The Weekly Market View

February 28 2021

ADCB ASSET MANAGEMENT LIMITED

Treasury yields ring alarm bells

Sharp jump in UST yields impacted the risk sentiment, resulting in equity market sell-off. Interest rate volatility accelerated amidst inflation concerns and upbeat economic data. Weekly jobless claims fell to the lowest level in three months while personal income rose 10% in January, helped by payments from December relief package. Fed Chair Jay Powell reaffirmed dovish stance, again reducing concerns of an early exit while acknowledged that the recent rise in UST yields reflected growth confidence. The 10yr UST yields jumped past the 1.5% level, briefly touching 1.6%, but ended the week at 1.4%. Subdued demand at the 7yr bond auction and selling of USTs by mortgage holders aggravated the bond market sell-off. Developed market bonds and other fixed income assets also came under pressure, tracking the move higher in UST yields. In equities, last year's outperformers were the underperformers this week – hinting at some risk-repricing at the margin rather than a significant drawdown. EMs underperformed DMs sharply, dragged down by LatAm and Asia. Energy was the only sector with positive returns while consumer discretionary, IT, utilities and consumer staples underperformed the most. In commodities, oil prices continued to rise along with the industrial metals amidst improving economic prospects while precious metals declined further. The US dollar emerged as the safe-haven winner.

Bond market tantrum sans taper

In his congressional testimony, Fed Chair acknowledged the rise in UST yields as a sign of growth confidence. At the same time, inflation concerns which have driven the bond market sell-off, were yet again dismissed with the Fed Chair reiterating that any rise in inflation will be "transient" in nature. Looking deeper into the inflationary forces in the economy, rise in commodity prices coupled with the rise in input prices point to "cost-push" inflation trend- which tend to be temporary in nature compared to demand driven inflation. Moreover, price pressures in the near-term will appear to be inflated due to last year's base effects. This, however could add legs to reflation narrative in the near-term as markets will read them as inflationary. So further volatility in the US Treasures is expected. At the same time, we believe that the central bank will not be in hurry to withdraw stimulus measures this year, contrary to market fears, as the Fed will look past the "temporary" rise in inflation and focus on its "broad and inclusive" employment goals. Meanwhile, last week's reverberations in the government bond markets alarmed central banks across the world, forcing RBA and BoK to take action. The question is will the Fed follow suit and be ready to step in to arrest the bond market sell-off as continuous rise in UST yields could ultimately pose threat to loose monetary conditions. Certainly, it has the tools to do so if required and has even discussed the possibility of extending the maturity of its bond purchases. But we do not expect the Fed to step in yet as monetary conditions remain loose while further rise in UST yields could prove as a buying opportunity for fixed income investors (Global Fixed Income Outlook 2021, February 17 2021).

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Global markets' performance snapshot

Index Snapshot (World Indices)

Index	Latest	Weekly %	YTD %
S&P 500	3,811	-2.4	1.5
Dow Jones	30,932	-1.8	1.1
Nasdaq	13,192	-4.9	2.4
DAX	13,786	-1.5	0.5
Nikkei 225	29,672	-3.5	5.5
FTSE 100	6,483	-2.1	0.4
Sensex	49,100	-3.5	2.8
Hang Seng	28,980	-5.4	6.4
Regional Markets (Sunday to Thursday)			
ADX	5,628	-0.3	11.5
DFM	2,527	-1.9	1.4
Tadawul	9,195	1.9	5.8
DSM	10,121	-1.5	-3.0
MSM30	3,602	1.0	-1.6
BHSE	1,465	-1.1	-1.7
KWSE	5,649	-0.7	1.9
MSCI			
MSCI World	2,760	-2.8	1.4
MSCI EM	1,384	-6.3	3.7

Global Commodities, Currencies and Rates

Commodity	Latest	Weekly %	YTD %
ICE Brent USD/bbl	66.1	5.1	24.4
Nymex WTI USD/bbl	61.5	3.8	26.8
Gold USD/t oz	1,734.0	-2.8	-8.7
Silver USD/t oz	26.7	-2.3	1.0
Platinum USD/t oz	1,193.0	-6.5	11.3
Copper USD/MT	9,614.5	4.2	18.5
Alluminium	2,214.4	0.8	7.7
Currencies			
EUR USD	1.21	-0.4	-1.2
GBP USD	1.39	-0.6	1.9
USD JPY	106.57	1.1	3.1
CHF USD	0.91	1.4	-2.6
Rates			
USD Libor 3m	0.19	8.7	-20.1
USD Libor 12m	0.28	-2.2	-18.0
UAE Eibor 3m	0.31	-4.0	-39.3
UAE Eibor 12m	0.61	-8.0	-7.2
US 3m Bills	0.03	18.2	-43.4
US 10yr Treasury	1.40	5.1	53.8

Summary market outlook

Global Yields	UST yields surged to 1.6% amidst inflation worries, positive economic data and tepid demand at 7yr bond auction, but ended the week at 1.4%. The Treasury market sell-off spilled over to all fixed income assets globally. Investment grade and high yield bonds suffered losses. In Europe, bond yields surged higher with periphery bond yields rising the most. We stay overweight on medium to long-term part of the UST curve as Fed's status quo on monetary policy should prevent yields to rise significantly from current levels.
Stress and Risk Indicators	VIX jumped higher as the sharp rise in bond yields sparked a sell-off in global equities. Whilst we are unlikely to see the index reach highs it scaled about a year ago, we think it will not fall back to the pre-pandemic levels of mid-teens before the virus comes fully under control.
Equity Markets	
Local Equity Markets	MSCI GCC index rose last week helped by strong performance from Saudi equities. Omani equities too posted positive gains over the week. Equity markets elsewhere in the region posted losses. We remain 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 market.
Global Equity Markets	Global equities let some excess steam off last week. Against the backdrop of a technically overbought condition in the market, a sharp rise in bond yields triggered losses in equities. Outperformers of the last year were the underperformers this week – hinting at some risk-repricing at the margin rather than a significant drawdown. Led down by LatAm and Asia, EMs underperformed DMs sharply. Energy was the only sector with positive returns last week. Consumer discretionary, IT, utilities and consumer staples underperformed the most. 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 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.
Commodities	
Precious Metals	Precious metals suffered losses with the dollar strengthening and real yields stabilising further. Yet, we remain overweight gold as a risk hedge against potential risks on the horizon.
Energy	Oil prices jumped to fresh one year high amidst the improving growth outlook and continued decline in US crude production. Overall, we believe that oil prices are likely to remain sustained as the market is roughly balanced.
Industrial Metals	Copper prices rose strongly with expectations for a synchronous global recovery and a rise in renewable energy sources lifting the outlook for the commodity. However, we do not recommend industrial metals exposure as China structurally reigns in demand.

Currencies

EURUSD	EUR depreciated versus the dollar as rising UST yields boosted the dollar. We expect the euro to remain stable.							
Critical levels	R2	1.2229	R1	1.2152	S1	1.2030	S2	1.1985
GBPUSD	The pound sterling lost value against the greenback amidst broad dollar strength. We expect the cable to be driven by how the “reopening” plays out over the near-term.							
Critical levels	R2	1.4091	R1	1.4012	S1	1.3871	S2	1.3809
USDJPY	The yen weakened versus the greenback as the dollar emerged as the preferred safe-haven. BoJ yield curve targeting should put continuing downward pressure on the yen.							
Critical levels	R2	107.21	R1	106.89	S1	106.05	S2	105.53

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
03/01/21	Markit US Manufacturing PMI	Feb F	58.5	58.5	All eyes will be on the labor market data- change in non-farm payrolls, average hourly early earning and unemployment rate. Markets expect improvement in payrolls, which could put pressure on the bond market. Markit PMI final releases and the ISM Manufacturing and Services releases will also be important
03/01/21	ISM Manufacturing	Feb	58.6	58.7	
03/01/21	Markit US Composite PMI	Feb F	--	58.8	
03/01/21	Markit US Services PMI	Feb F	58.9	58.9	
03/01/21	ISM Services Index	Feb	58.6	58.7	
03/04/21	Initial Jobless Claims	27-Feb	755k	730k	
03/04/21	Continuing Claims	20-Feb	4300k	4419k	
03/05/21	Average Hourly Earnings YoY	Feb	5.30%	5.40%	
03/05/21	Change in Nonfarm Payrolls	Feb	180k	49k	
03/05/21	Unemployment Rate	Feb F	6.40%	6.30%	

Japan

	Indicator	Period	Expected	Prior	Comments
03/01/21	Jibun Bank Japan PMI Mfg	Feb F	--	50.6	Focus will be Jibun Bank PMI releases and consumer confidence index.
03/02/21	Jobless Rate	Jan	3.00%	2.90%	
03/03/21	Jibun Bank Japan PMI Services	Feb F	--	45.8	
03/03/21	Jibun Bank Japan PMI Composite	Feb F	--	47.6	
03/04/21	Consumer Confidence Index	Feb	29.7	29.6	

Eurozone

	Indicator	Period	Expected	Prior	Comments
03/01/21	Markit Eurozone Manufacturing PMI	Feb F	57.7	57.7	Eyes will be on the preliminary Core CPI numbers for February.
03/02/21	CPI Core YoY	Feb P	1.10%	1.40%	
03/03/21	Markit Eurozone Services PMI	Feb F	44.7	44.7	
03/03/21	Markit Eurozone Composite PMI.	Feb F	48.1	48.1	
03/03/21	PPI YoY	Jan	-0.3%	-1.10%	
03/04/21	Unemployment Rate	Jan	8.30%	8.30%	
03/04/21	Retail Sales YoY	Jan	-1.00%	0.60%	

United Kingdom

	Indicator	Period	Expected	Prior	Comments
03/01/21	Markit UK PMI Manufacturing SA	Feb F	54.9	54.9	Final print of Markit PMI will be in focus.
03/02/21	Nationwide House Px NSA YoY	Feb	5.50%	6.40%	
03/03/21	Markit/CIPS UK Services PMI	Feb F	49.7	49.7	

China and India

	Indicator	Period	Expected	Prior	Comments
02/28/21	China Manufacturing PMI	Feb	51	51.3	Attention will be on China PMI releases which is expected to show slowing economic activity. In India, PMI releases could signal improvement.
03/01/21	Caixin China PMI Mfg	Feb	51.4	51.5	
03/03/21	Caixin China PMI Composite	Feb	--	52.2	
03/03/21	Caixin China PMI Services	Feb	51.5	52	
03/01/21	Markit India PMI Mfg	Feb	--	57.7	
03/01/21	Markit India PMI Services	Feb	--	52.8	

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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