The Weekly Market View

July 31 2023

بنك أبوظبي التجاري
ADCB
ASSET MANAGEMENT LIMITED

Soft landing hopes

Global risk sentiment improved on soft landing prospects with DM central banks signaling that monetary policy tightening may be closing to its end while economic data showed growth resilience. It was an important week with three central bank meetings- Fed, ECB and the BoJ. Starting with the US, the Fed raised interest rates by 25bp as expected, taking the fed funds rate to 5.25% to 5.50%. Fed Chair Jay Powell indicated that the Fed will remain data dependent and could raise rates or keep them steady at the next September meeting. Similarly, the ECB raised interest rates by 25bp as expected but ECB President Christine Lagarde hinted that the central bank was open to a pause on the back of rising slowdown risks. Finally, Bank of Japan kept the policy rates unchanged but surprised the markets with an announcement that it would bring more flexibility to its existing yield curve control (YCC) policy. The BoJ will continue to allow 10Y JGB yield to move around target range of +/-50bp around 0.00% level, but will call the upper and lower bounds as reference points rather than limits and will offer to buy 10yr JGBs at 1% through fixed-rate purchase operations. Governor Ueda stressed that this slight policy tweak was introduced to enhance sustainability and better management of future risks but maintained the stance on the need for monetary policy easing. In economic data, US 2Q 23 GDP print came in at 2.4% y-o-y, beating market expectations and higher than the previous quarter number. Conference Board's consumer confidence index was upbeat. However, in Eurozone and the UK, preliminary composite PMI surveys showed contraction. In inflation, Fed's preferred gauge of inflation- core PCE declined more than expected in June, rising 4.1% y-o-y in June versus 4.6% y-o-y in May. Finally, in China, the Communist Party's Politburo, China's top decision-making body led by President Xi Jinping, vowed to further boost stimulus, though no specific policy measures were disclosed. Digesting the central bank moves and economic data resilience, global equity markets rallied last week, DM bond yields jumped led by US Treasuries, USD strengthened versus peers while oil prices recorded fifth consecutive week of gains.

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

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

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

Ahmed Al Falahi
Analyst
Tel: +971 (0)2 497 3934
ahmed.a5@adcb.com

Visit Investment Strategy Webpage to read our other reports

This is it?

The Fed and the ECB concluded their last meeting before the summer break leaving one question in the mind of market participants and investors- Is this the last rate hike of the tightening cycle? The market believes so, with markets paring back expectations of another rate hike at the next meeting in September. In our opinion, may be or may be not but we are definitely in the final leg of monetary policy tightening. On one side of the argument is the encouraging signs in favour of a pause with the evidence of inflation inching lower. On the other side, we still have key economic data releases including two US inflation reports and two US labour market reports from now until the September meeting which could still determine the future rate trajectory. In summary, we believe that the Fed, in particular, may be done with rate hikes but the risk of another 25bp rate hike still remain. On the other hand, continuing evidence of strong growth resilience, particularly out of US, should push back the possibility of rate cut. The uncertainty about the timing of a rate cut could continue to remain a source of volatility for the bond markets. As such, we remain underweight on fixed income and maintain our underweight stance on DM treasuries. Long-duration assets including US Treasuries and US IG bonds came under pressure in July. We wait to add exposure to long-duration fixed income assets once there is clarity over the last Fed rate hike of the cycle and whether the Fed has entered a pause mode. Our historical analysis of the previous five Fed tightening cycles shows that the Global corporate IG and US IG were the best performers in the periods 1-month to 12-months post the last Fed rate hike. However, given the risks of another rate hike tilted higher than the pause, we maintain our neutral stance on DM IG corporate, underweight on US HY and overweight on EM LCY. Meanwhile, EM LCY bonds were the best performers in July as China eased monetary policy and many EM central banks took a dovish tilt.

Global markets' performance snapshot

Index Snapshot (World Indices)*

Index	Latest	Weekly %	YTD %
S&P 500	4,582	1.01	19.34
Dow Jones	35,459	0.66	6.98
Nasdaq	14,317	2.02	36.79
DAX	16,470	1.81	18.29
Nikkei 225	32,759	1.41	27.47
FTSE 100	7,694	0.40	3.25
Sensex	66,160	-0.79	8.74
Hang Seng	19,917	4.41	2.01
Regional Markets			
ADX	9,761	1.37	-4.41
DFM	4,037	1.27	21.01
Tadawul**	11,848	0.78	12.51
DSM**	10,895	4.29	2.55
MSM30**	4,780	-0.52	-1.62
BHSE**	1,992	0.79	5.13
KWSE**	7,263	-0.77	-0.24
MSCI			
MSCI World	3,058	0.96	17.49
MSCI EM	1,043	2.82	9.08

Global Commodities, Currencies and Rates*

Commodity	Latest	Weekly %	YTD %
ICE Brent USD/bbl	85.0	4.84	-1.59
Nymex WTI USD/bbl	80.6	4.55	0.04
Gold USD/t oz	1,959.5	-0.12	7.30
Silver USD/t oz	24.3	-1.09	1.45
Platinum USD/t oz	938.6	-2.82	-13.05
Copper USD/MT	8,592.0	2.02	2.44
Alluminium	2,197.5	0.94	-6.47
Currencies			
EUR USD	1.10	-0.97	2.91
GBP USD	1.29	-0.02	6.41
USD JPY	141.16	-0.40	7.44
Rates	**Latest**	**Weekly (bp)**	**YTD(bp)**
SOFR	5.31	26.00	101.00
UAE Eibor 3m	5.19	-17.14	87.86
UAE Eibor 12m	5.45	-7.51	34.73
US 3m Bills	5.41	0.78	106.58
US 10yr Treasury	3.95	11.58	7.59
German 10yr Bund	2.49	2.60	-7.40
UK 10yr Gilt	4.32	4.98	65.59

Source: Bloomberg, and ADCB Asset Management
Notes: Notes: *Data as of July 28 2023 unless stated otherwise; **Data as of July 27 2023

Summary market outlook

Global Yields	Yields on 10Y USTs rose over the week on strong US GDP print and surprise BoJ move despite the Fed signaling that it may be near the end of monetary policy tightening. Yield on 2Y UST declined and the 10-2Y UST yield curve steepened. In Eurozone, yields on 10Y German bunds also rose although at a lesser rate than UST's and UK Gilts. In the UK, 10Y Gilt yields increased. Finally, in Japan, 10YR & 2YR JGB yields jumped after the surprise BoJ policy tweak. Bond yields and prices are inversely correlated. i.e. yields rise when prices fall and vice versa. Overall, we maintain our slight duration exposure with preference for USTs (7-10Y segment) over other DM sovereigns.
Stress and Risk Indicators	VIX index (measure of implied volatility in equities) declined over the week. MOVE Index (measure of bond volatility) rose slightly over the week. We expect recession probabilities and uncertainty around the timing of the first rate cut from the Fed to feed into financial market volatility
Equity Markets	
Local Equity Markets	Most GCC equity markets rose higher, following oil prices momentum with the exception of Oman and Kuwait. Qatar was the best performer, on the back of banking sector gains. We stay neutral GCC equities within our global equity framework. Stable 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. We would look to play benchmark transformation over next years.
Global Equity Markets	Global equities rose last week on the back of positive economic data, strong earnings and signs of the DM central bank tightening closing to an end. EM outperformed DM. Within DM, Japanese equities outperformed the most in USD terms while European equities underperformed. In sectors, communication services, consumer discretionary and IT were the best performers while Utilities and Healthcare underperformed the most. We are overweight North America, and Asia Pacific; underweight EMs outside Asia and significantly underweight Europe. Our strategic preference is for large cap non-cyclical growth with focus on quality. We prefer Japanese equity exposure through local indices in local currency terms. Our other high conviction ideas include HK equities and Chinese hotels & leisure (beneficiaries of the post-pandemic reopening of the Chinese economy), and Cybersecurity and Chinese Semiconductors (play on rising deglobalisation risks and national security prominence). For long-term investors, we have identified 13 different themes to play disruptive trends in the global economy.
Technology Segments	Nasdaq-100 index rose 3.77% while HK Tech index rose 8.85% over the week.
Commodities	
Precious Metals	Precious metal prices declined with gold inching lower on the back of stronger dollar. Silver also declined while platinum took most of the hit, falling the most out of the three. Platinum is down nearly 13% so far this year. We prefer gold as a hedge against potential inflation, growth, and geopolitical risks.
Energy	Oil prices increased for a fifth straight week on improved growth prospects and tightening supply. Over the near-term to medium-term, we expect oil prices to move sideways but with significant volatility.
Industrial Metals	Industrial metal prices rose with copper rising higher than aluminium helped by positive US economic data and Chinese authorities pledging more stimulus measures. Another commodity super-cycle is difficult, yet demand for commodities linked to "green infrastructure" is likely to sustain. We prefer copper for the near-term.
Currencies	
EURUSD	The EUR weakened versus the USD. We expect euro to stabilize and record a better performance in 2023 compared to 2022.
Critical levels	R2 1.1047 · R1 1.1029 · S1 1.0999 · S2 1.0987
GBPUSD	The GBP/USD ended flat. We expect GBP to strengthen versus the USD with the BoE likely to remain the most hawkish of the lot.
Critical levels	R2 1.2878 · R1 1.2867 · S1 1.2842 · S2 1.2828
USDJPY	JPY strengthened versus the USD as the BoJ surprised with a flexibility on its YCC policy. Yen is likely to remain weak in the near-term in absence of hawkish BoJ bias, but could strengthen once the Fed takes a dovish turn.
Critical levels	R2 143.25 · R1 142.20 · S1 139.09 · S2 137.03

Forthcoming important economic data/events

United States

Date & Time (GST)	Indicator	Period	Expected	Prior
08/01/2023 17:45	**S&P Global US Manufacturing PMI**	**Jul F**	**--**	**49**
08/01/2023 18:00	**ISM Manufacturing**	**Jul**	**46.6**	**46**
08/02/2023 15:00	MBA Mortgage Applications	28-Jul	--	-1.80%
08/03/2023 16:30	Initial Jobless Claims	29-Jul	--	--
08/03/2023 16:30	Continuing Claims	22-Jul	--	--
08/03/2023 17:45	S&P Global US Services PMI	Jul F	--	52.4
08/03/2023 18:00	Factory Orders	Jun	-0.20%	0.30%
08/03/2023 18:00	Durable Goods Orders	Jun F	--	--
08/03/2023 18:00	ISM Services Index	Jul	53.3	53.9
08/04/2023 16:30	**Change in Nonfarm Payrolls**	**Jul**	**185k**	**209k**
08/04/2023 16:30	**Unemployment Rate**	**Jul**	**3.60%**	**3.60%**
08/04/2023 16:30	**Average Hourly Earnings YoY**	**Jul**	**--**	**4.40%**
08/04/2023 16:30	**Labor Force Participation Rate**	**Jul**	**--**	**62.60%**

Japan

Date & Time (GST)	Indicator	Period	Expected	Prior
08/01/2023 03:30	Jobless Rate	Jun	2.60%	2.60%
08/01/2023 03:30	Job-To-Applicant Ratio	Jun	1.32	1.31
08/01/2023 04:30	**Jibun Bank Japan PMI Mfg**	**Jul F**	**--**	**49.4**
08/02/2023 03:50	Monetary Base YoY	Jul	--	-1.00%

Eurozone

Date & Time (GST)	Indicator	Period	Expected	Prior
07/31/2023 13:00	**Eurozone GDP SA QoQ**	**2Q A**	**0.10%**	**-0.10%**
07/31/2023 13:00	**Eurozone GDP SA YoY**	**2Q A**	**0.30%**	**1.00%**
07/31/2023 13:00	Eurozone CPI Estimate YoY	Jul	5.20%	5.50%
07/31/2023 13:00	Eurozone CPI Core YoY	Jul P	--	5.50%
08/01/2023 11:50	**HCOB France Manufacturing PMI**	**Jul F**	**--**	**44.5**
08/01/2023 11:55	**HCOB Germany Manufacturing PMI**	**Jul F**	**--**	**38.8**
08/01/2023 12:00	**HCOB Eurozone Manufacturing PMI**	**Jul F**	**--**	**42.7**
08/01/2023 13:00	Eurozone Unemployment Rate	Jun	--	6.50%
08/03/2023 11:50	**HCOB France Services PMI**	**Jul F**	**--**	**47.4**
08/03/2023 11:55	**HCOB Germany Services PMI**	**Jul F**	**--**	**52**
08/03/2023 12:00	**HCOB Eurozone Services PMI**	**Jul F**	**--**	**51.1**
08/03/2023 13:00	Eurozone PPI YoY	Jun	--	-1.50%
08/04/2023 10:45	France Industrial Production MoM	Jun	--	1.20%
08/04/2023 13:00	Eurozone Retail Sales YoY	Jun	--	-2.90%

United Kingdom

Date & Time (GST)	Indicator	Period	Expected	Prior
07/31/2023 12:30	Net Consumer Credit	Jun	--	1.1b
07/31/2023 12:30	Mortgage Approvals	Jun	--	50.5k
08/01/2023 10:00	Nationwide House Px NSA YoY	Jul	-4.00%	-3.50%
08/01/2023 12:30	**S&P Global/CIPS UK Manufacturing PMI**	**Jul F**	**--**	**45**
08/03/2023 12:30	S&P Global/CIPS UK Services PMI	Jul F	--	51.5

China and India

Date & Time (GST)	Indicator	Period	Expected	Prior
07/31/2023 05:30	China Manufacturing PMI	Jul	48.9	49
07/31/2023 05:30	China Non-manufacturing PMI	Jul	53	53.2
08/01/2023 09:00	India S&P Global PMI Mfg	Jul	--	57.8

Disclaimer

ADCB Asset Management Limited ("AAML"), is a member of ADCB Group, licensed by Financial Services Regulatory Authority in Abu Dhabi Global Markets under financial services permission number 170036.

This publication is intended for general information purposes only. It should not be construed as an offer, recommendation or solicitation to purchase or dispose of any securities or to enter in any transaction or adopt any hedging, trading or investment strategy. Neither this publication nor anything contained herein shall form the basis of any contract or commitment whatsoever. Distribution of this publication does not oblige ADCB Group to enter into any transaction.

The content of this publication should not be considered as legal, regulatory, credit, tax or accounting advice. Anyone proposing to rely on or use the information contained in the publication should independently verify and check the accuracy, completeness, reliability and suitability of the information and should obtain independent and specific advice from appropriate professionals or experts regarding information contained in this publication. Investment products are not available to US persons.

Information and opinions contained herein is are based on various sources, including but not limited to public information, annual reports and statistical data that AAML considers accurate and reliable. However, AAML makes no representation or warranty as to the accuracy or completeness of any statement made in or in connection with this publication and accepts no responsibility whatsoever for any loss or damage caused by any act or omission taken as a result of the information contained in this publication. This publication is intended for customers who are either retail or professional investors.

Charts, graphs and related data or information provided in this publication are intended to serve for illustrative purposes only. The information contained in this publication is prepared as of a particular date and time and will not reflect subsequent changes in the market or changes in any other factors relevant to their determination. All statements as to future matters are not guaranteed to be accurate. AAML expressly disclaims any obligation to update or revise any forward looking statement to reflect new information, events or circumstances after the date of this publication or to reflect the occurrence of unanticipated events.

ADCB Group does and may at any time solicit or provide commercial banking, investment banking, credit, advisory or other services to the companies covered in its publications. As a result, recipients of this publication should be aware that any or all of foregoing services may at time give rise to a conflict of interest that could affect the objectivity of this publication. Opinions expressed herein may differ from opinions expressed by other businesses or affiliates of ADCB Group.

Past performance does not guarantee future results. Investment products are not bank deposits and are not guaranteed by ADCB Group. They are subject to investment risk, including possible of loss of principal amount invested. This publication may not be reproduced or circulated without ADCB Group written authority. The manner of circulation and distribution may be restricted by law or regulation in certain jurisdictions. Persons who come into possession of this document are required to inform themselves of, and to observe such restrictions. Any unauthorized use, duplication, or disclosure of this document is prohibited by law and may result in prosecution.