The Weekly Market View

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ADCB ASSET MANAGEMENT LIMITED

Kishore Muktinutalapati
Head - Investment Strategy
Tel: +971 (0)2 696 2358
kishore.muktinutalapati@adcb.com

Prerana Seth
Fixed Income Strategist
Tel: +971 (0)2 696 2878
prerana.seth@adcb.com

Mohammed Al Hemeiri
Analyst
Tel: +971 (0)2 696 2236
mohammed.alhemeiri@adcb.com

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Mishmash

Financial markets digested mixed trends in economic data last week. US saw higher than expected CPI and PPI prints for January. However, growth data was strong too – with retail sales registering a sharp jump in January, and initial jobless claims printing lower than expected. But, industrial production disappointed in the US. In the UK, inflation trends appeared to be softening – average weekly earnings, CPI, and core CPI were all lower than expected. UK retail sales were better than expected. For the Eurozone economic data was mixed too – second release of Q4'22 GDP was in-line with expectations, but December industrial production fell more than expected. In Japan, Q4'22 GDP was weaker than expected but January trade data showed higher than expected trade balance. Meanwhile, more US central bank officials have come out in favour of staying the course on high interest rates. Cleveland Fed's Loretta Mester, indicated that she saw a "compelling case" for a 50bp rise at the next meeting while St Louis Fed's James Bullard also said he would not rule out an increase of the same size. Fed governor Michelle Bowman and Richmond Fed's Thomas Barkin, spoke in support of higher rates. As a result, financial markets moved to price in higher rates but also improving economic outlook. Yields on 10Y USTs reached their highest point since late December. Yields on the 2Y Treasury note reached their highest point since November. Global equities posted marginal losses last week. US stocks fell for the second week in a row. Positive US economic outlook pushed the broader USD back up by 3% since the start of February and erasing January's decline.

What's up, inflation?

Regular readers of our reports should be familiar with our stance on US inflation. We believe that the disinflation process in the world's largest economy has begun and that inflation will likely fall faster than expected by market consensus. Indeed, since June last year, after hitting a 40+ year high, US consumer price inflation fell by 265bp. In this process of disinflation, which was recently acknowledged by the Federal Reserve Chair Jerome Powell, the data came in lower than market expectations and this was cheered by financial markets. However, the more recent data on US consumer and producer price inflation for the month of January continued its disinflationary trend but printed higher than market expectations. In other words, January consumer and producer price inflation did not cool as much as markets anticipated. This seems to have caused some concerns that inflation may prove to be stickier than initially expected. Looking at different points of view – of forecasters (surveys done by the Philadelphia Fed and the New York Fed), consumers (Conference Board and University of Michigan), business owners (ISM and NFIB surveys), and financial markets (through inflation swaps) – we find disinflation trends pervasive. From policy perspective, even real interest rate measures like the Federal funds rate in excess of actual CPI have risen quite aggressively over the past several months and are now approaching zero from very negative levels. Return of flat Phillips curve should help central bank policy move in a relatively less restrictive direction. Our own analysis of the US consumer price index showed that most of the rise in inflation is cyclical and not a structural feature. This is also seconded by the New York Fed's underlying inflation measures where prices-only inflation is close to 4% in the US compared to CPI which is still above 6%. Breadth and depth of inflation across various categories is starting to ease, indicating possible disinflation in the months ahead across a wide range of categories. As such, stickiness measures of inflation have started to ease too. For instance, Dallas Fed trimmed PCE and Atlanta Fed sticky core CPI are starting to rollover from elevated levels. All in all, we continue to believe that the disinflationary process that began in 2022 is in full force and that inflation is likely to fall faster than expected by market consensus. However, there are likely to be months where inflation could surprise to the upside in relation to expectations and cause near-term market volatility. Our wider uncertainty band around a downward trajectory in inflation does accommodate for this. Long-term investors are better served by focusing on the overall trajectory of inflation rather than monthly surprises.

Global markets' performance snapshot*

Index Snapshot (World Indices)*

Index	Latest	Weekly %	YTD %
S&P 500	4,079	-0.3	6.2
Dow Jones	33,827	-0.1	2.1
Nasdaq	11,787	0.6	12.6
DAX	15,482	1.1	11.2
Nikkei 225	27,513	-0.6	5.4
FTSE 100	8,004	1.6	7.4
Sensex	61,003	0.5	0.3
Hang Seng	20,720	-2.2	4.7
Regional Markets			
ADX	9,977	-0.5	-2.3
DFM	3,458	0.1	3.7
Tadawul**	10,548	1.2	0.0
DSM**	10,641	1.9	-0.4
MSM30**	4,653	-2.2	-4.5
BHSE**	1,936	-0.2	2.1
KWSE**	7,364	0.1	1.0
MSCI			
MSCI World	2,780	-0.1	6.8
MSCI EM	999	-1.4	4.5

Global Commodities, Currencies and Rates*

Commodity	Latest	Weekly %	YTD %
Brent USD/bbl	83.0	-3.9	-3.4
WTI USD/bbl	76.3	-4.2	-4.9
Gold USD/t oz	1,837.4	-1.2	1.2
Silver USD/t oz	21.7	-1.1	-8.6
Platinum USD/t oz	913.0	-5.5	-11.5
Copper USD/MT	8,950.3	1.4	7.0
Alluminium	2,346.5	-2.4	-0.1
Currencies			
EUR USD	1.07	0.2	-0.1
GBP USD	1.20	-0.2	-0.5
USD JPY	134.17	2.1	2.3
USD CHF	0.92	0.1	0.0
Rates	**Latest**	**Weekly (bp)**	**YTD (bp)**
USD Libor 3m	4.90	3.1	13.4
USD Libor 12m	5.57	8.9	9.1
UAE Eibor 3m	4.84	-4.2	52.8
UAE Eibor 12m	5.18	22.7	13.7
US 3m Bills	4.70	4.0	40.0
US 10yr Treasury	3.83	7.2	0.2

Source: Bloomberg, and ADCB Asset Management
Notes: *Data as of February 17 2023 unless stated otherwise; **Data as of February 16 2023

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ADCB Asset Management Limited

Summary market outlook

Global Yields	Yields on 10Y USTs reached their highest point since late December. Yields on the 2Y Treasury note, which is highly sensitive to the expected path of interest rates, reached their highest point since November as markets repriced interest rate expectations. Yields on benchmark 10Y German government bond climbed. Yields on 10Y UK government bonds held near one-month highs. The yield on the 10Y JGBs hovered around the 0.50% level – the current BoJ cap. 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 occurs and recession fears rise.
Stress and Risk Indicators	Implied volatility in equities (VIX) fell marginally while that in bonds (MOVE) remained flat. Our measure of FX volatility declined sharply last week. We expect financial market volatility to stay elevated as the monetary policy normalizes and markets weigh recession probabilities.
Equity Markets	
Local Equity Markets	GCC equity markets, following previous week's underperformance, managed to outperform global equities. This was despite the weakness in oil prices. Strong performance from Saudi and Qatari markets helped. 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 posted marginal losses last week. EM sharply underperformed DM. Geographically Asian markets underperformed on rising geopolitical tensions. Within the developed world, Europe-ex-UK and UK markets outperformed in USD terms. Sector wise, consumer sectors outperformed while real estate and energy sectors underperformed. We are moderately overweight US, UK, and Asia Pacific; underweight Eurozone and EMs outside Asia. By sector we prefer healthcare, and industrials. 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 0.5% over the past week while HK tech index fell 2.3% over the same time period. Within technology, we prefer non-cyclical growth over cyclical growth (tech hardware, semiconductors etc.) over a 12-month horizon.
Commodities	
Precious Metals	Gold prices were down for the week due to a stronger USD and rising bond yields. Silver and platinum prices fell sharply too. We are overweight gold as a hedge against potential inflation, growth, and geopolitical risks.
Energy	Oil prices fell on the news that Russian oil producers expect to maintain current volumes of crude oil exports despite the government's plan to cut oil output in March. 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 exhibited mixed trends in the wake of stronger USD and improving Chinese demand outlook. Another commodity super-cycle is difficult, yet demand for commodities linked to "green infrastructure" is likely to sustain.
Currencies	
EURUSD	EUR/USD rose slightly last week after having posted losses over the previous two weeks. We expect euro to stabilize and record a better performance in 2023 compared to 2022.
Critical levels	R2 1.0894 · R1 1.0794 · S1 1.0604 · S2 1.0514
GBPUSD	Softer-than-expected UK inflation and USD strength meant a small loss for GBP/USD over the past week pushing the cable to its six-week low. We expect GBP to weaken against EUR and stay flat versus the USD.
Critical levels	R2 1.2428 · R1 1.2232 · S1 1.1878 · S2 1.1720
USDJPY	Widening yield differentials between USTs and JGBs put downward pressure on the JPY against the USD. JPY is likely to strengthen in 2023 as interest rate differentials tighten, and as broad USD weakens.
Critical levels	R2 137.42 · R1 135.78 · S1 131.82 · S2 129.50

Forthcoming important economic data/events

United States

Date & Time (GST)	Indicator	Period	Expected	Prior
02/21/23 18:45	**S&P Global US Manufacturing PMI**	**Feb P**	**47.4**	**46.9**
02/21/23 18:45	**S&P Global US Services PMI**	**Feb P**	**47.3**	**46.8**
02/21/23 19:00	Existing Home Sales MoM	Jan	2.00%	-1.50%
02/22/23 23:00	**FOMC Meeting Minutes**	**1-Feb**	**--**	**--**
02/23/23 17:30	Chicago Fed Nat Activity Index	Jan	--	-0.49
02/23/23 17:30	**GDP Annualized QoQ**	**4Q S**	**2.90%**	**2.90%**
02/23/23 17:30	**Personal Consumption**	**4Q S**	**2.00%**	**2.10%**
02/23/23 17:30	**Initial Jobless Claims**	**18-Feb**	**199K**	**194K**
02/23/23 17:30	**Continuing Claims**	**11-Feb**	**1,701K**	**1,696K**
02/23/23 20:00	Kansas City Fed Manf. Activity	Feb	-2	-1
02/24/23 17:30	**Personal Income**	**Jan**	**1.10%**	**0.20%**
02/24/23 17:30	**Personal Spending**	**Jan**	**1.30%**	**-0.20%**
02/24/23 17:30	**PCE Deflator YoY**	**Jan**	**5.00%**	**5.00%**
02/24/23 17:30	**PCE Core Deflator YoY**	**Jan**	**4.30%**	**4.40%**
02/24/23 19:00	New Home Sales	Jan	621k	616k
02/24/23 19:00	**U. of Mich. Sentiment**	**Feb F**	**66.4**	**66.4**
02/24/23 19:00	U. of Mich. 1 Yr Inflation	Feb F	--	4.20%
02/24/23 19:00	U. of Mich. 5-10 Yr Inflation	Feb F	--	2.90%

Japan

Date & Time (GST)	Indicator	Period	Expected	Prior
02/21/23 04:30	**Jibun Bank Japan PMI Mfg**	**Feb P**	**--**	**48.9**
02/21/23 04:30	**Jibun Bank Japan PMI Services**	**Feb P**	**--**	**52.3**
02/21/23 10:00	Machine Tool Orders YoY	Jan F	--	-9.70%
02/22/23 03:50	PPI Services YoY	Jan	1.50%	1.50%
02/24/23 03:30	**Natl CPI YoY**	**Jan**	**4.30%**	**4.00%**
02/24/23 03:30	**Natl CPI Ex Fresh Food YoY**	**Jan**	**4.30%**	**4.00%**
02/24/23 09:30	Nationwide Dept Sales YoY	Jan	--	4.00%

Eurozone

Date & Time (GST)	Indicator	Period	Expected	Prior
02/20/23 19:00	Eurozone Consumer Confidence	Feb P	-19.0	-20.9
02/21/23 12:15	**France S&P Global Manufacturing PMI**	**Feb P**	**51.0**	**50.5**
02/21/23 12:30	**Germany S&P Global/BME Germany Mfg PMI**	**Feb P**	**48.0**	**47.3**
02/21/23 13:00	**Eurozone S&P Global Manufacturing PMI**	**Feb P**	**49.3**	**48.8**
02/21/23 12:15	France S&P Global Services PMI	Feb P	--	49.4
02/21/23 12:30	Germany S&P Global Services PMI	Feb P	51.0	50.7
02/21/23 13:00	Eurozone S&P Global Services PMI	Feb P	51.0	50.8
02/23/23 14:00	**Eurozone CPI YoY**	**Jan F**	**8.60%**	**8.50%**
02/23/23 14:00	**Eurozone CPI Core YoY**	**Jan F**	**5.20%**	**5.20%**
02/22/23 13:00	**Germany IFO Business Climate**	**Feb**	**91.3**	**90.2**
02/24/23 11:00	**Germany GDP SA QoQ**	**4Q F**	**-0.20%**	**-0.20%**
02/24/23 11:00	Germany GfK Consumer Confidence	Mar	-30.0	-33.9
02/24/23 11:45	France Consumer Confidence	Feb	80	80

United Kingdom

Date & Time (GST)	Indicator	Period	Expected	Prior
02/20/23 04:01	Rightmove House Prices YoY	Feb	--	6.30%
02/21/23 13:30	**S&P Global/CIPS UK Manufacturing PMI**	**Feb P**	**47.5**	**47.0**
02/21/23 13:30	**S&P Global/CIPS UK Services PMI**	**Feb P**	**49.2**	**48.7**
02/24/23 04:01	GfK Consumer Confidence	Feb	-43	-45

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