The Weekly Market View

July 25 2022

بنك أبوظبي التجاري
ADCB
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Cooling off..

Growth took the front-seat as markets digested disappointing economic releases, softening inflation pressures, decline in oil prices and bond yields against aggressive global central bank action. In the US, weekly jobless claims rose to the highest level in eight months. The preliminary US Manufacturing PMI failed to meet market expectations. More importantly, July preliminary US Services PMI disappointed and unexpectedly fell into contraction territory. In the Eurozone, the ECB raised rates by 50bp, delivering its first rate hike in eleven years. The central bank also announced its new- anti-fragmentation tool- Transmission Protection Instrument- a new bond buying measure to support bond markets most vulnerable to increased market volatility. Amidst the ECB rate hike, the preliminary Eurozone Manufacturing PMI fell into the contractionary zone, while Eurozone Services PMI declined, but remained in the expansionary territory. Separately, PM Mario Draghi resigned last week, adding to political uncertainty in Italy with the election scheduled on September 25. In the UK, inflation reached a new 40-year high of 9.4%. Elsewhere, the BoJ maintained its accommodative policy stance, sticking to the yield-curve control policy. Global equity markets advanced, rising by 3.2%. EM equities also recorded gains, but underperformed DM peers. In DM equities, Japan was the best performer while UK underperformed. In the US, the NASDAQ led the rally, rising by 3.3%. In fixed income, UST yields declined on the back of weak services activity PMI. Core Eurozone bond yields declined, despite the ECB rate hike, as the disappointing PMI releases raised growth concerns. The Italy-German yield spreads also stabilized after widening on the back of increased political uncertainty in Italy. In commodities, Brent crude recorded weekly gains while WTI posted losses but oil markets remained volatile on the threat to the demand outlook due to rising recession concerns. Gold prices registered weekly gain, benefitting from its safe-haven status. In currency, broad USD weakness was evident. The euro moved away from the dollar parity, with the ECB delivering bumper rate hike.

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..but still feeling the heat!

Growth, inflation, bond yields and commodities may be showing signs of cooling. Nevertheless, global central banks remain on the hot seat of tightening monetary policy with the ECB being the latest one to join the "hiking" club. Bond markets, as usual are ahead in pricing these growth risks, with UST yields declining across the curve since the last Fed meeting. Inversions have been evident at certain segments of the UST yield curve. The 10-2yr yield spread, a credible measure of historical economic downturns, is now deep into the negative territory, the most negative since 2000. However, the Fed indicated in March 2022 that is looking at the extreme short-end of the yield curve. The preferred measure- 10yr-3-month yield spread and more near-term measure, the 18-month forward-3 month yield spread both are flashing signs of concern. The 10yr-3-month yield spread could possibly invert if the Fed delivers another 75bp rate hike this week (as expected) and more economic indicators point to deteriorating growth outlook. Rising recession risks is a reason why market pricing has started to include a possible rate cut in the first half of 2023. Amidst these concerns, we continue to advocate our overweight stance on USTs. Dimming growth outlook was also the rationale behind adding duration on USTs (7-10yr segment) recently. However, we remain neutral on US IG –despite it being a long-duration asset. We prefer sticking to high quality within IG with a preference for AA rated bonds and recommend a short-duration stance here. Long-dated US IG bonds have outperformed the intermediate counterpart. We also prefer US IG Financials despite their outperformance this year, as the sector holds relatively lower duration in the IG Index. For detailed discussion and our positioning, see Q3 2022 Outlook: Delayed, not derailed, July 2022.

Global markets' performance snapshot*

Index Snapshot (World Indices)*

Index	Latest	Weekly %	YTD %
S&P 500	3,962	2.5	-16.9
Dow Jones	31,899	2.0	-12.2
Nasdaq	11,834	3.3	-24.4
DAX	13,254	3.0	-16.9
Nikkei 225	27,915	4.2	-3.8
FTSE 100	7,276	1.6	-1.8
Sensex	56,072	4.3	-4.5
Hang Seng	24,209	1.5	-12.3
Regional Markets			
ADX	9,662	4.5	13.2
DFM	3,257	3.1	1.7
Tadawul**	11,988	7.4	5.6
DSM**	12,709	7.1	9.7
MSM30**	4,291	3.6	4.5
BHSE**	1,873	1.3	5.0
KWSE**	7,671	4.2	8.7
MSCI			
MSCI World	2,664	3.2	-18.0
MSCI EM	991	3.0	-19.6

Global Commodities, Currencies and Rates*

Commodity	Latest	Weekly %	YTD %
ICE Brent USD/bbl	103.2	2.0	31.6
Nymex WTI USD/bbl	94.7	-3.0	24.7
Gold USD/t oz	1,727.6	1.1	-5.6
Silver USD/t oz	18.6	-0.6	-20.1
Platinum USD/t oz	876.8	3.0	-9.5
Copper USD/MT	7,372.0	5.3	-23.9
Alluminium	2,481.8	6.7	-11.5
Currencies			
EUR USD	1.02	1.3	-10.4
GBP USD	1.20	1.2	-11.5
USD JPY	136.12	-1.8	15.6
USD CHF	0.96	-1.5	5.4
Rates	**Latest**	**Weekly (bp)**	**YTD(bp)**
USD Libor 3m	2.77	2.9	255.7
USD Libor 12m	3.81	-8.2	323.1
UAE Eibor 3m	2.51	29.2	214.5
UAE Eibor 12m	3.42	-6.9	268.4
US 3m Bills	2.38	9.0	234.8
US 10yr Treasury	2.75	-16.5	124.0

Notes: *Data as of July 22 2022 unless stated otherwise; **Data as of July 21 2022

Summary market outlook

Global Yields	10yr UST yields fell during the week on the back of weak services PMI print. **Bond yields and prices are inversely correlated. i.e. when bond yields fall, prices rise and vice versa.** This has caused the 10Y-2Y yield differential to turn negative and to fall to the lowest since 2000. While the 10Y-3M spread is still positive, last week saw a significant flattening in that segment. This yield curve dynamic has increased recession fears. Core Eurozone bond yields fell on growth concerns. Italian government bonds yields rose on increased political uncertainty after PM Mario Draghi resigned. Overall, we recommend adding duration on USTs (we now focus on the 7-10Y segment) as growth slowdown/recession fears rise.
Stress and Risk Indicators	VIX index, a measure of implied volatility in equities, fell during the week as equity markets rallied. VVIX, a measure of volatility in the VIX, dropped to the lowest level in almost three years. SKEW index, a measure of tail risks, fell to the lowest level since March 2020 mid-week, but stabilized in the second half of the week. MOVE index, a measure of implied volatility in bonds, declined further during the week. We expect financial market volatility to stay elevated as the monetary policy normalizes.
Equity Markets	
Local Equity Markets	GCC equity markets recorded weekly gains. Saudi Arabia was the best performer. Bahrain recorded the lowest positive return. With last week's performance, year-to-date return in all GCC equity markets have returned to the positive territory. 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 years are all balanced by lack of structural growth plays in the equity markets.
Global Equity Markets	Global equities rallied last week with the MSCI ACWI gaining 3.2%. EM underperformed DM, despite registering positive returns. In DM, Japan was the best performer while UK was the worst performer. 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	HK tech index gained c3.5% over the week. Within technology, we prefer non-cyclical growth over cyclical growth (tech hardware, semiconductors etc.) over a 12-month horizon.
Commodities	
Precious Metals	Gold prices rose over the week, benefitting from safe-haven demand amidst rising growth concerns and broad dollar weakness. We are overweight gold as a hedge against potential inflation, growth, and geopolitical risks.
Energy	Brent Crude recorded weekly gains while WTI posted losses last week. Overall, oil markets remained volatile as markets assessed the impact on the demand outlook with the rising growth fears. 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 jumped over the week. Another commodity super-cycle is difficult, yet demand for commodities linked to "green infrastructure" is likely to sustain.
Currencies	
EURUSD	EUR moved away from the parity as the ECB delivered larger-than-indicated rate hike of 50bp. We expect ECB policy divergence to play a major role in the performance of the euro.
Critical levels	R2 1.0399 · R1 1.0306 · S1 1.0092 · S2 0.9971
GBPUSD	GBP strengthened amidst broad dollar weakness. We expect GBP to weaken against USD and stay flat versus the EUR.
Critical levels	R2 1.2178 · R1 1.2089 · S1 1.1885 · S2 1.177
USDJPY	USDJPY fell as disappointed economic data dimmed US growth outlook. BoJ policy remains odd-one out and is likely to cause JPY weakness.
Critical levels	R2 140.16 · R1 138.14 · S1 134.83 · S2 133.54

Forthcoming important economic data/events

United States

Date & Time (GST)	Indicator	Period	Expected	Prior
07/25/22 16:30	Chicago Fed Nat Activity Index	Jun	--	0.01
07/26/22 18:00	Richmond Fed Manufact. Index	Jul	--	-11
07/26/22 18:00	Conf. Board Expectations	Jul	--	66.4
07/26/22 18:00	New Home Sales	Jun	675K	696K
07/27/22 15:00	**MBA Mortgage Applications**	**22-Jul**	**--**	**-6.30%**
07/27/22 16:30	Wholesale Inventories MoM	Jun P	--	1.80%
07/27/22 16:30	Durable Goods Orders	Jun P	-0.30%	0.80%
07/27/22 22:00	**FOMC Rate Decision**	**27- Jul**		
07/28/22 16:30	**GDP Annualized QoQ**	**2Q A**	**0.80%**	**-1.60%**
07/28/22 16:30	Personal Consumption	2Q A	--	1.80%
07/28/22 16:30	**Initial Jobless Claims**	**23- Jul**	**250K**	**251K**
07/28/22 16:30	Continuing Claims	16- Jul	1380K	1384K
07/28/22 16:30	Kansas City Fed Manf. Activity	Jul	4	12
07/29/22 16:30	**Personal Income**	**Jun**	**0.50%**	**0.50%**
07/29/22 16:30	**Personal Spending**	**Jun**	**0.90%**	**0.20%**
07/29/22 16:30	PCE Deflator YoY	Jun	--	6.30%
07/29/22 16:30	PCE Core Deflator YoY	Jun	4.80%	4.70%
07/29/22 18:00	**U. of Mich. Sentiment**	**Jul F**	**51.1**	**51.1**
07/29/22 18:00	**U. of Mich. 1 Yr Inflation**	**Jul F**	**--**	**5.20%**
07/29/22 18:00	**U. of Mich. 5-10 Yr Inflation**	**Jul F**	**--**	**2.80%**

Japan

Date & Time (GST)	Indicator	Period	Expected	Prior
07/29/22 03:30	**Tokyo CPI YoY**	**Jul**	**2.40%**	**2.30%**
07/29/22 03:30	**Tokyo CPI Ex-Fresh Food YoY**	**Jul**	**2.20%**	**2.10%**
07/29/22 03:30	Jobless Rate	Jun	2.50%	2.60%
07/29/22 03:50	**Retail Sales YoY**	**Jun**	**3.00%**	**3.60%**
07/29/22 03:50	**Industrial Production MoM**	**Jun P**	**4.20%**	**-7.50%**
07/29/22 09:00	Annualized Housing Starts	Jun	0.845m	0.828m

Eurozone

Date & Time (GST)	Indicator	Period	Expected	Prior
07/27/22 08/02	Germany Retail Sales MoM	Jun	0.50%	0.60%
07/28/22 10:45	France PPI YoY	Jun	--	27.30%
07/28/22 13:00	**Eurozone Economic Confidence**	**Jul**	**102**	**104**
07/28/22 13:00	Eurozone Consumer Confidence	Jul F	--	-27
07/28/22 16:00	**Germany CPI YoY**	**Jul P**	**7.40%**	**7.60%**
07/29/22 10:45	**France CPI YoY**	**Jul P**	**6.00%**	**5.80%**
07/29/22 13:00	**Eurozone GDP SA QoQ**	**2Q A**	**0.20%**	**0.60%**

United Kingdom

Date & Time (GST)	Indicator	Period	Expected	Prior
07/29/22 12:00	Mortgage Approvals	Jun	65.0	66.2K
07/29/22 12:00	M4 Money Supply YoY	Jun	--	5.10%

China and India

Date & Time (GST)	Indicator	Period	Expected	Prior
07/27/22 05:30	China Industrial Profits YTD YoY	Jun	--	1.00%
07/31/22 05:30	**China Manufacturing PMI**	**Jul**	**--**	**50.2**
07/31/22 05:30	**China Non-manufacturing PMI**	**Jul**	**--**	**54.7**

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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