The Weekly Market View

December 12 2021

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Coming to terms with it

Risk appetite bounced back with markets coming to terms with the Fed's prospective policy path and easing concerns on the growth-inflation front. On the growth side, market worries over the new Covid-19 Omicron subsided as reports indicated that the new variant has so far led to milder infections versus the Delta variant. Economic data also supported the growth outlook. The weekly jobless claims dropped to the lowest level in almost 50 years while the quit rate amongst workers dropped. The preliminary University of Michigan Consumer Sentiment Index also surprised on the upside. On the inflation front, headline inflation rose to the highest levels since 1982 in November, coming in at 6.8% yoy. But core inflation-elevated at 4.9%, matched consensus estimates. On the Fed policy, it was quiet week with the blackout period ahead of the Fed meeting this week. Global equities recorded positive gains with the DM stocks outperforming their EM counterpart. In the DM, US equities were the best performers while Japanese stocks underperformed. In the US, the S&P 500 posted its highest weekly gain since February. In the bond market, the 10yr UST yields ended the week slightly higher with the yield curve steepening. Core Eurozone bond yields also jumped on easing Omicron concerns. The US dollar and gold prices ended the week unchanged. Oil prices rebounded after six consecutive weeks of losses as easing concerns on Omicron variant supported the demand outlook.

Blockbuster central bank week

It will be a hectic central bank week with central banks from the US, Europe, UK and Japan meeting for the last time this year. The most important event will be the FOMC meeting which will set the tone for the markets for 2022. The month of December began with a surprise hawkish pivot from the Fed Chair Jay Powell- where he dropped the word "transitory" when describing the recent inflation trend and also pointed to the possibility of a faster taper. The recent CPI print along with improvement in the labour market have further strengthened the possibility of a faster Fed taper. Markets expect the Fed could accelerate the pace of tapering to USD30bn per month from the current rate of USD15bn per month, potentially ending the taper process by the first quarter of 2022. However, the key thing to look at will be the Fed's projection of rate hikes i.e. the famous "DoT plot" and also quarterly projections for growth, inflation and employment. An aggressive rate hike projection could weigh on the market sentiment, putting further flattening pressure on the UST yield curve and potentially leading to further volatility in the bond market. We believe the Fed could signal a faster taper, but the central bank could advocate patience with rate hikes. Inflation expectations have been declining after peaking in mid-November while the latest core CPI print, though elevated, failed to beat market expectations. The Fed could still wait until early next year to analyse broad-based trends in the core inflation before signalling a tighter monetary policy. Across the Atlantic, the possibility of BoE tightening have reduced amidst the uncertainty over the Omicron variant and disappointing UK growth numbers. The ECB-also facing similar dilemma- is likely to remain dovish but could confirm the end of its Pandemic Emergency Purchase Program in March. Overall, we expect that the growth-inflation mix will be the key drivers for the markets in 2022 with the DM central banks stuck in a Catch 22 situation. In order to navigate through the rising growth/inflation and central bank policy uncertainties, it is prudent to stay invested in a well-diversified portfolio. For our portfolio positioning, please see the **Quarterly Investment View**.

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Global markets' performance snapshot

Index Snapshot (World Indices)

Index	Latest	Weekly %	YTD %
S&P 500	4,712	3.8	25.5
Dow Jones	35,971	4.0	17.5
Nasdaq	15,631	3.6	21.3
DAX	15,623	3.0	13.9
Nikkei 225	28,438	1.5	3.6
FTSE 100	7,292	2.4	12.9
Sensex	58,807	1.9	23.1
Hang Seng	23,996	1.0	-11.9
Regional Markets (Sunday to Thursday)			
ADX	8,883	3.9	76.1
DFM	3,226	5.0	29.5
Tadawul	10,939	0.5	25.9
DSM	11,619	0.1	11.3
MSM30	4,008	0.3	9.5
BHSE	1,786	1.4	19.9
KWSE	7,042	1.5	27.0
MSCI			
MSCI World	3,172	3.3	18.5
MSCI EM	1,248	1.1	-4.1

Global Commodities, Currencies and Rates

Commodity	Latest	Weekly %	YTD %
ICE Brent USD/bbl.	75.2	7.5	45.1
Nymex WTI USD/bbl.	71.7	8.2	47.7
Gold USD/t oz	1,782.8	-0.0	-6.1
Silver USD/t oz	22.2	-1.5	-15.9
Platinum USD/t oz	945.7	1.0	-11.8
Copper USD/MT	9,543.0	0.3	23.3
Alluminium	2,616.5	-1.0	32.2
Currencies			
EUR USD	1.13	-0.0	-7.4
GBP USD	1.33	0.3	-2.9
USD JPY	113.44	0.6	9.0
CHF USD	0.92	0.4	-3.9
Rates	**Latest**	**Weekly (bp)**	**YTD(bp)**
USD Libor 3m	0.20	1.1	-4.0
USD Libor 12m	0.51	4.8	16.8
UAE Eibor 3m	0.40	2.5	-11.0
UAE Eibor 12m	0.75	2.4	0.7
US 3m Bills	0.05	0.5	-1.0
US 10yr Treasury	1.48	14.1	57.1

Summary market outlook

Global Yields	In the bond market, the 10yr UST yields ended the week slightly higher, despite declining on Friday in reaction to the inflation release. The yield curve steepened last week, breaking the flattening trend seen in recent weeks. Core Eurozone bond yields also jumped on easing Omicron concerns. UK Gilt yields ended the week flat on disappointing growth numbers. Overall, we recommend a lower duration stance (5Y USTs) in anticipation of interest rate volatility in the near term.
Stress and Risk Indicators	VIX declined last week from its nine month high. 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	GCC stocks recorded positive gains on the back of recovery in oil prices. The announcement of the new weekend change benefitted UAE stocks, which outperformed the most. Overall, Dubai was the best performer. We stay 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	Global equities posted weekly gains, putting an end to four consecutive week of losses. DM stocks outperformed EM stocks. Amongst DMs, US equities outperformed while Japan underperformed. Chinese stock markets jumped after the PBOC announced the RRR cut. From a strategy viewpoint, we are moderately overweight US, UK, and Asia Pacific; underweight Eurozone and EMs outside Asia. By sector we prefer industrials, IT, and communication services. 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, small caps, and re-opening sectors.
Technology Segments	NYSE FANG+ Index recorded weekly gains of over 4.5%. Nasdaq-100 index rose by 3.6% while HK tech index jumped by c2%.
Commodities	
Precious Metals	Gold prices were unchanged, tracking the movement in dollar and ahead of the Fed policy meeting. Silver prices declined while platinum prices rebounded last week. We keep our overweight in gold as a hedge against potential risks on the horizon.
Energy	Oil prices rebounded with easing Omicron concerns supporting the demand outlook. Brent Crude and WTI both rose by c8%, putting an end to six consecutive weeks of losses. 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 showed mixed performance with aluminium declining while copper ended flat. While another commodity super-cycle is difficult, demand for commodities linked to "green infrastructure" is likely to sustain.
Currencies	
EURUSD	EUR ended the week unchanged against the USD. Increased restrictions will be clear negative for EUR; risk-off sentiment and dovish ECB are moderately negative.
Critical levels	R2 1.1426 · R1 1.1369 · S1 1.1242 · S2 1.1172
GBPUSD	GBP was flat against USD despite the disappointing GDP number. We expect the GBP to be driven by how the BoE policy evolves over the near-term and to decouple from the EUR.
Critical levels	R2 1.3368 · R1 1.3320 · S1 1.3194 · S2 1.3116
USDJPY	The USD strengthened versus the yen on reports of faster deceleration in economic activity in Japan. Over the medium-term, BoJ's yield curve targeting should put downward pressure on JPY.
Critical levels	R2 114.67 · R1 114.06 · S1 112.72 · S2 111.99

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

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Forthcoming important economic data/events

United States

	Indicator	Period	Expected	Prior	Comments
12/14/21	NFIB Small Business Optimism	Nov	98.4	98.2	All focus will be on FOMC meeting where the Fed could announce an acceleration to current bond taper plan. Important to watch out for the release of Fed's quarterly projections of growth, inflation, employment and fed fund rate. Preliminary Markit Manufacturing PMI, advanced retail sales print and Initial Jobless Claims will also be important.
12/14/21	PPI Final Demand MoM	Nov	0.50%	0.50%	
12/15/21	MBA Mortgage Applications	10- Dec	--	2.00%	
12/15/21	Empire Manufacturing	Dec	25	30.9	
12/15/21	**Retail Sales Advance MoM**	**Nov**	**0.80%**	**1.70%**	
12/15/21	NAHB Housing Market Index	Dec	84	83	
12/15/21	**FOMC meeting**	**15- Dec**	**No Change**		
12/16/21	**Initial Jobless Claims**	**11- Dec**	**195K**	**184K**	
12/16/21	Continuing Claims	4- Dec	1938K	1992K	
12/16/21	Housing Starts	Nov	1566K	1520K	
12/16/21	Building Permits	Nov	1660K	1650K	
12/16/21	Capacity Utilization	Nov	76.80%	76.40%	
12/16/21	**Markit Manufacturing PMI**	**Dec P**	**58.5**	**58.3**	
12/16/21	Kansas City Fed Manf. Activity	Dec	25	24	

Japan

	Indicator	Period	Expected	Prior	Comments
12/13/21	Core Machine Orders YoY	Oct	4.20%	12.50%	All eyes will be on BoJ MPC meeting.
12/14/21	Industrial Production YoY	Oct F	--	-4.70%	
12/15/21	Tertiary Industry Index MoM	Oct	1.20%	0.50%	
12/16/21	**Exports YoY**	**Nov**	**21.20%**	**9.40%**	
12/16/21	Imports YoY	Nov	40.00%	26.70%	
12/16/21	**Jibun Bank PMI Mfg**	**Dec P**	**--**	**54.5**	
12/17/21	**BOJ MPC meeting**	**17- Dec**	**No Change**		

Eurozone

	Indicator	Period	Expected	Prior	Comments
12/16/21	**ECB meeting**	**16-Dec**	**No Change**		ECB meeting will be key event this week. Eurozone CPI, Preliminary Markit Manufacturing PMI, German IFO survey will be important.
12/16/21	**Markit Manufacturing PMI**	**Dec P**	**57.9**	**58.4**	
12/17/21	**German IFO Expectations**	**Dec**	**93.5**	**94.2**	
12/17/21	**CPI YoY**	**Nov F**	**4.90%**	**4.90%**	

United Kingdom

	Indicator	Period	Expected	Prior	Comments
12/14/21	Claimant Count Rate	Nov	--	5.10%	Attention will be on BoE MPC meeting where the central bank could delay its tightening on Omicron concerns and uncertain growth outlook. Also, CPI and retail sales print will be important.
12/14/21	Jobless Claims Change	Nov	--	-14.9K	
12/14/21	Average Weekly Earnings 3M/YoY	Oct	4.60%	5.80%	
12/14/21	ILO Unemployment Rate 3Mths	Oct	4.20%	4.30%	
12/15/21	**CPI YoY**	**Nov**	**4.80%**	**4.20%**	
12/15/21	**CPI Core YoY**	**Nov**	**3.70%**	**3.40%**	
12/15/21	RPI YoY	Nov	6.70%	6.00%	
12/16/21	**BOE MPC meeting**	**16- Dec**	**No Change**		
12/17/21	GfK Consumer Confidence	Dec	-17	-14	
12/17/21	**Retail Sales Inc Auto Fuel YoY**	**Nov**	**4.20%**	**-1.30%**	

China and India

	Indicator	Period	Expected	Prior	Comments
12/13/21	**India CPI YoY**	**Nov**	**5.10%**	**4.48%**	In China, retail sales, industrial production, and fixed asset investments data will be closely watched. In India, CPI and WPI will be the focus.
12/14/21	India Wholesale Prices YoY	Nov	11.94%	12.54%	
12/15/21	**China Retail Sales YoY**	**Nov**	**4.80%**	**4.90%**	
12/15/21	**China Industrial Production YoY**	**Nov**	**3.80%**	**3.50%**	
12/15/21	**China Fixed Assets Ex Rural YTD YoY**	**Nov**	**5.40%**	**6.10%**	
12/15/21	India Exports YoY	Nov	--	43.10%	
12/15/21	India Imports YoY	Nov	--	62.50%	

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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