The Weekly Market View

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بنك أبوظبي التجاري

ADCB

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Rising hopes for a treatment

Last week started on a positive news with the US Food and Drug Administration announcing emergency authorization for convalescent plasma to treat COVID-19. Adding to the positive sentiment was the speech at the Economic Policy Symposium (virtual version of the Jackson Hole conference) by the US Fed Chairman Jerome Powell who indicated that interest rates in the US will remain lower for longer to facilitate an inflation overshoot. This has helped risk assets perform. As a result, equity markets rose c2.7% over the week. Both the developed and the emerging equity markets did equally well. US equity markets, which are on track to record their best August performance in 34 years, outperformed thanks to strong performance from new economy themes (NASDAQ). German DAX rose strongly on additional EUR10bn funding towards extending job schemes. Japanese equities rose strongly at the start of the week but fell subsequently as Prime Minister Shinzō Abe announced his resignation. Within EM space, Chinese equities delivered strong performance led by new economy and consumer staples segments. On the rates side, 10Y UST yields rose towards end of the week on comments from the Fed Chair. Also helping the rise in yields was a broader risk-on sentiment which favoured risk assets. Yields on 10Y UK Gilts and German Bunds too rose consistently through the week. Turning to commodities, oil prices rose for the fourth week in a row supported by rising optimism of a COVID-19 treatment which has positive implications for demand outlook. Supply outlook was price-supportive too with hurricane Laura hitting Louisiana and Texas. Precious metals had a volatile week but dovish comments from the Fed Chair did provide some boost towards end of the week. Industrial metal prices broadly tracked Chinese equities higher. Within the FX space, broader USD weakness was driven by the average inflation targeting regime discussed by Fed Chair Powell and markets took a dovish signal from that. Whilst EUR/USD was largely driven by USD weakness, cable (GBP/USD) strength was in part also a catch up of the GBP against its peers. JPY gained against the USD on PM Abe's resignation which markets think might trigger an end to Abenomics.

Some caution near-term

Whilst we remain constructive on the outlook for risk assets on 12 month time frame, we see reasons to be cautious in the near-term. Equity markets across the globe have bounced back quite strongly from their March lows. Also, some of our preferred structural themes have outperformed and delivered strong positive returns so far this year. However, looking ahead, as we move from the 'rebound' phase to the 'recovery' phase, 'levels' should start to matter more than 'changes' and 'magnitude' should matter more than 'direction'. For our three-stage model of an economic sudden stop and how various variables behave in these stages, see exhibit 1 from our latest report The Equity Strategist: Cautious tactically, constructive strategically, August 12 2020). Here, it is worth remembering that we are at best going back to a slow-growth environment, and the pre-crisis level of economic activity is expected to be achieved only by end-2021 or later. Further, it is worth noting that amongst the economic data surprises which have been extremely positive recently, much of that indeed came from positive surprises on the soft data side. Although the hard surprises too have recovered from their March lows, their rise pales against that of soft data surprises. Looking ahead, we expect data surprises to moderate. As we move into the autumn, a potential rise in virus cases and considerations of mitigation strategies should begin to influence market perceptions. Here, whilst we do not think that a full lockdown of major economies is likely, we do think that markets might become jittery on any potential rise in number of COVID-19 infections. Further, political (US elections, Brexit etc.), geo-political (US-China, US-EU and Brexit etc.) and policy (fiscal support and stimulus measures) risks could rise. On the technical side, August and September are seasonally weak months for global equities; October typically sees a wide range. Equity skew index remains high and implied volatility is higher than the pre-crisis levels indicating some caution. However, the downside seems to be protected by persistent bearish sentiment and weak positioning. Overall, we remain constructive on the 12 month outlook for equities we think the risk-adjusted-returns for the asset class are likely to deteriorate in the near-term.

Global markets' performance snapshot

Index Snapshot (World Indices)

Index	Latest	Weekly %	YTD %
S&P 500	3,508	3.3	8.6
Dow Jones	28,654	2.6	0.4
Nasdaq	11,696	3.4	30.3
DAX	13,033	2.1	-1.6
Nikkei 225	22,883	-0.2	-3.3
FTSE 100	5,964	-0.6	-20.9
Sensex	39,467	2.7	-4.3
Hang Seng	25,422	1.2	-9.8
Regional Markets (Sunday to Thursday)			
ADX	4,535	-0.2	-10.7
DFM	2,269	1.5	-17.9
Tadawul	7,934	1.2	-5.4
DSM	9,883	1.2	-5.2
MSM30	3,737	3.0	-6.1
BHSE	1,381	1.9	-14.2
KWSE	5,289	1.5	-15.8
MSCI			
MSCI World	2,457	2.7	4.2
MSCI EM	1,122	2.7	0.6

Global Commodities, Currencies and Rates

Commodity	Latest	Weekly %	YTD %
Brent USD/bbl	45.1	1.6	-30.6
WTI USD/bbl	43.0	1.5	-29.6
Gold USD/t oz	1,964.8	1.3	29.5
Silver USD/t oz	27.5	2.7	54.1
Platinum USD/t oz	932.8	1.1	-3.5
Copper USD/MT	6,728.0	2.5	9.3
Alluminium	1,771.5	1.9	-1.0
Currencies			
EUR USD	1.19	0.9	6.2
GBP USD	1.34	2.0	0.7
USD JPY	105.37	-0.4	3.1
CHF USD	0.90	-0.8	6.9
Rates			
USD Libor 3m	0.25	-1.6	-87.1
USD Libor 12m	0.44	0.3	-77.8
UAE Eibor 3m	0.47	-16.5	-78.7
UAE Eibor 12m	0.75	-1.9	-67.3
US 3m Bills	0.10	8.6	-93.8
US 10yr Treasury	0.72	14.8	-62.4

Summary market outlook

Global Yields	10Y UST yields rose towards end of the week on comments from the Fed Chair Powell. Also helping the rise in yields was a broader risk-on sentiment which favoured risk assets. Yields on 10Y UK Gilts and German Bunds too rose consistently through the week. 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	Despite falling in recent months, VIX still remains high compared with levels observed in recent years. SKEW index remains in an elevated position too. Equity sentiment remains bearish and positioning into the asset class is light. 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 continue to the lag not only their emerging markets peers but also equity markets globally. Over the past week, higher oil prices helped regional equities. 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	Equity markets rose c2.7% over the week. Both the developed and the emerging equity markets did equally well. US equity markets, which are on track to record their best August performance in 34 years, outperformed thanks to strong performance from new economy themes (NASDAQ). German DAX rose strongly on additional EUR10bn funding towards extending job schemes. Japanese equities rose strongly at the start of the week but fell subsequently as Prime Minister Shinzō Abe announced his resignation. Within EM space, Chinese equities delivered strong performance led by new economy and consumer staples segments. 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 of quality.
Commodities	
Precious Metals	Precious metals had a volatile week but dovish comments from the Fed Chair did provide some boost towards end of the week. We remain overweight gold as a risk hedge against ongoing political risks.
Energy	Oil prices rose for the fourth week in a row supported by rising optimism of a COVID-19 treatment which has positive implications for demand outlook. Supply outlook was price-supportive too with hurricane Laura hitting Louisiana and Texas. Overall, we believe that oil prices are likely to remain sustained as the market is roughly balanced.
Industrial Metals	Industrial metal prices broadly tracked Chinese equities higher over the week. We do not recommend industrial metals exposure as China reigns in demand.
Currencies	
EURUSD	Broader USD weakness was driven by the average inflation targeting regime discussed by Fed Chair Powell and markets took a dovish signal from that. We expect the euro to remain stable.
Critical levels	R2 1.2320 · R1 1.2112 · S1 1.1549 · S2 1.1194
GBPUSD	USD weakening broadly and GBP catching up with its peers, meant cable strength. We expect the cable to be stable with Pound sterling likely to follow the euro rather than USD.
Critical levels	R2 1.3914 · R1 1.3633 · S1 1.2795 · S2 1.2238
USDJPY	JPY gained against the USD on PM Abe's resignation which markets think might trigger an end to Abenomics. BoJ yield curve targeting should put continuing downward pressure on the yen.
Critical levels	R2 109.04 · R1 107.20 · S1 103.86 · S2 102.36

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

Forthcoming important economic data/events

United States

	Indicator	Period	Expected	Prior	Comments
08/31/2020	Dallas Fed Manf. Activity	Aug	0	-3	A good mix of soft and hard data to digest this week. On the soft data front, ISM/Markit PMI indices will be important. Of particular interest will be the hard jobs data – with the August ADP employment data on Wednesday and the non-farm payrolls, unemployment and average hourly earnings print on Friday.
09/01/2020	ISM Manufacturing	Aug	54.4	54.2	
09/01/2020	Construction Spending MoM	Jul	1.10%	-0.70%	
09/02/2020	ADP Employment Change	Aug	900k	167k	
09/02/2020	Durable Goods Orders	Jul F	--	11.20%	
09/03/2020	Initial Jobless Claims	29-Aug	--	1,006k	
09/03/2020	Continuing Claims	22-Aug	--	14,535k	
09/03/2020	ISM Services Index	Aug	57.2	58.1	
09/04/2020	Change in Nonfarm Payrolls	Aug	1,518k	1,763k	
09/04/2020	Unemployment Rate	Aug	9.90%	10.20%	
09/04/2020	Average Hourly Earnings YoY	Aug	4.50%	4.80%	

Japan

	Indicator	Period	Expected	Prior	Comments
08/31/2020	Industrial Production YoY	Jul P	-17.5%	-18.20%	Hard data on industrial production, retail sales and jobless rate for July will be closely watched. Final print of Jibun Bank PMIs will also confirm the path of the economy.
08/31/2020	Retail Sales YoY	Jul	-1.70%	-1.20%	
09/01/2020	Jobless Rate	Jul	3.00%	2.80%	
09/01/2020	Capital Spending YoY	2Q	-3.80%	0.10%	
09/01/2020	Jibun Bank Japan PMI Mfg	Aug F	--	46.6	
09/03/2020	Jibun Bank Japan PMI Services	Aug F	--	45.0	

Eurozone

	Indicator	Period	Expected	Prior	Comments
09/01/2020	Markit Eurozone Manuf. PMI	Aug F	51.7	51.7	Unemployment and retail sales (both for July), inflation (for August) are key releases scheduled for this week.
09/01/2020	Unemployment Rate	Jul	8.00%	7.80%	
09/01/2020	CPI Estimate YoY	Aug	0.20%	0.40%	
09/01/2020	CPI Core YoY	Aug P	0.80%	1.20%	
09/02/2020	PPI YoY	Jul	-3.30%	-3.70%	
09/03/2020	Markit Eurozone Services PMI	Aug F	50.1	50.1	
09/03/2020	Retail Sales YoY	Jul	3.70%	1.30%	

United Kingdom

	Indicator	Period	Expected	Prior	Comments
09/01/2020	Markit UK PMI Manufacturing SA	Aug F	55.3	55.3	Markit PMIs on manufacturing, services and construction sectors will be closely watched. However, nationwide house prices are important too.
09/02/2020	Nationwide House Px NSA YoY	Aug	2.00%	1.50%	
09/03/2020	Markit/CIPS UK Services PMI	Aug F	60.1	60.1	
09/04/2020	Markit/CIPS UK Construction PMI	Aug	58.6	58.1	

China and India

	Indicator	Perio	Expected	Prior	Comments
08/31/2020	CN Manufacturing PMI	Aug	51.2	51.1	China PMI data releases – both NBS and Caixin – will be watched closely by the markets. In India, GDP print is of prime importance. Street expects the agriculture sector to hold up the best.
08/31/2020	CN Non-manufacturing PMI	Aug	54.2	54.2	
08/31/2020	IN GDP YoY	2Q	-19.2%	3.10%	
09/01/2020	Markit India PMI Mfg	Aug	--	46.0	
09/03/2020	Markit India PMI Services	Aug	--	34.2	

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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