The Weekly Market View

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بنك أبوظبي التجاري ADCB

ASSET MANAGEMENT LIMITED

Price confusion

Following what was arguably a dovish set of FOMC November meeting minutes, financial markets last week received more information that hinted at a possible Fed pivot. Fed Chair Powell, speaking at the Brookings Institution hinted at smaller increments to policy rate going forward. From the hawkish press conference after the Fed policy meeting earlier in the month to his speech at the Brookings Institution on the last day of November, the change in Chair Powell's tone was rather palpable. In terms of economic data releases, Eurozone inflation and US PCE price indices both printed lower-than-expected giving comfort that inflation was heading lower on both sides of the Atlantic. However, US jobs data for November created some confusion. Stronger-than-expected hiring and more-than-expected rise in average hourly earnings meant markets doubted if the Fed will be able to slow down its rate hikes on the face of a strong labour market. Staying with the US, Conference Board consumer confidence survey was slightly better than expected too. Worth noting that the growth-inflation mix – at least in terms of how the actual data is emerging in relation to expectations – has been improving in recent months. For instance, Citi Global economic surprise index has stayed positive for three months in a row, while the Citi Global inflation surprise index although still elevated, have been trending down constantly and has recently hit the lowest level since April 2021. Turning to last week's price action, broader USD weakened further. Yields on UST bonds fell during the past week. Helped by weaker USD and lower UST yields, precious metal prices increased. Oil prices climbed while prices of industrial commodities increased sharply helped by weaker USD and optimism about China. Global equities rose further over the past week extending gains from their mid-October lows.

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Revisiting recession probabilities

Through 2022, we heard recession chatters. As we go into 2023, these have only increased with two distinct groups of consensuses developing. According to the first, the global economy is heading for stagflation – where growth remains below trend and inflation above trend. The second group, however, sees inflation trending sharply lower but at the cost of a recession. As we have been arguing, we have a different view. We see this episode for the global economy as one of an asynchronous mid-cycle slowdown rather than an outright recession. On the 'asynchronous' part, we believe that performance of the global economy will be based on divergent performances from underlying segments. For instance, growth acceleration for Asian economies and a mild recession in Europe remains our base case, also with US growth weakening but still avoiding a recession. This divergence should also be visible by sectors – goods vs. services, and trade vs. domestic consumption. To assess the recession probability in the US, we turn to our proprietary Recession Probability Indicator (RPI) which our regular readers should be familiar with. RPI, which quantifies the probability of a recession in the US over the next 12 months currently stands at 55%. To put these probabilities into context it is important to compare the current levels of our RPI with its own history. Such comparison reveals that a 50% level on the RPI does not always imply a recession. For example, during 2013 and 2016, RPI rose above 60% but both episodes did not end in a recession. Similarly, we still see a chance of the current episode ending in the mid-cycle slowdown rather than a recession in the US. Of course, the window for a soft-landing in the US has been narrowing in recent months, but it is still not impossible. Elsewhere, as we indicated earlier too, the recession chances are the highest in Europe and the lowest in Asia. Even in Europe, the economic reality appears to be better than downbeat expectations. For instance, Germany, Europe's largest economy, recently released its revised estimate of Q3 GDP, and it was better than the initial estimate announced in late October—which also was better than expected. While backward-looking Q3 growth does not mean Germany will sidestep recession, economic reality has been faring better than most anticipated. The question is whether the consensus is too pessimistic in its expectations for global economic growth, and accordingly whether 2023 can yield an upside surprise?

Global markets' performance snapshot*

Index Snapshot (World Indices)*

Index	Latest	Weekly %	YTD %
S&P 500	4,072	1.1	-14.6
Dow Jones	34,430	0.2	-5.3
Nasdaq	11,462	2.1	-26.7
DAX	14,529	-0.1	-8.5
Nikkei 225	27,778	-1.8	-3.5
FTSE 100	7,556	0.9	2.3
Sensex	62,869	0.9	7.9
Hang Seng	18,675	6.3	-20.2
Regional Markets			
ADX	10,552	0.2	24.3
DFM	3,324	0.6	4.0
Tadawul**	10,823	0.2	-4.5
DSM**	12,018	2.4	3.4
MSM30**	4,614	0.1	11.3
BHSE**	1,865	-0.1	3.8
KWSE**	7,567	-0.4	7.4
MSCI			
MSCI World	2,733	1.1	-15.4
MSCI EM	974	3.5	-21.0

Global Commodities, Currencies and Rates*

Commodity	Latest	Weekly %	YTD %
Brent USD/bbl	85.6	2.3	10.0
WTI USD/bbl	80.0	4.9	6.3
Gold USD/t oz	1,789.8	2.3	-1.8
Silver USD/t oz	23.2	8.4	-0.5
Platinum USD/t oz	1,007.0	2.9	5.0
Copper USD/MT	8,432.5	5.7	-13.4
Alluminium	2,517.5	8.1	-10.3
Currencies			
EUR USD	1.05	1.4	-7.3
GBP USD	1.23	1.6	-9.2
USD JPY	134.32	-3.5	16.7
USD CHF	0.94	-0.9	2.7
Rates	**Latest**	**Weekly (bp)**	**YTD (bp)**
USD Libor 3m	4.73	-0.1	452.3
USD Libor 12m	5.43	-16.9	484.6
UAE Eibor 3m	4.48	3.1	411.4
UAE Eibor 12m	5.13	14.9	439.2
US 3m Bills	4.22	0.0	416.0
US 10yr Treasury	3.50	-20.4	200.6

Notes: *Data as of December 02 2022 unless stated otherwise; **Data as of December 01 2022.

Summary market outlook

Global Yields	Yields on UST bonds fell over the past week on less hawkish rhetoric from the Fed. While the 10Y yields fell 20bp, 2Y yields fell only 18bp making the 10Y-2Y portion of the yield curve most inverted in many decades. European bond yields fell too after Euro area inflation surprised to the downside. Yields on 10Y UK gilts and 10Y Japanese Government Bonds (JGBs) were largely unchanged. Bond yields and prices are inversely correlated. i.e. yields rise when prices fall and vice versa. Overall, we recommend adding duration on USTs (7-10Y segment) as growth slowdown/recession fears rise.
Stress and Risk Indicators	Most volatility measures were lower for the week. VIX index (which measures implied volatility in equities) was sharply lower and fell below the 20-level for the first time since mid-August. MOVE index (a measure of implied volatility in bonds) fell sharply too. SKEW index (a measure of tail risks for equities) fell further from already low levels. VVIX (a measure of volatility in VIX) fell too, albeit marginally. We expect financial market volatility to stay elevated as the monetary policy normalizes.
Equity Markets	
Local Equity Markets	GCC equities (MSCI GCC index) posted marginal losses for the week and underperformed global equities. Within the region, Qatar and Dubai posted considerable gains. Gains in Abu Dhabi and Saudi equities were muted while Kuwait equities posted losses. 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 several years are all balanced by lack of structural growth plays in the equity market indices.
Global Equity Markets	Global equities rose further over the past week extending gains from their mid-October lows. Last week, EMs outperformed DMs. Within EM, Asia outperformed significantly. EMEA, led down by South Africa where political risks resurfaced, underperformed. In the DM space, UK and US outperformed while Japan underperformed the most in USD terms. By sector, consumer discretionary and communication services outperformed while financials and energy not only underperformed but also posted losses in absolute terms. 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 rose 2.1% while HK tech index rose 11.3%. Within the technology sector, we prefer non-cyclical growth over cyclical growth (tech hardware, semiconductors etc.) over a 12-month horizon.
Commodities	
Precious Metals	Helped by a weaker USD and lower UST yields, precious metal prices increased over the past week. Silver prices rose sharply. We are overweight gold as a hedge against potential inflation, growth, and geopolitical risks.
Energy	Crude prices rose after recent weeks saw losses that erased a good portion of the year-to-date gains. Optimism around China reopening helped ahead of the OPEC+ meeting and G7 price cap on Russian oil. Overall, over the medium-term we believe that oil prices will remain sustained as the market balances into the new normal.
Industrial Metals	Helped by weaker USD and optimism about China, prices of industrial commodities increased sharply. Another commodity super-cycle is difficult, yet demand for commodities linked to “green infrastructure” is likely to sustain.
Currencies	
EURUSD	Thanks to weakening USD, EUR rose to a five month high against the greenback. We expect ECB policy divergence and growth differentials to play a major role in the performance of the euro.
Critical levels	R2 1.0711 · R1 1.0623 · S1 1.0369 · S2 1.0203
GBPUSD	GBP posted fourth straight week of gains against the USD. The cable rate hit the highest level since mid-June. We expect GBP to weaken against USD and stay flat versus the EUR.
Critical levels	R2 1.2573 · R1 1.2426 · S1 1.2017 · S2 1.1755
USDJPY	USDJPY fell further reducing its year-to-date gains. Last week, the currency pair closed below its 200D MA for the first time since February 2021. BoJ policy remains odd-one out and is likely to keep JPY under pressure.
Critical levels	R2 142.20 · R1 138.25 · S1 131.99 · S2 129.68

Forthcoming important economic data/events

United States

Date & Time (GST)	Indicator	Period	Expected	Prior
12/05/22 18:45	**S&P Global US Services PMI**	**Nov F**	**46.1**	**46.1**
12/05/22 19:00	Factory Orders	Oct	0.70%	0.30%
12/05/22 19:00	Durable Goods Orders	Oct F	1.00%	1.00%
12/05/22 19:00	**ISM Services Index**	**Nov**	**53.3**	**54.4**
12/06/22 17:30	Trade Balance	Oct	-$80.0b	-$73.3b
12/07/22 16:00	MBA Mortgage Applications	2- Dec	--	-0.80%
12/08/22 17:30	**Initial Jobless Claims**	**3- Dec**	**230K**	**225K**
12/08/22 17:30	**Continuing Claims**	**26- Nov**	**1615K**	**1608K**
12/09/22 17:30	**PPI Final Demand MoM**	**Nov**	**0.20%**	**0.20%**
12/09/22 17:30	PPI Ex Food and Energy MoM	Nov	0.20%	0.00%
12/09/22 19:00	Wholesale Inventories MoM	Oct F	0.80%	0.80%
12/09/22 19:00	**U. of Mich. Sentiment**	**Dec P**	**56.8**	**56.8**
12/09/22 19:00	U. of Mich. Current Conditions	Dec P	58	58.8
12/09/22 19:00	**U. of Mich. 1 Yr Inflation**	**Dec P**	**4.90%**	**4.90%**
12/09/22 19:00	**U. of Mich. 5-10 Yr Inflation**	**Dec P**	**3.00%**	**3.00%**

Japan

Date & Time (GST)	Indicator	Period	Expected	Prior
12/06/22 03:30	Household Spending YoY	Oct	0.90%	2.30%
12/06/22 03:30	Labor Cash Earnings YoY	Oct	2.00%	2.10%
12/07/22 09:00	Leading Index CI	Oct P	98.3	97.5
12/07/22 09:00	Coincident Index	Oct P	100.5	101.4
12/08/22 03:50	**GDP SA QoQ**	**3Q F**	**-0.30%**	**-0.30%**
12/08/22 03:50	**GDP Annualized SA QoQ**	**3Q F**	**-1.10%**	**-1.20%**
12/08/22 03:50	**GDP Deflator YoY**	**3Q F**	**-0.50%**	**-0.50%**
12/08/22 03:50	BoP Current Account Balance	Oct	¥621.7b	¥909.3b
12/08/22 09:00	**Eco Watchers Survey Current SA**	**Nov**	**50.6**	**49.9**
12/08/22 09:00	**Eco Watchers Survey Outlook SA**	**Nov**	**46.8**	**46.4**
12/09/22 03:50	Money Stock M3 YoY	Nov	3.00%	3.10%

Eurozone

Date & Time (GST)	Indicator	Period	Expected	Prior
12/05/22 11:00	**Eurozone Retail Sales MoM**	**Oct**	**-1.70%**	**0.40%**
12/05/22 12:50	**France S&P Global Services PMI**	**Nov F**	**49.4**	**49.4**
12/05/22 12:55	**Germany S&P Global Services PMI**	**Nov F**	**46.4**	**46.4**
12/05/22 13:00	**Eurozone S&P Global Services PMI**	**Nov F**	**48.6**	**48.6**
12/05/22 14:00	Eurozone Sentix Investor Confidence	Dec	-27.5	-30.9
12/06/22 11:00	Germany Factory Orders MoM	Oct	0.10%	-4.00%
12/07/22 11:00	**Germany Industrial Production WDA YoY**	**Oct**	**--**	**2.60%**
12/07/22 11:45	France Current Account Balance	Oct	--	-7.3b
12/07/22 14:00	**Eurozone GDP SA QoQ**	**3Q F**	**0.20%**	**0.20%**
12/11/22 12/16	Germany Wholesale Price Index YoY	Nov	--	17.40%

United Kingdom

Date & Time (GST)	Indicator	Period	Expected	Prior
12/05/22 13:00	New Car Registrations YoY	Nov	--	26.40%
12/05/22 13:30	**S&P Global/CIPS UK Services PMI**	**Nov F**	**48.8**	**48.8**
12/06/22 13:30	S&P Global/CIPS UK Construction PMI	Nov	52	53.2
12/08/22 04:01	RICS House Price Balance	Nov	-10%	-2%
12/09/22 13:30	**BoE/Ipsos Inflation Next 12 Mths**	**Nov**	**--**	**4.90%**

China and India

Date & Time (GST)	Indicator	Period	Expected	Prior
12/07/22	China Foreign Reserves	Nov	$3,102.00b	$3,052.43b
12/07/22	China Exports	Nov	-4.30%	-0.30%
12/07/22	China Imports	Nov	-7.10%	-0.70%
12/07/22 08:30	**India RBI Repurchase Rate**	**7- Dec**	**6.25%**	**5.90%**
12/07/22 08:30	**India RBI Cash Reserve Ratio**	**7- Dec**	**4.50%**	**4.50%**
12/09/22 05:30	**China PPI YoY**	**Nov**	**-1.50%**	**-1.30%**
12/09/22 05:30	**China CPI YoY**	**Nov**	**1.60%**	**2.10%**
12/09/22 12/15	China Aggregate Financing CNY	Nov	2,100.0b	907.9b
12/09/22 12/15	China New Yuan Loans CNY	Nov	1,350.0b	615.0b
12/09/22 12/15	China Money Supply M2 YoY	Nov	11.70%	11.80%

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