

The Weekly Market View

July 5 2021

Goldilocks zone

The key driver for the global markets last week was the highly anticipated June payrolls report which reinforced the “Goldilocks” market environment. The June numbers came in strong-beating market expectations after two consecutive months of job miss but not so strong to raise concerns of overheating risks. US labour market added 850K new jobs in June, exceeding market expectations and the largest increase since August. Other economic data also came in favourable. Manufacturing activity in US and Europe, released by ISM and Markit both, remained in the expansionary territory. Conference board statistics of consumer sentiment was upbeat while weekly jobless claims also fell more than expected. Overall, positive economic data surprises supported the rally in global markets. Global equities ended last week in the positive territory. EMs posted losses of c2% and underperformed DMs significantly. Within DM, US outperformed while Europe, Canada, and Japan underperformed. Sector wise, IT, healthcare, and communication services outperformed while energy, financials, and real estate underperformed. Meanwhile, 10yr UST yield dropped, mostly driven by month-end rebalancing needs but overall bond markets remain less concerned about inflation. US credit markets continued to advance. In Europe, core bond yields edged lower on concerns over the new delta variant. UK gilt yields also tracked the move lower in yields, also helped by the BoE reassurances on transitory inflation impact. The dollar advanced over the week, reaching a three month high. Gold prices ended the week almost unchanged while silver rose almost 1.5%. Brent crude prices ended the week unchanged with a delay in OPECs decision while WTI crude recorded gains. Industrial metals were mixed amidst the rise in dollar.

Striking a balance

The latest job report has reaffirmed our view that central bank communication going forward could be less hawkish compared to the June meeting. Despite the strong payroll number, there was evidence of continued slack in the job market. One of the key measures being tracked by the central bank is the employment to population ratio, which remains at 58%, more than 3% below the pre-pandemic levels. At the current rate, it could still take almost two years for the job market to return to maximum employment level. We believe that the trend in the job market in the second half of the year, both job gains and wage inflation will be key in framing the possible path of Fed’s monetary policy. With the Fed relying on “actual” prints rather than forecast, it will be more patient in lifting policy rates. As a result, aggressive rate hike pricing by the market is likely to ease. At the same time, markets have started to become way too complacent about the pricing of future inflation expectations. The trend of average wage inflation in the second half will also be key in determining the nature of inflation as there will be more clarity on the play of temporary forces including base effects and labour supply shortages. However, one thing that is becoming more certain in terms of Fed policy is the looming taper risk, details of which could be revealed in the June 16 Fed meeting minutes due to be released this week. As such, we maintain our short-duration stance on US Treasuries. On the other hand, we believe it is crucial to strike a balance through long-duration hedges. In equities, we remain overweight on long-duration trades through new economy themes in US and China, build back better themes, and quality equities. In fixed income, we have preference for US IG and EM USD sovereigns (both long-duration plays) over US HY (short-duration play).

Global markets’ performance snapshot

Index Snapshot (World Indices)			
Index	Latest	Weekly %	YTD %
S&P 500	4,352	1.7	15.9
Dow Jones	34,786	1.0	13.7
Nasdaq	14,639	1.9	13.6
DAX	15,650	0.3	14.1
Nikkei 225	28,783	-1.0	4.9
FTSE 100	7,123	-0.2	10.3
Sensex	52,485	-0.8	9.9
Hang Seng	28,310	-3.3	4.0
Regional Markets (Sunday to Thursday)			
ADX	6,899	4.9	36.7
DFM	2,817	-1.4	13.0
Tadawul	10,979	0.5	26.3
DSM	10,807	0.4	3.6
MSM30	4,079	0.8	11.5
BHSE	1,588	0.6	6.6
KWSE	6,388	-1.1	15.2
MSCI			
MSCI World	3,046	0.7	13.2
MSCI EM	1,355	-1.8	5.0

Global Commodities, Currencies and Rates

Commodity	Latest	Weekly %	YTD %
ICE Brent USD/bbl	76.2	-0.0	47.0
Nymex WTI USD/bbl	75.2	1.5	54.9
Gold USD/t oz	1,787.3	0.3	-5.9
Silver USD/t oz	26.5	1.4	0.3
Platinum USD/t oz	1,093.7	-1.5	2.0
Copper USD/MT	9,296.5	-1.4	20.1
Alluminium	2,554.5	3.1	29.1
Currencies			
EUR USD	1.19	-0.6	-2.9
GBP USD	1.38	-0.4	1.1
USD JPY	111.05	0.3	-7.0
CHF USD	0.92	0.4	-3.9
Rates			
USD Libor 3m	0.14	-5.6	-42.2
USD Libor 12m	0.24	-1.9	-28.5
UAE Eibor 3m	0.39	-4.9	-24.1
UAE Eibor 12m	0.55	37.6	-15.2
US 3m Bills	0.04	-11.8	-34.8
US 10yr Treasury	1.42	-6.6	55.9

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Summary market outlook

Global Yields 10Y UST yields continued to decline, despite the strong jobs report, driven by month-end rebalancing needs. Core Eurozone bond yields dropped on new variant concerns. UK gilt yields tracked the decline in UST yields. Overall, we recommend a lower duration stance (5Y US Treasuries) in anticipation of interest rate volatility in the near term.

Stress and Risk Indicators VIX index declined close to near pandemic lows. We think the VIX index is unlikely to fall back to the pre-pandemic levels until the virus comes fully under control.

Equity Markets

Local Equity Markets GCC equities posted gains for the week and outperformed broader EM equities. With the exception of Dubai and Kuwait, all regional markets posted gains last week. Abu Dhabi stocks rose c5% through the week riding the optimism associated with listing of one of the subsidiaries of a large conglomerate in the emirate. For entire H1 2021, Abu Dhabi stocks rose c37% and outperformed the rest of the region. Saudi equities were the second best performing GCC market with 27% return year-to-date. 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 ended the week higher at new record highs. For the asset class, gains during H1 2021 were one of the best first-half gains ever. EMs posted losses of c2% and underperformed DMs significantly. Within DM, US outperformed while Europe, Canada, and Japan underperformed. Sector wise, IT, healthcare, and communication services outperformed while energy, financials, and real estate underperformed. 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.

Technology Segments New economy/technology themes performed strongly during the week. Nasdaq-100 posted gains of c3% while US mega-cap tech (NYSE FANG+ index) rose c2%. Chinese tech came under pressure (HK Tech index down c4%) in line with broader Chinese market.

Commodities

Precious Metals Gold prices were unchanged with the dollar rebounding last week. Silver posted a weekly gain of around 1.5%. We keep our overweight in gold as a hedge against potential risks on the horizon.

Energy Brent crude prices ended the week flat ahead of the OPEC+ meeting while WTI prices rose during the week. Overall, we believe that oil prices will remain sustained as the market approaches a balance.

Industrial Metals Industrial metals were mixed amidst the dollar strength. While another commodity super-cycle appears difficult, demand for commodities linked to environmental friendly green infrastructure is likely to sustain.

Currencies

EURUSD EURUSD declined last week with the greenback hitting a three month high. We believe that movements in major currencies will be influenced by re-opening, incoming data and the policy support.

Critical levels R2 1.2438 R1 1.2151 S1 1.1693 S2 1.1522

GBPUSD The pound sterling depreciated versus the USD on concerns of the new delta variant. We expect the cable to be driven by how the re-opening plays out over the near-term and to decouple from the EUR.

Critical levels R2 1.445 R1 1.4137 S1 1.3622 S2 1.342

USDJPY USD rose further against the JPY, extending its strengthening trend of the past two months. Over the medium-term, we believe that BoJ yield curve targeting should put downward pressure on JPY.

Critical levels R2 113.52 R1 112.29 S1 109.19 S2 107.32

Note: R2, R1, S2 and S1 refer to Bloomberg calculated weekly technical resistance and support levels.

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Forthcoming important economic data/events

United States

Indicator	Period	Expected	Prior	Comments
07/06/21	Markit US Services PMI	Jun F	64.8	64.8
07/06/21	Markit US Composite PMI	Jun F	--	63.9
07/06/21	ISM Services Index	Jun	63.5	64
07/07/21	MBA Mortgage Applications	2- Jul	--	-6.90%
07/07/21	FOMC Meeting Minutes	16- Jun	--	--
07/08/21	Initial Jobless Claims	3- Jul	350K	364K
07/08/21	Continuing Claims	26- Jun	3325K	3469K
07/09/21	Wholesale Inventories MoM	May F	1.10%	1.10%

All eyes will be on FOMC meeting minutes. Focus will also be on ISM Services, MBA mortgage applications and initial jobless claims.

Japan

Indicator	Period	Expected	Prior	Comments
07/05/21	Jibun Bank PMI Composite	Jun F	--	47.8
07/06/21	Labor Cash Earnings YoY	May	2.10%	1.60%
07/07/21	Leading Index CI	May P	102.7	103.8
07/08/21	BoP Current Account Balance	May	¥1807.2b	¥1321.8b
07/09/21	Money Stock M2 YoY	Jun	6.00%	7.90%

Current account balance data will be important.

Eurozone

Indicator	Period	Expected	Prior	Comments
07/05/21	Markit Eurozone Services PMI	Jun F	58	58
07/06/21	Retail Sales YoY	May	8.20%	23.90%
07/07/21	Germany Ind. Production SA MoM	May	0.70%	-1.00%
07/07/21	Trade Balance	May	-6100m	-6244m
07/09/21	France Industrial Production MoM	May	0.80%	-0.10%
07/09/21	Eurozone Unemployment Rate	Jun	7.70%	8.20%

Eurozone PMI and unemployment rate are the main focus. Germany and France industrial production will be closely watched.

United Kingdom

Indicator	Period	Expected	Prior	Comments
07/05/21	Markit/CIPS Services PMI	Jun F	61.7	61.7
07/08/21	BoE Meeting Minutes			
07/09/21	Industrial Production MoM	May	1.40%	-1.30%
07/09/21	Manufacturing Production YoY	May	29.50%	39.70%

Attention will be on BoE meeting minutes. Industrial and Manufacturing production data are also important.

China and India

Indicator	Period	Expected	Prior	Comments
07/05/21	Caixin China PMI Composite	Jun	--	53.8
07/05/21	Caixin China PMI Services	Jun	54.9	55.1
07/05/21	Markit India PMI Services	Jun	--	46.4
07/05/21	Markit India PMI Composite	Jun	--	48.1
07/07/21	China Foreign Reserves	Jun	\$3209.50b	\$3221.80b
07/09/21	China CPI YoY	Jun	1.30%	1.30%
07/09/21	China PPI YoY	Jun	8.70%	9.00%
07/09/21	China Money Supply M2 YoY	Jun	8.20%	8.30%

All eyes will be on China June releases for foreign reserves, PMI, CPI, and PPI. In India PMI data will be watched closely.

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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