The Weekly Market View

December 6 2020

ADCB ASSET MANAGEMENT LIMITED

November exuberance extending into first week of December

After a spectacular November, stock market exuberance extended into the first week of December despite economic data issuing warning signals. Vaccine optimism received further boost after Pfizer received UK's formal nod, making UK the first western country to authorize vaccine distribution. Moderna also reported that it had submitted request for emergency use authorization to US and Europe regulators. Meanwhile, economic data pointed to growth slowdown due to the rising Covid cases and renewed restrictions. Non-farm payrolls rose by only 245k, missing market expectations, marking the slowest jobs growth since the rebound started in May. The unemployment rate dropped to the lowest level since the pandemic began, mainly on account of decline in labour participation rate. Hopes for fiscal stimulus firmed with the disappointing jobs data and markets betting that this could pressure the policymakers to reach an agreement. Treasury yields jumped, ending close to 1% on stimulus hopes. Equity markets continued to move higher after a record-setting month in November. EMs outperformed DMs, albeit marginally over the week. Behind EM outperformance were strong gains in Korean equities. Within DM, UK and US outperformed. In the US, NASDAQ (an index of our preferred new economy themes) outperformed over the week, taking its year-to-date gains to c39%. In currency market, the US dollar weakened, dropping to the lowest level in two and half years. Oil prices jumped to their highest level in nine months with OPEC and its allies deciding to increase production more gradually than expected. Precious metals and industrial metals recorded gains, benefitting from the dollar weakness.

Fixed income 2021- not a repeat of 2020

Last week's theme of vaccine optimism, mixed economic data and hopes of further fiscal stimulus measures will remain the theme for the coming few weeks and going into 2021. For US Treasuries, 2020 has been a stellar year, driven by Fed's big bang monetary policy measures. However, increasing prospects of vaccine availability along with the possibility of more fiscal stimulus imply that growth will start normalising in 2021. US treasuries are typically ahead in pricing in future growth trend and the continuous pick-up in long term yields suggest that current levels are already pricing in the prospects of fiscal stimulus and economic growth recovery. Having said that, it is difficult to anticipate US treasuries to record similar sized returns in 2021 and for 10yr UST yields to decline to the 2019 levels even though the Fed is unlikely to reverse its stimulus anytime soon. Yet, any massive pick-up in US treasury yield, driving real yields to turn positive, could lead to a shift in flows from US junk bonds back to US treasuries. As such, rally in US junk bonds will be short-lived with growth recovery prospects in the short-run likely to be uneven while long-term (over 12-month horizon), the bounce back will be merely a return to the sluggish growth trend before the pandemic. Stability in growth is more likely in EM Asia, with most countries not experiencing second wave infections, unlike the West. With DM sovereign bonds and IG bonds offering negative real yields while rally in US HY bonds looking crowded, opportunities in EM Asia credit are more attractive. With our long-duration overweight on US Treasuries and neutral stance on US IG bonds, we recommend going overweight on Asia credit, with preference for Asia IG.

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Global markets' performance snapshot

Index Snapshot (World Indices)

Index	Latest	Weekly	YTD %
S&P 500	3,699	1.7	14.5
Dow Jones	30,218	1.0	5.9
Nasdaq	12,464	2.1	38.9
DAX	13,299	-0.3	0.4
Nikkei 225	26,801	0.4	13.1
FTSE 100	6,550	2.9	-13.2
Sensex	45,080	2.1	9.3
Hang Seng	26,836	-0.2	-4.8
Regional Markets (Sunday to Thursday)			
ADX*	4,965	-0.1	-2.2
DFM*	2,420	-0.0	-12.5
Tadawul	8,675	-0.2	3.4
DSM	10,466	1.7	0.4
MSM30	3,640	0.4	-8.6
BHSE	1,497	2.0	-7.1
KWSE	5,543	-0.3	-11.8
MSCI			
MSCI World	2,621	1.5	11.9
MSCI EM	1,239	1.7	12.2

Global Commodities, Currencies and Rates

Commodity	Latest	Weekly	YTD %
Brent USD/bbl	49.3	2.2	-25.4
WTI USD/bbl	46.3	1.6	-24.2
Gold USD/t oz	1,838.9	2.9	21.2
Silver USD/t oz	24.2	7.1	35.5
Platinum USD/t	1,060.6	9.6	9.7
Copper USD/MT	7,679.0	3.7	25.8
Alluminium	2,021.5	2.0	13.7
Currencies			
EUR USD	1.21	1.3	8.1
GBP USD	1.34	1.0	1.4
USD JPY	104.17	0.1	-4.3
CHF USD	0.89	-1.6	8.3
Rates			
USD Libor 3m	0.23	0.0	-88.2
USD Libor 12m	0.34	1.8	-83.1
UAE Eibor 3m*	0.33	-30.8	-85.0
UAE Eibor 12m*	0.60	-19.3	-73.8
US 3m Bills	0.07	-0.3	-95.2
US 10yr Treasury	0.97	15.4	-49.6

Note: *UAE weekly data from 26 November to 30 November | Source: Bloomberg

Summary market outlook

Global Yields	US Treasury (USTs) yields jumped close to 1%, despite the disappointing payrolls release, driven by hopes of fiscal relief. We, however, remain long duration on USTs as overall economic outlook remains mixed and is likely to remain so with rising COVID19 infection rate.
Stress and Risk Indicators	The VIX remained flat after edging further down at the beginning of the week. It is worthwhile to note that the VIX is now, yes, at its minimum since the COVID-19 crisis erupted in February, yet still substantially above the pre-crisis level. We would suspect it to continue to stabilize over the next weeks and months, but to remain elevated at least as long as the US power transition is completed and some clarity emerges on US fiscal policy
Equity Markets	
Local Equity Markets	MSCI GCC index was almost flat for the week and underperformed global equity benchmarks. Whilst, UAE equity markets did not move much in a holiday shortened week, action elsewhere in the region was balancing too. Marginal losses in Saudi Arabia and Kuwait were offset by gains in Qatar, Oman and Bahrain. We remain neutral GCC equities within our global equity framework. Stable to higher oil prices, potential for revival in growth and recent underperformance are all balanced by lack of structural growth plays in the equity market.
Global Equity Markets	Equity markets continued to move higher last week after a record-setting month in November. EMs outperformed DMs, albeit marginally over the week. Behind EM outperformance were strong gains in Korean equities. Within DM, UK and US outperformed. In the US, Nasdaq (an index of our preferred new economy themes) outperformed over the week, taking its year-to-date gains to c39%. With the virus rampant and the uncertainty around who gets a majority in the US Senate persisting, we remain watchful of near-term risks. However, we are constructive on the outlook over the 12-month horizon. Our equity strategy is to overweight US and UK, and underweight Eurozone and EM outside Asia. We are neutral Asia and prefer structural growth opportunities there. By sector we prefer IT and Communication services as long-term plays and energy as a cyclical play. We have also identified industry level opportunities to play the vaccine availability in the medium-term. Our preference is for large cap non-cyclical growth with focus on quality.
Commodities	
Precious Metals	Precious metals were back up after a month of downward slides. We remain overweight gold as a hedge against general risks, but we are not particularly bullish over the next weeks and months.
Energy	Oil prices reached their highest level since the COVID19 crisis following a deal by OPEC+ to only gradually curb production cuts in 2021. Oil prices are likely to remain sustained as the market is roughly balanced in terms of demand versus supply.
Industrial Metals	Industrial metals strengthened further in line with USD weakness and global economic normalization (vaccine) hopes. We do not recommend industrial metals exposure as China structurally reigns in demand.
Currencies	
EURUSD	The EUR gained against the USD. We expect the EUR to remain stable, with some upward potential in case Congress will strike a deal on more fiscal stimulus from the US.
Critical levels	R2 1.2204 · R1 1.2163 · S1 1.2095 · S2 1.2068
GBPUSD	Cable was up, but flat against the EUR. We see further Pound Sterling strength in line with our expectation that the EU and the UK will strike a deal for their future trade relationship.
Critical levels	R2 1.3591 · R1 1.3516 · S1 1.3464 · S2 1.3337
USDJPY	JPY was broadly flat against the USD. The risk-on context is not favourable for the JPY, which will facilitate BoJ’s intention to keep it weak if necessary through further yield curve targeting.
Critical levels	R2 104.55 · R1 104.36 · S1 103.86 · S2 103.55

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
12/08/20	Nonfarm Productivity	3Q F	4.90%	4.90%	Weekly jobless claims will be in focus, especially after disappointing payrolls data for November. CPI and PPI will also be important.
12/09/20	MBA Mortgage Applications	4-Dec	--	-0.60%	
12/10/20	**Initial Jobless Claims**	**5-Dec**	**725k**	**712k**	
12/10/20	**Continuing Claims**	**28-Nov**	**5270k**	**5520k**	
12/10/20	**CPI YoY**	**Nov**	**1.1%**	**1.2%**	
12/10/20	**CPI Ex Food and Energy YoY**	**Nov**	**1.6%**	**1.6%**	
12/10/20	Real Avg Weekly Earnings YoY	Nov	--	4.4%	
12/11/20	PPI Ex Food and Energy YoY	Nov	1.5%	1.1%	
12/11/20	U. of Mich. Current Conditions	Dec P	--	87	

Japan

	Indicator	Period	Expected	Prior	Comments
12/08/20	Labor Cash Earnings YoY	Oct	-0.7%	-0.9%	The second estimate of Japan GDP will be in focus, though no change is expected from advanced numbers.
12/08/20	BoP Current Account Adjusted	Oct	¥1829.2b	¥1345.5b	
12/08/20	**GDP SA QoQ**	**3Q F**	**5%**	**5%**	
12/08/20	**GDP Annualized SA QoQ**	**3Q F**	**21.6%**	**21.4%**	
12/09/20	Machine Tool Orders YoY	Nov P	--	-6.0%	
12/10/20	PPI YoY	Nov	-2.2%	-2.10%	

Eurozone

	Indicator	Period	Expected	Prior	Comments
12/08/20	Employment YoY	3Q F	--	-2.0%	All eyes will be on the ECB meeting and the EU governing council. The ECB could ease further (not by reducing rates) given concerns on growth and inflation outlook
12/08/20	ZEW Survey Expectations	Dec	--	32.8	
12/08/20	GDP SA QoQ	3Q F	12.6%	12.6%	
12/08/20	GDP SA YoY	3Q F	-4.4%	-4.4%	
12/10/20	**ECB Main Refinancing Rate**	**10-Dec**	**0.0%**	**0.0%**	
12/10/20	**ECB Marginal Lending Facility**	**10-Dec**	**0.25%**	**0.25%**	
12/10/20	**ECB Deposit Facility Rate**	**10-Dec**	**-0.5%**	**-0.5%**	

United Kingdom

	Indicator	Period	Expected	Prior	Comments
12/10/20	Industrial Production YoY	Oct	-6.5%	-6.3%	Industrial production will be important.
12/10/20	Manufacturing Production YoY	Oct	-8.4%	-7.9%	
12/10/20	Construction Output YoY	Oct	-7.4%	-10%	

China and India

	Indicator	Period	Expected	Prior	Comments
12/07/20	**Exports YoY (CH)**	**Nov**	**12%**	**11.4%**	All eyes will be on the China trade data, particularly imports data will be important, throwing light on the domestic demand recovery.
12/09/20	CPI YoY (CH)	Nov	0%	0.5%	
This week	**Money Supply M2 YoY (CH)**	**Nov**	**10.5%**	**10.5%**	
This week	**New Yuan Loans CNY (CH)**	**Nov**	**1450b**	**689b**	
This week	**Aggregate Financing CNY (CH)**	**Nov**	**2050.0b**	**1417.3b**	
This week	**Foreign Direct Investment YoY CNY (CH)**	**Nov**	**--**	**18.3%**	
12/11/20	Industrial Production YoY (IN)	Oct	0.2%	0.2%	

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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