The Weekly Market View

February 07 2021

ADCB ASSET MANAGEMENT LIMITED

From pullback to new highs

Market frenzy over the retail stock trading and Gamestop mania abated and attention moved to fiscal progress and vaccine rollout. Risk sentiment turned positive with the hopes of fiscal stimulus and progress on vaccine distribution. The US senate moved forward with the fiscal relief bill worth USD1.9trn proposed by Biden administration, triggering a return of the reflation trade. The optimism on fiscal progress overshadowed softer-than-expected US payrolls data. However, more recent measure- initial jobless claims declined more than expected, dropping to the lowest level since November. ISM services data also surprised on the upside, reaching the highest level since 2019. Equity markets recorded their best week in three months. EMs outperformed DMs thanks to strong gains in BRICS and Taiwan markets, of course led by India. Within DM, strong performance from Nasdaq helped US equities outperform. UK markets underperformed the most, but delivered positive returns for the week. The 10yr UST yields surged higher, driven by the fiscal progress, positive economic data and vaccine progress. The 30-5yr UST curve steepened to the widest level since 2015. European core bonds sold off with better-than expected Eurozone GDP data. The dollar rallied to a two-month high on hopes of US economic recovery outpacing global peers. Gold, as a result, recorded weekly loss. On the other hand, crude oil prices jumped to their highest level in a year, driven by unexpected reduction in US reserves.

Too fast too soon?

Inflation and strong economic recovery prospects have pushed the long-term USTs to the highest levels since March 2020 while inflation expectations jumped past their long-term averages. With the actual inflation numbers yet to catch-up with the market, inflation expectations have run far ahead too fast too soon and we expect some consolidation is likely, especially if the actual inflation disappoints. The term premium- extra premium to hold long-term bonds - has reached the highest level since 2018. With the Fed unlikely to make any policy changes this year, any sharp move higher in UST yields will draw investors back into US Treasuries. Meanwhile, signs of sluggishness in corporate bond market is evident with the US IG and US HY spreads ending January almost unchanged. Selectivity remains key with a bottom-up approach recommended. Based on corporate spreads distribution by ratings, BB and the BBB rated bonds in the US credit appear attractive. On the other hand, EM bond spreads look cheap versus the US credit, especially versus US HY. However, slow vaccine distribution pose risks to growth returning to normal levels. Further, dollar strength resurfacing with US recovery prospects looking better than global peers, could slow down the performance of EM USD sovereign bonds. In fact, EM USD bonds have underperformed other EM assets in January. As a result, a selective bias is recommended with our overweight stance on Asia IG and selective preference for high-quality GCC markets, Russia and Brazil bonds.

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Global markets' performance snapshot

Index Snapshot (World Indices)

Index	Latest	Weekly %	YTD %
S&P 500	3,887	4.6	3.5
Dow Jones	31,148	3.9	1.8
Nasdaq	13,856	6.0	7.5
DAX	14,057	4.6	2.5
Nikkei 225	28,647	4.0	4.9
FTSE 100	6,489	1.3	0.4
Sensex	50,732	9.6	6.2
Hang Seng	29,289	3.6	7.6
Regional Markets (Sunday to Thursday)			
ADX	5,664	0.4	12.3
DFM	2,671	-1.0	7.2
Tadawul	8,618	-2.1	-0.8
DSM	10,431	-1.1	-0.0
MSM30	3,606	-1.2	-1.4
BHSE	1,461	0.3	-1.9
KWSE	5,694	-0.9	2.7
MSCI			
MSCI World	2,758	4.2	3.1
MSCI EM	1,388	4.9	8.1

Global Commodities, Currencies and Rates

Commodity	Latest	Weekly %	YTD %
ICE Brent USD/bbl	59.3	6.2	14.6
Nymex WTI USD/bbl	56.9	8.9	17.2
Gold USD/t oz	1,814.1	-1.8	-4.4
Silver USD/t oz	26.9	-0.2	2.0
Platinum USD/t oz	1,128.9	4.7	5.3
Copper USD/MT	7,833.5	0.8	2.5
Alluminium	1,987.4	2.0	1.7
Currencies			
EUR USD	1.20	-0.7	-1.4
GBP USD	1.37	0.2	0.5
USD JPY	105.39	0.7	2.0
CHF USD	0.90	1.0	-1.5
Rates			
USD Libor 3m	0.19	-4.6	-19.2
USD Libor 12m	0.31	-1.6	-10.5
UAE Eibor 3m	0.35	-11.8	-30.9
UAE Eibor 12m	0.59	8.8	-9.8
US 3m Bills	0.02	-57.9	-65.2
US 10yr Treasury	1.16	9.2	27.4

Summary market outlook

Global Yields	The 10yr UST yields surged higher, driven by the fiscal progress, positive economic data and vaccine progress. The 30-5yr UST curve steepened to the widest level since 2015. European core bonds sold off with better-than expected Eurozone GDP data. We maintain our overweight stance on long-dated USTs as Fed's status quo on monetary policy will prevent yields to rise significantly from current levels.
Stress and Risk Indicators	The VIX index retraced from their three month high with the market frenzy over retail trading abating over the week. We expect the VIX index to see some continuing volatility, but then to stabilize over the next weeks and months.
Equity Markets	
Local Equity Markets	GCC equity markets underperformed broader equity benchmarks despite a strong rise in oil prices as virus/vaccine related concerns resurfaced. All major regional markets, with the exception of Abu Dhabi, suffered losses over the past week. 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	Strong equity market gains of last week were the best in three months. EMs outperformed DMs thanks to strong gains in BRICS and Taiwan markets, of course led by India. Within DM, strong performance from Nasdaq helped US equities outperform. UK markets underperformed the most, but delivered positive returns for the week. 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 recorded losses as the US dollar continued to strengthen. We remain overweight gold as a risk hedge against ongoing political risks.
Energy	Oil prices jumped to the highest level in one year due to unexpected drawdown of US reserves. Overall, we believe that oil prices are likely to remain sustained as the market is roughly balanced.
Industrial Metals	Industrial metals performed well amidst the risk-on rally. We do not recommend industrial metals exposure as China structurally reigns in demand.

Currencies								
EURUSD	The euro depreciated against the USD with rising hopes of faster economic recovery in the US. We expect the euro to remain stable.							
Critical levels	R2	1.2114	R1	1.2080	S1	1.1982	S2	1.1918
GBPUSD	The pound sterling was relatively unchanged versus the dollar, as the BoE anticipated a rapid economic rebound with the vaccine rollout. We expect Cable to be stable with Pound sterling likely to follow the euro rather than USD.							
Critical levels	R2	1.3790	R1	1.3762	S1	1.3685	S2	1.3636
USDJPY	JPY depreciated against the USD, driven by the risk-on rally. BoJ yield curve targeting should put continuing downward pressure on the yen.							
Critical levels	R2	105.93	R1	105.66	S1	105.23	S2	105.07

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
02/10/21	MBA Mortgage Applications	Feb-5	-	8.1%	Markets will get a reality check of actual inflation data. Expectation is for headline CPI to rise slightly to 1.5% while core CPI is expected to ease on a yoy basis. In addition, after last week's upbeat weekly claims, markets will be keen to watch if there is a trend emerging. .
02/10/21	**CPI MoM**	**Jan**	**0.40%**	**0.40%**	
02/10/21	**CPI Ex Food and Energy MoM**	**Jan**	**0.20%**	**0.10%**	
02/10/21	**CPI YoY**	**Jan**	**1.50%**	**1.40%**	
02/10/21	**CPI Ex Food and Energy YoY**	**Jan**	**1.50%**	**1.60%**	
02/10/21	Real Avg Hourly Earning YoY	Jan	--	3.70%	
02/11/21	**Initial Jobless Claims**	**Feb-6**	**-**	**-**	
02/11/21	Continuing Claims	Jan-30	-	-	
02/12/21	Univ. of Mich. Sentiment	Feb P	80.8	79	

Japan

	Indicator	Period	Expected	Prior	Comments
02/08/21	**Eco Watchers Survey Current SA**	**Jan**	**--**	**35.5**	Economic Watchers survey results will be closely watched by the markets.
02/08/21	**Eco Watchers Survey Outlook SA**	**Jan**	**--**	**37.1**	
02/09/21	Money Stock M2 YoY	Jan	9.3%	9.2%	
02/09/21	Machine Tool Orders YoY	Jan	--	9.9%	
02/10/21	**PPI YoY**	**Jan**	**-1.6%**	**-2.0%**	

Eurozone

	Indicator	Period	Expected	Prior	Comments
02/11/21	**European Commission publishes Economic Forecasts**	**Dec**	**--**	**--**	Focus will be on European Commission releasing their economic forecasts for the region. Industrial Production data will also be important.
02/12/21	Industrial Production SA MoM	Dec	--	2.50%	
02/12/21	**Industrial Production WDA YoY**	**Dec**	**--**	**-0.60%**	

United Kingdom

	Indicator	Period	Expected	Prior	Comments
02/10/21	Industrial Production YoY	Dec	--	-4.70%	The 4Q GDP will be the main focus. With new lockdowns and restrictions, a modest contraction is expected in Q4.
02/10/21	Manufacturing Production YoY	Dec	--	-3.80%	
02/10/21	GDP QoQ	4Q P	--	16.00%	
02/10/21	**GDP YoY**	**4Q P**	**--**	**-8.60%**	

China and India

	Indicator	Period	Expected	Prior	Comments
02/07/21	**Foreign Reserves (CH)**	**Jan**	**$3223b**	**$3217b**	Focus will be on the inflation data in China and India with price pressures expected to decline further in January.
This week	Aggregate Financing CNY (CH)	Jan	4700b	1719b	
This week	New Yuan Loans CNY (CH)	Jan	3500b	1255.2b	
This week	Money Supply M2 YoY (CH)	Jan	10.10%	10.10%	
02/10/21	**CPI YoY (CH)**	**Jan**	**-0.2%**	**0.20%**	
02/12/21	Industrial Production YoY (IN)	Dec	-0.5%	-1.90%	
02/12/21	**CPI YoY (IN)**	**Jan**	**4.40%**	**4.59%**	

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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