The Weekly Market View

August 15 2022

بنك أبوظبي التجاري ADCB ASSET MANAGEMENT LIMITED

A new hope?

With inflation stuck in investors' mind, July CPI releases proved to be a sigh of relief. Both the CPI and the PPI print showed that inflation eased in July. Headline CPI and Core CPI both unchanged on a month-on-month basis, but declined on y-o-y basis and came in below market expectations. PPI declined in July, recording its first drop since April 2020. University of Michigan survey showed both short-term and long-term inflation expectations eased for August while consumer sentiment improved. Meanwhile, Fed members indicated that their fight against inflation was far from over. Markets, however, pared back their rate hike expectations, now pricing in 50bp rate hike instead of 75bp rate hike priced in the previous week. In the UK, GDP contracted by 0.1% q-o-q, less than market expectation.

Global equities rallied as markets expected less aggressive Fed response with the ease in latest inflation numbers. MSCI World Index gained by 3%. EM equities recorded gains, but underperformed DM peers. Within DM, US equities were the best performers with the S&P 500 registering its fourth consecutive week of gains. UK equities underperformed, but remained the best performer on a YTD basis. This week's gains pushed Japanese equities into the positive territory on a YTD basis. 10Y UST yields ended the week unchanged, but the 10-2yr UST curve slightly steepened. Corporate credit and EM USD bonds registered positive returns. In commodities, oil prices surged on ease in recession fears and IEA monthly report pointing to strong demand outlook. Gold prices jumped with signs of weakness in the US dollar.

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EM debt: out of the woods?

After a dismal first half of 2022, EM USD bonds staged a recovery in July, in line with the recovery seen in most fixed income asset classes. The recovery was led by EM IG USD sovereign bonds, indicating that preference for high-quality bonds as investors navigate through a range of headwinds. Despite the recent rebound and stability in flows, we still believe that EM bonds are not yet out of the woods. Any path to recovery will be challenging with the backdrop of external headwinds including US financial conditions and China slowdown concerns against the idiosyncratic domestic risks. US financial conditions play an important role in influencing the performance of EM USD debt. Though financial conditions have slightly eased, they are still near the tightest levels in two years. Second and most important driver is China's recovery. A strong rebound in China growth is yet to be seen with performance of EM bonds being strongly linked to China economic performance. This is evident in the recent rise in China-EM sovereign CDS correlations. As such, we believe it is not the time yet to add EM bond exposure and we remain neutral on EM USD bonds. Given the external headwinds, EMs with weak external positioning (e.g. Egypt and Turkey) will remain the most vulnerable. External balances in these countries likely to deteriorate further on the back of domestic currency weakness. Decline in foreign reserves is a concern at a time of rising import costs. Amidst the idiosyncratic domestic risks, these countries are also likely to face sizeable funding stress (Turkey: USD13bn and Egypt: USD5bn in international bond maturities) in the next 15 months. We express caution against adding exposure to these countries. We continue to prefer high-quality within EM with the top-rated GCC countries standing out. Saudi Arabia, Qatar and the UAE have seen the smallest widening in 5yr CDS spread YTD. Strong fundamentals with positive fiscal and current account balances and evidence of growth in non-oil sector activity should support the relative outperformance of the GCC countries against EM peers. 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	4,280	3.3	-10.2
Dow Jones	33,761	2.9	-7.1
Nasdaq	13,047	3.1	-16.6
DAX	13,796	1.6	-13.2
Nikkei 225	28,547	1.3	0.1
FTSE 100	7,501	0.8	1.6
Sensex	59,463	1.8	2.1
Hang Seng	24,209	-0.1	-14.3
Regional Markets			
ADX	10,246	3.3	20.7
DFM	3,395	2.3	6.2
Tadawul**	12,531	1.9	10.9
DSM**	13,744	2.7	18.7
MSM30**	4,622	-1.0	12.0
BHSE**	1,898	-0.1	6.4
KWSE**	7,699	-0.4	8.6
MSCI			
MSCI World	2,835	3.0	-12.3
MSCI EM	1,017	1.4	-17.5

Global Commodities, Currencies and Rates*

Commodity	Latest	Weekly %	YTD %
ICE Brent USD/bbl	98.2	3.4	25.1
Nymex WTI USD/bbl	92.1	3.5	21.4
Gold USD/t oz	1,802.4	1.5	-1.8
Silver USD/t oz	20.8	4.7	-11.3
Platinum USD/t oz	965.3	3.1	-1.1
Copper USD/MT	8,065.0	3.0	-16.8
Alluminium	2,438.2	0.5	-13.0
Currencies			
EUR USD	1.03	0.7	-9.9
GBP USD	1.21	0.5	-10.5
USD JPY	133.42	-1.2	13.7
USD CHF	0.94	-2.1	3.1
Rates	**Latest**	**Weekly (bp)**	**YTD(bp)**
USD Libor 3m	2.92	5.5	271.2
USD Libor 12m	3.96	9.9	337.6
UAE Eibor 3m	2.78	-1.5	241.4
UAE Eibor 12m	3.54	9.0	279.8
US 3m Bills	2.52	4.6	248.6
US 10yr Treasury	2.83	0.4	132.1

Notes: *Data as of August 12 2022 unless stated otherwise; **Data as of August 11 2022

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Summary market outlook

Global Yields	10Y UST yields ended the week unchanged, despite the soft inflation print. The 10-2yr UST yield curve steepened, but remained deep in inversion. Eurozone bond yields jumped more than UST peers. US IG and US HY both recorded positive returns. EM USD bonds also registered weekly gains. 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, declined over the week. VVIX, a measure of volatility in the VIX, rose over the week. SKEW index, a measure of tail risks, jumped to a new three-month high. Yet, MOVE index, a measure of implied volatility in bonds, fell during the week. We expect financial market volatility to stay elevated as the monetary policy normalizes.
Equity Markets	
Local Equity Markets	GCC stock markets posted gains over the week with the exception of Oman, Kuwait and Bahrain. Abu Dhabi, was the best performer. 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 rallied on the back of soft inflation print. MSCI ACWI rose by 3% over the week. EM equities recorded gains, but underperformed DM. In DM, US 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 c3% over the week while HK tech index declined by c1.3%. Within technology, we prefer non-cyclical growth over cyclical growth (tech hardware, semiconductors etc.) over a 12-month horizon.
Commodities	
Precious Metals	Gold registered its fourth weekly gain on the back of signs of weakness in the USD. We are overweight gold as a hedge against potential inflation, growth, and geopolitical risks.
Energy	Oil prices jumped over the week as recession fears eased while EIA forecasted strong global demand outlook in its monthly report. 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 had a strong week with both copper and aluminium prices recording gains. Another commodity super-cycle is difficult, yet demand for commodities linked to “green infrastructure” is likely to sustain.
Currencies	
EURUSD	The euro strengthened versus the USD as broad dollar strength faded. We expect ECB policy divergence to play a major role in the performance of the euro.
Critical levels	R2 1.0471 · R1 1.0365 · S1 1.0156 · S2 1.0053
GBPUSD	The GBP gained versus the USD on the back of weaker dollar bias. We expect GBP to weaken against USD and stay flat versus the EUR.
Critical levels	R2 1.2382 · R1 1.2260 · S1 1.2032 · S2 1.1926
USDJPY	The yen appreciated versus the dollar. BoJ policy remains odd-one out and is likely to cause JPY weakness.
Critical levels	R2 137.42 · R1 135.42 · S1 131.58 · S2 129.74

Forthcoming important economic data/events

United States

Date & Time (GST)	Indicator	Period	Expected	Prior
08/15/22 18:00	NAHB Housing Market Index	Aug	55	55
08/16/22 16:30	Building Permits	Jul	1650K	1685K
08/16/22 16:30	Housing Starts	Jul	1530K	1559K
08/16/22 17:45	Industrial Production MoM	Jul	0.30%	-0.20%
08/16/22 17:45	Capacity Utilization	Jul	80.20%	80.00%
08/17/22 15:00	MBA Mortgage Applications	12- Aug	--	0.20%
08/17/22 16:30	**Retail Sales Advance MoM**	**Jul**	**0.20%**	**1.00%**
08/17/22 22:00	**FOMC Meeting Minutes**	**27- Jul**	**--**	**--**
08/18/22 16:30	Initial Jobless Claims	13- Aug	265K	262K
08/18/22 16:30	Continuing Claims	6- Aug	1450K	1428K
08/18/22 18:00	Existing Home Sales	Jul	4.89m	5.12m

Japan

Date & Time (GST)	Indicator	Period	Expected	Prior
08/15/22 03:50	GDP Annualized SA QoQ	2Q P	2.60%	-0.50%
08/15/22 08:30	Industrial Production MoM	Jun F	--	8.90%
08/17/22 03:50	Trade Balance	Jul	-¥1396.3b	-¥1383.8b
08/17/22 03:50	Core Machine Orders MoM	Jun	1.00%	-5.60%
08/19/22 03:30	**Natl CPI YoY**	**Jul**	**2.60%**	**2.40%**
08/19/22 03:50	**Natl CPI Ex Fresh Food YoY**	**Jul**	**2.40%**	**2.20%**

Eurozone

Date & Time (GST)	Indicator	Period	Expected	Prior
08/15/22 16:30	**Eurozone Manufacturing Sales MoM**	**Jun**	**--**	**-2.00%**
08/15/22 17:00	Eurozone Existing Home Sales MoM	Jul	--	-5.60%
08/15/22 08/16	**Germany Wholesale Price Index YoY**	**Jul**	**--**	**21.20%**
08/16/22 16:15	Eurozone Housing Starts	Jul	--	273.8K
08/18/22 16:30	**Eurozone CPI YoY**	**Jul F**	**8.90%**	**8.60%**
08/19/22 10:00	Germany PPI YoY	Jul	32.00%	32.70%
08/19/22 16:30	**Eurozone Retail Sales MoM**	**Jun**	**--**	**2.20%**
08/19/22 12:00	**ECB Current Account SA**	**Jun**	**--**	**-4.5b**

United Kingdom

Date & Time (GST)	Indicator	Period	Expected	Prior
08/15/22 03:01	Rightmove House Prices YoY	Aug	--	9.30%
08/16/22 10:00	Average Weekly Earnings 3M/YoY	Jun	4.60%	6.20%
08/16/22 10:00	ILO Unemployment Rate 3Mths	Jun	3.80%	3.80%
08/17/22 10:00	**CPI YoY**	**Jul**	**9.80%**	**9.40%**
08/17/22 10:00	CPI Core YoY	Jul	6.00%	5.80%
08/17/22 10:00	RPI YoY	Jul	12.10%	11.80%

China and India

Date & Time (GST)	Indicator	Period	Expected	Prior
08/15/22 08/16	China Property Investment YTD YoY	Jul	-5.60%	-5.40%
08/16/22 08/16	**India Wholesale Prices YoY**	**Jul**	**13.88%**	**15.18%**
08/22/22 05:15	**China 1-Year Loan Prime Rate**	**22- Aug**	**--**	**3.70%**
08/22/22 05:15	**China 5-Year Loan Prime Rate**	**22- Aug**	**--**	**4.45%**

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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