00	**MBA Mortgage Applications**	**5- Aug**	**--**	**1.20%**
08/10/22 16:30	**CPI YoY**	**Jul**	**8.70%**	**9.10%**
08/10/22 16:30	Real Avg Hourly Earning YoY	Jul	--	-3.60%
08/10/22 18:00	Wholesale Inventories MoM	Jun F	1.90%	1.90%
08/11/22 16:30	PPI Ex Food and Energy MoM	Jul	0.40%	0.40%
08/11/22 16:30	PPI Final Demand YoY	Jul	10.40%	11.30%
08/11/22 16:30	**Initial Jobless Claims**	**6- Aug**	**265K**	**260K**
08/11/22 16:30	**Continuing Claims**	**30- Jul**	**1410K**	**1416K**
08/12/22 18:00	**U. of Mich. Sentiment**	**Aug P**	**52.5**	**51.5**
08/12/22 18:00	U. of Mich. 1 Yr Inflation	Aug P	5.10%	5.20%
08/12/22 18:00	U. of Mich. 5-10 Yr Inflation	Aug P	2.80%	2.90%

Japan

Date & Time (GST)	Indicator	Period	Expected	Prior
08/08/22 03:50	BoP Current Account Balance	Jun	-¥706.2b	¥128.4b
08/09/22 03:50	Money Stock M2 YoY	Jul	3.30%	3.30%
08/09/22 10:00	Machine Tool Orders YoY	Jul P	--	17.10%
08/10/22 03:50	**PPI YoY**	**Jul**	**8.40%**	**9.20%**

Eurozone

Date & Time (GST)	Indicator	Period	Expected	Prior
08/08/22 12:30	Eurozone Sentix Investor Confidence	Aug	-29	-26.4
08/10/22 10:00	**Germany CPI YoY**	**Jul F**	**7.50%**	**7.50%**
08/11/22 08/16	Germany Wholesale Price Index YoY	Jul	--	21.20%
08/12/22 10:45	**France CPI YoY**	**Jul F**	**6.10%**	**6.10%**
08/12/22 13:00	**Eurozone Industrial Production WDA YoY**	**Jun**	**1.00%**	**1.60%**

United Kingdom

Date & Time (GST)	Indicator	Period	Expected	Prior
08/09/22 03:01	BRC Sales Like-For-Like YoY	Jul	--	-1.30%
08/11/22 03:01	RICS House Price Balance	Jul	60%	65%
08/12/22 10:00	**GDP YoY**	**2Q P**	**2.80%**	**8.70%**
08/12/22 10:00	Construction Output YoY	Jun	3.00%	4.80%
08/12/22 10:00	**Industrial Production MoM**	**Jun**	**-1.90%**	**0.90%**
08/12/22 10:00	Manufacturing Production YoY	Jun	0.80%	2.30%
08/12/22 10:00	Index of Services 3M/3M	Jun	-0.40%	0.10%

China and India

Date & Time (GST)	Indicator	Period	Expected	Prior
08/09/22 08/15	China Aggregate Financing CNY	Jul	1300.0b	5170.0b
08/09/22 08/15	China New Yuan Loans CNY	Jul	1125.0b	2810.0b
08/09/22 08/15	China Money Supply M2 YoY	Jul	11.40%	11.40%
08/10/22 05:30	**China PPI YoY**	**Jul**	**4.80%**	**6.10%**
08/10/22 05:30	**China CPI YoY**	**Jul**	**2.90%**	**2.50%**
08/12/22 16:00	India Industrial Production YoY	Jun	10.30%	19.60%
08/12/22 16:00	**India CPI YoY**	**Jul**	**6.79%**	**7.01%**
08/13/22 08/16	**China 1-Yr Medium-Term Lending Facility Rate**	**15- AUG**	**2.85%**	**2.85%**

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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