The Weekly Market View

August 16 2020

ADCB ASSET MANAGEMENT LIMITED

Mainly positive economic news coming out of the US, bond market seems to take note too

US economic data continue to surprise on the upside with initial jobless claims falling below 1 million for the first time since March and retail sales (if we exclude the more volatile and less reliable auto segment) doing in July also better than expected. The uptick in inflation was also important, as was the impression that the rise in US COVID19 infections (the so-called second wave) is now finally stabilizing and prospectively coming down. Receding COVID19 fears were perhaps behind the 830'000 passengers boarding US commercial flights on Sunday August 9, the biggest daily number reported since the pandemic started (which perhaps explains also the rise in Boeing shares at the beginning of the week). For sure markets took note of the better data. To see that one should not merely look at the equity indices going up, in our view. Rather, two market developments are worthwhile observing. First, US value stocks outperformed US growth stocks for a second consecutive week, thereby not only confirming the country's economic recovery, but also giving more breadth (and thus sustainability) to the equity market recovery. Second, US bond yields reached their highest levels since the end of June, confirming a rosier economic outlook. The picture in Europe was more mixed, as major European countries continued to report signs of rising infection levels, and the UK added France and the Netherlands to the countries from which travellers would be subject to a period of self-isolation. In Japan, the stock market posted a strong recovery in the holiday-shortened trading week. With the most severe lockdown measures undone, and with the (second wave) July-August infections rise apparently under control, it is in fact expected that the Japanese economy will see a significant rebound in the second half of the year. China equity and bond markets were broadly unchanged, as was the exchange rate of the Renminbi. Domestic economic data for the month of July were disappointing, perhaps also because of the floods causing disruption to agriculture and infrastructure. Surprisngly, China export-oriented sectors saw a stronger rise in output, something that could raise concerns given already high inventory levels and continuing uncertainty about growth in the rest of the world.

US fiscal stalemate a concern, but perhaps not for now

We maintain our scenario of a continuing economic recovery through 2021, and thus our constructive view on equities and other risk assets over the same period. We recognize though that over the next months markets – which have by now broadly flagged the 2021 recovery – might be tempted to take profit. Short-term corrections are however notoriously difficult to predict, and it is not at all clear whether the current stalemate on fiscal stimulus between the Senate (controlled by the Republicans) and the White House on one hand, and the House of Representatives (controlled by the Democrats) on the other hand, is going to be the harbinger of a correction. True, the stalemate might last well into September, but it would seem that the President's executive orders and the Fed's continuing stimulus (also in terms of cheaper loans to the states) might for the moment compensate for the prospect of a reduction in overall spending as a result of the lack of a broader fiscal stimulus package. If US demand would suffer significantly, politicians across party lines would quickly enact such package. President Trump has no interest in too much economic and financial pain in the run-up to the elections. Similarly, neither China nor the US have an interest in escalating trade tensions right now.

At this stage markets might be more likely to correct because of major disappointments in economic data (not something we expect), in COVID19 infection data (more likely as the US Southern states might fail to further curb infections, or Europe might struggle with its recent outbreaks), as well as on the front of a vaccine development (positivity of which has certainly boosted markets recently). Short-term caution continues therefore to make sense.

Luciano Jannelli, Ph.D., CFA
Head Investment Strategy
Tel: +971 (0)2 696 2340
luciano.jannelli@adcb.com

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

Noor Alameri
Analyst
Tel: +971 (0)2 694 5182
noor.alameri@adcb.com

Visit Investment Strategy Webpage to read our other reports

Global markets' performance snapshot

Index Snapshot (World Indices)

Index	Latest	Weekly %	YTD %
S&P 500	3,373	0.6	4.4
Dow Jones	27,931	1.8	-2.1
Nasdaq	11,019	0.1	22.8
DAX	12,901	1.8	-2.6
Nikkei 225	23,289	4.3	-1.6
FTSE 100	6,090	1.0	-19.3
Sensex	37,877	-0.4	-8.2
Hang Seng	25,183	2.7	-10.7
Regional Markets (Sunday to Thursday)			
ADX	4,387	0.6	-13.6
DFM	2,155	2.3	-22.0
Tadawul	7,704	2.7	-8.2
DSM	9,602	2.0	-7.9
MSM30	3,565	-0.1	-10.4
BHSE	1,311	1.7	-18.6
KWSE	5,126	2.3	-18.4
MSCI			
MSCI World	2,390	1.2	1.1
MSCI EM	1,096	0.4	-1.9

Global Commodities, Currencies and Rates

Commodity	Latest	Weekly %	YTD %
ICE Brent USD/bbl	44.8	0.9	-32.1
Nymex WTI USD/bbl	42.0	1.9	-31.2
Gold USD/t oz	1,945.1	-4.4	28.2
Silver USD/t oz	26.4	-6.6	48.1
Platinum USD/t oz	944.4	-2.3	-2.3
Copper USD/MT	6,342.5	-1.5	3.0
Alluminium	1,710.8	-1.7	-4.4
Currencies			
EUR USD	1.18	0.5	5.6
GBP USD	1.31	0.3	-1.3
USD JPY	106.60	0.6	1.9
CHF USD	0.91	-0.4	6.3
Rates			
USD Libor 3m	0.28	10.9	-85.3
USD Libor 12m	0.46	2.1	-77.0
UAE Eibor 3m	0.46	-24.3	-79.2
UAE Eibor 12m	0.98	4.1	-57.1
US 3m Bills	0.09	-0.3	-94.3
US 10yr Treasury	0.71	25.8	-63.0

Summary market outlook

Global Yields	Yields on the 10Y US treasury rose last week on better than expected economic data in the US, returning to levels not seen since June. This has thus also halted the drop in real yields, and the gold surge. We recommend increasing duration on US treasuries with long-term rates likely to remain pressed low on Fed's QE and low growth and inflation environment.
Stress and Risk Indicators	VIX index traded consistently lower through the week. We highlight that despite falling in recent months, VIX still remains high compared with levels observed in recent years. SKEW index remains in an elevated position too. As such, we believe that volatility will likely stay elevated given the range of risks on the horizon. This entire episode of the coronavirus would be a part of our 'high volatility' narrative for 2020 and our risk-barbell positioning.
Equity Markets	
Local Equity Markets	Gulf equity markets did well last week, as positivity of stronger economic growth in the US, and thus also higher oil prices undoubtedly raised hopes for more growth in the Gulf too. We remain neutral on GCC equities given stable to higher oil prices and potential for revival in credit growth following the interest rate cuts.
Global Equity Markets	Better than expected economic data, and stronger than expected earnings season in the US have all helped equities over the week. DM equities outperformed EM led once more by strong performance from US, Germany and Japan. Overall, we remain neutral on equities with an overweight on US and underweight EU and EM outside Asia. By sector we prefer IT and Communication services. Our preference is for large cap non-cyclical growth with focus on quality.
Commodities	
Precious Metals	Precious metals suffered as nominal yields picked up and perhaps markets start to trim down excessive inflation expectations. We remain overweight gold as a risk hedge against ongoing political risks.
Energy	Oil prices continued to rise last week hitting a five month high - thanks to broader USD weakness and falling US stock piles and broadly good economic data from the US and Europe. Overall, we believe that oil prices are likely to remain sustained as the market is roughly balanced.
Industrial Metals	Industrial metals probably corrected on disappointing China data. We do not recommend industrial metals exposure as China reigns in demand.
Currencies	
EURUSD	After having risen by c7% since June, EUR/USD rose marginally over the week. We expect the euro to remain stable.
Critical levels	R2 1.1893 · R1 1.1867 · S1 1.1799 · S2 1.1757
GBPUSD	GBP recovered prior week losses, in line with the EUR/USD. We expect the cable to be stable with Pound sterling likely to follow the euro rather than USD.
Critical levels	R2 1.3185 · R1 1.3136 · S1 1.3043 · S2 1.2999
USDJPY	USD/JPY traded range bound over the week but ended higher. BoJ yield curve targeting should put continuing downward pressure on the yen.
Critical levels	R2 107.29 · R1 106.95 · S1 106.35 · S2 106.09

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

Forthcoming important economic data/events: focus on global PMI data

United States

	Indicator	Period	Expected	Prior	Comments
08/18/2020	Housing Starts MoM	Jul	4.6%	17.30%	Main focus will be on the Fed Minutes and the preliminary August figures of Markit PMI.
08/19/2020	FOMC Minutes	Jul-29			
08/20/2020	Initial Jobless Claims	Aug-15	920k	963k	
08/21/2020	Markit US Manufacturing PMI	Aug P	51.5	50.9	
08/21/2020	Markit US Services PMI	Aug P	50.9	50	
08/21/2020	Markit US Composite PMI	Aug P	-	50.3	

Japan

	Indicator	Period	Expected	Prior	Comments
08/17/2020	GDP SA QoQ	2Q P	-7.5%	-0.6%	Focus will be on the GDP 2Q numbers, CPI and preliminary August PMI release
08/17/2020	Industrial Production YoY	Jun F	--	-17.7%	
08/19/2020	Exports YoY	Jul	-20.7%	-26.2%	
08/21/2020	Natl CPI YoY	Jul	0.3%	0.1%	
08/21/2020	Natl CPI Ex Fresh Food, Energy YoY	Jul	0.5%	0.4%	
08/21/2020	Jibun Bank Japan PMI Mfg	Aug P	-	45.2	
08/21/2020	Jibun Bank Japan PMI Services	Aug P	-	45.4	
08/21/2020	Jibun Bank Japan PMI Composite	Aug P	-	44.9	

Eurozone

	Indicator	Period	Expected	Prior	Comments
08/19/2020	CPI YoY	Jul F	0.4%	0.30%	PMI and consumer confidence in focus this week. Inflation data will also be important.
08/19/2020	CPI Core YoY	Jul F	1.2%	1.2%	
08/21/2020	Markit Eurozone Manufacturing PMI	Aug P	52.7	51.8	
08/21/2020	Markit Eurozone Services PMI	Aug P	54.6	54.7	
08/21/2020	Markit Eurozone Composite PMI	Aug P	55.1	54.9	
08/21/2020	Consumer Confidence	Aug A	-15	-15	

United Kingdom

	Indicator	Period	Expected	Prior	Comments
08/17/2020	Rightmove House Prices YoY	Aug	--	3.7%	Markit PMI, Retail sales and inflation data will be closely watched. .
08/19/2020	CPI YoY	Jul	0.6%	0.6%	
08/19/2020	CPI Core YoY	Jul	1.3%	1.4%	
08/19/2020	RPI YoY	Jul	1.2%	1.1%	
08/21/2020	Retail Sales Ex Auto Fuel YoY	Jul	1.5%	1.7%	
08/21/2020	Markit UK PMI Manufacturing SA	Aug P	54	53.3	
08/21/2020	Markit/CIPS UK Services PMI	Aug P	57	56.5	
08/21/2020	Markit/CIPS UK Composite PMI	Aug P	56.7	57	

China and India

	Indicator	Period	Expected	Prior	Comments
08/20/2020	1-Year Loan Prime Rate (CH)	Aug-20	3.85%	3.85%	No change expected in China's loan prime rate.
08/20/2020	5-Year Loan Prime Rate (CH)	Aug-20	4.65%	4.65%	

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

Disclaimer

ADCB Asset Management Limited ("AAML"), is a member of ADCB Group, licensed by Financial Services Regulatory Authority in Abu Dhabi Global Markets under financial services permission number 170036.

This publication is intended for general information purposes only. It should not be construed as an offer, recommendation or solicitation to purchase or dispose of any securities or to enter in any transaction or adopt any hedging, trading or investment strategy. Neither this publication nor anything contained herein shall form the basis of any contract or commitment whatsoever. Distribution of this publication does not oblige ADCB Group to enter into any transaction.

The content of this publication should not be considered as legal, regulatory, credit, tax or accounting advice. Anyone proposing to rely on or use the information contained in the publication should independently verify and check the accuracy, completeness, reliability and suitability of the information and should obtain independent and specific advice from appropriate professionals or experts regarding information contained in this publication. Investment products are not available to US persons.

Information and opinions contained herein is are based on various sources, including but not limited to public information, annual reports and statistical data that AAML considers accurate and reliable. However, AAML makes no representation or warranty as to the accuracy or completeness of any statement made in or in connection with this publication and accepts no responsibility whatsoever for any loss or damage caused by any act or omission taken as a result of the information contained in this publication. This publication is intended for customers who are either retail or professional investors.

Charts, graphs and related data or information provided in this publication are intended to serve for illustrative purposes only. The information contained in this publication is prepared as of a particular date and time and will not reflect subsequent changes in the market or changes in any other factors relevant to their determination. All statements as to future matters are not guaranteed to be accurate. AAML expressly disclaims any obligation to update or revise any forward looking statement to reflect new information, events or circumstances after the date of this publication or to reflect the occurrence of unanticipated events.

ADCB Group does and may at any time solicit or provide commercial banking, investment banking, credit, advisory or other services to the companies covered in its publications. As a result, recipients of this publication should be aware that any or all of foregoing services may at time give rise to a conflict of interest that could affect the objectivity of this publication. Opinions expressed herein may differ from opinions expressed by other businesses or affiliates of ADCB Group.

Past performance does not guarantee future results. Investment products are not bank deposits and are not guaranteed by ADCB Group. They are subject to investment risk, including possible of loss of principal amount invested. This publication may not be reproduced or circulated without ADCB Group written authority. The manner of circulation and distribution may be restricted by law or regulation in certain jurisdictions. Persons who come into possession of this document are required to inform themselves of, and to observe such restrictions. Any unauthorized use, duplication, or disclosure of this document is prohibited by law and may result in prosecution.