The Weekly Market View

December 19 2022

بنك أبوظبي التجاري ADCB

ASSET MANAGEMENT LIMITED

Pivotal disapppointment

Key DM central banks concluded the year with a hawkish tilt at their last meetings of 2022. This was despite evidence of inflation easing and economic data flashing warnings signs of rising slowdown risks. The week started on a positive note with the US inflation surprising on the downside. US headline inflation rose 7.1% year-on year while core inflation rose 6% year-on year, both below market expectations. However, the Fed did not seem to be convinced with softer inflation print. The Fed slowed the pace of rate hikes by raising rates only by 50bp at the last meeting as expected, taking the Fed fund rate to 4.25- 4.50%. Nevertheless, the Fed surprised the markets with higher than expected peak Fed fund rate in 2023. Elsewhere, the ECB also slowed the rate hikes, raising rates by 50bp, but indicated more future rate hikes. The ECB also announced its plans of reducing monthly reinvestments from its Asset Purchase Programme by EUR15bn, beginning in March 2023 until the second quarter of 2023. Sticking to central banks, the BoE raised its key interest rate by 50bp, but signalled inflation pressures may have peaked after the November inflation surprised on the downside. Amidst the central bank tightening, concerns of global slowdown risks aggravated with Flash PMI estimates pointing to deceleration in economic activity in Eurozone and US. US retail sales also dropped in November, signalling subdued sales during the Thanksgiving holiday period. In EM, China economic data came out weaker than expected. Global risk assets, disappointed by the hawkish central bank response, suffered losses with MSCI ACWI declining c2%. In fixed income, contrasting trends were evident as UST yields declined across the curve, but Eurozone bond yields edged higher. In commodities, oil prices rose on China re-opening optimism and the US planning to buyback oil for state reserves. Gold prices recorded marginal losses amidst hawkish Fed response. The USD weakened in the first half of the week on soft inflation print but later strengthened on hawkish Fed to end the week flat.

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Nail-biting end

Markets anticipating a dovish central bank finish to end the year were in for a disappointment after the major DM central banks pressed on with their hawkish stance. The Fed is now projecting a higher than expected peak Fed fund rate of 5.1% in 2023 (markets expecting around 4.8%-5%) with no rate cuts expected until 2024. Upward revision in the peak Fed fund rate forecasts was combined with lower Fed growth projections for 2023 and higher upward revisions to the Fed's unemployment and inflation forecast. Markets did not buy the Fed's hawkish rhetoric with Fed fund futures pricing in a lower peak Fed fund rate of c4.8% and forecasting a rate cut in the second half of the 2023. Going into next year, we still believe that the interplay between growth, inflation and interest rates will influence the market performance. A hawkish finish to the year means that interest rate uncertainty and growth concerns could take centre stage, particularly during the first quarter of 2023. Meanwhile, inflation concerns, in our view, are likely to take a backseat with evidence confirming that the inflation pressures may have peaked. Shelter cost, a lagged component in the CPI basket should catch-up with the recent decline seen in the frequent market-based measures of shelter costs. As such, we believe that inflation should gradually stabilise over the next year. However, between now and the next Fed meeting on 1st February, we expect financial markets to experience bouts of volatility- especially around the releases of key economic data. Positive economic surprises will only further bolster the Fed's restrictive policy bias as it will confirm US economic resilience. Negative economic surprises, on the other hand, will further intensify economic slowdown concerns, weighing on the risk sentiment especially if it is met with more hawkish Fed commentary, which signals less concern about over-tightening effects.

Global markets' performance snapshot*

Index Snapshot (World Indices)*

Index	Latest	Weekly %	YTD %
S&P 500	3,852	-2.08	-19.17
Dow Jones	32,920	-1.66	-9.41
Nasdaq	10,705	-2.72	-31.57
DAX	13,893	-3.32	-12.54
Nikkei 225	27,527	-1.34	-5.45
FTSE 100	7,332	-1.93	-0.71
Sensex	61,338	-1.36	5.29
Hang Seng	24,209	-2.26	-17.17
Regional Markets			
ADX	10,328	0.74	21.67
DFM	3,329	0.12	4.16
Tadawul**	10,290	0.43	-9.13
DSM**	10,977	-4.46	-5.58
MSM30**	4,856	1.51	16.08
BHSE**	1,854	-0.08	3.16
KWSE**	7,351	-1.33	3.34
MSCI			
MSCI World	2,606	-2.13	-19.36
MSCI EM	957	-2.14	-22.30

Global Commodities, Currencies and Rates*

Commodity	Latest	Weekly %	YTD %
ICE Brent USD/bbl	79.0	3.86	2.91
Nymex WTI USD/bbl	74.3	4.60	0.03
Gold USD/t oz	1,793.1	-0.24	-1.86
Silver USD/t oz	23.2	-1.06	-0.24
Platinum USD/t oz	994.5	-3.22	3.44
Copper USD/MT	8,231.5	-3.05	-15.07
Alluminium	2,337.1	-4.68	-16.62
Currencies			
EUR USD	1.06	0.44	-6.72
GBP USD	1.21	-0.91	-9.91
USD JPY	136.60	0.03	15.53
USD CHF	0.93	-0.05	2.11
Rates	**Latest**	**Weekly (bp)**	**YTD(bp)**
USD Libor 3m	4.75	1.27	453.67
USD Libor 12m	5.48	-2.06	489.57
UAE Eibor 3m	4.59	11.41	422.46
UAE Eibor 12m	5.06	-1.33	432.46
US 3m Bills	4.25	-1.29	421.99
US 10yr Treasury	3.48	-9.61	197.21

Notes: *Data as of December 16 2022 unless stated otherwise; **Data as of December 15 2022.

Summary market outlook

Global Yields	Yields on UST declined across the curve despite the hawkish Fed meeting, as inflation, PMI and retail sales negatively surprised. 10Y-2Y portion of the yield curve slight steepened but remained the most inverted in decades. European bond yields jumped as ECB signaled more rate hikes, after raising rates by 50bp. 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	VIX index (measuring implied volatility in equities) ended the week unchanged. VVIX index (measuring volatility of the VIX) and SKEW index (a measure of tail risks in equities) rose while MOVE index (measure of volatility in bonds) declined last week. We expect financial market volatility to stay elevated as the monetary policy normalizes.
Equity Markets	
Local Equity Markets	GCC equities had a mixed week. Within the region, Oman, Abu Dhabi, Saudi and Dubai recorded gains with Oman outperforming the most. Qatar, Kuwait, Bahrain 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 (as measured by MSCI All Country World Index) declined by c2.1% while EM fell by c2.1%. In DM, Europe underperformed the most while Japan outperformed peers. 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 declined c2.7% while HK tech index declined c5%. Within the technology sector, we prefer non-cyclical growth over cyclical growth (tech hardware, semiconductors etc.) over a 12-month horizon.
Commodities	
Precious Metals	Gold prices ended the week flat while silver and platinum prices fell. We are overweight gold as a hedge against potential inflation, growth, and geopolitical risks.
Energy	Oil prices rose on China's re-opening optimism. Overall, over the medium-term we believe that oil prices will remain sustained as the market balances into the new normal.
Industrial Metals	Copper and aluminium prices fell sharply over the week. Another commodity super-cycle is difficult, yet demand for commodities linked to “green infrastructure” is likely to sustain.
Currencies	
EURUSD	EUR slightly strengthened against the USD with the markets pricing in hawkish ECB policy. We expect ECB policy divergence and growth differentials to play a major role in the performance of the euro.
Critical levels	R2 1.0838 · R1 1.0712 · S1 1.0483 · S2 1.038
GBPUSD	GBP weakened versus the USD as the BoE signaled that inflation has peaked. We expect GBP to weaken against USD and stay flat versus the EUR.
Critical levels	R2 1.2564 · R1 1.2356 · S1 1.203 · S2 1.1912
USDJPY	USDJPY ended the week unchanged. BoJ policy remains odd-one out and is likely to keep JPY under pressure.
Critical levels	R2 140.06 · R1 138.33 · S1 134.70 · S2 132.80

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Forthcoming important economic data/events

United States

Date & Time (GST)	Indicator	Period	Expected	Prior
12/19/22 19:00	NAHB Housing Market Index	Dec	34	33
12/20/22 17:30	Building Permits	Nov	1480K	1526K
12/20/22 17:30	Housing Starts	Nov	1400K	1425K
12/21/22 16:00	MBA Mortgage Applications	16- Dec	--	3.20%
12/21/22 19:00	**Conf. Board Consumer Confidence**	**Dec**	**101**	**100.2**
12/22/22 17:30	GDP Annualized QoQ	3Q T	2.90%	2.90%
12/22/22 17:30	**Initial Jobless Claims**	**17- Dec**	**222K**	**211K**
12/22/22 17:30	**Continuing Claims**	**10- Dec**	**1685K**	**1671K**
12/23/22 17:30	Durable Goods Orders	Nov P	-1.00%	1.10%
12/23/22 17:30	**PCE Deflator YoY**	**Nov**	**5.50%**	**6.00%**
12/23/22 17:30	**PCE Core Deflator YoY**	**Nov**	**4.70%**	**5.00%**
12/23/22 19:00	**U. of Mich. Sentiment**	**Dec F**	**59.1**	**59.1**
12/23/22 19:00	U. of Mich. Current Conditions	Dec F	--	60.2
12/23/22 19:00	**U. of Mich. 1 Yr Inflation**	**Dec F**	**4.60%**	**4.60%**
12/23/22 19:00	**U. of Mich. 5-10 Yr Inflation**	**Dec F**	**3.00%**	**3.00%**
12/23/22 19:00	New Home Sales	Nov	600K	632K

Japan

Date & Time (GST)	Indicator	Period	Expected	Prior
12/20/22	**BOJ Policy Balance Rate**	**20- Dec**	**-0.10%**	**-0.10%**
12/20/22	**BOJ 10-Yr Yield Target**	**20- Dec**	**0.00%**	**0.00%**
12/21/22 10:00	Machine Tool Orders YoY	Nov F	--	-7.80%
12/22/22 09:00	Leading Index CI	Oct F	--	99
12/22/22 09:00	Coincident Index	Oct F	--	99.9
12/23/22 03:30	**Natl CPI YoY**	**Nov**	**3.90%**	**3.70%**
12/23/22 03:30	**Natl CPI Ex Fresh Food, Energy YoY**	**Oct**	**2.80%**	**2.50%**
12/23/22 09:30	Nationwide Dept Sales YoY	Nov	--	11.40%

Eurozone

Date & Time (GST)	Indicator	Period	Expected	Prior
12/19/22 13:00	**Germany IFO Business Climate**	**Dec**	**87.5**	**86.3**
12/19/22 13:00	**Germany IFO Expectations**	**Dec**	**82**	**80**
12/20/22 11:00	Germany PPI MoM	Nov	-1.70%	-4.20%
12/20/22 13:00	Eurozone ECB Current Account SA	Oct	--	-8.1b
12/20/22 19:00	Eurozone Consumer Confidence	Dec P	-22	-23.9
12/21/22 11:00	Germany GfK Consumer Confidence	Jan	-38	-40.2
12/23/22 11:45	France PPI MoM	Nov	--	-0.10%

United Kingdom

Date & Time (GST)	Indicator	Period	Expected	Prior
12/22/22 11:00	**GDP QoQ**	**3Q F**	**-0.20%**	**-0.20%**
12/22/22 11:00	**GDP YoY**	**3Q F**	**2.40%**	**2.40%**
12/22/22 11:00	Private Consumption QoQ	3Q F	-0.50%	-0.50%
12/22/22 11:30	Government Spending QoQ	3Q F	1.30%	1.30%
12/22/22 11:00	Exports QoQ	3Q F	--	8.00%
12/22/22 11:00	Imports QoQ	3Q F	--	-3.20%

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China and India

Date & Time (GST)	Indicator	Period	Expected	Prior
12/16/22 12/30	India BoP Current Account Balance	3Q	-$35.50b	-$23.90b
12/20/22 05:15	China 1-Year Loan Prime Rate	20- Dec	3.65%	3.65%
12/20/22 05:15	China 5-Year Loan Prime Rate	20- Dec	4.30%	4.30%

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