The Weekly Market View

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What's priced in, and what's not?

Over the past weeks, markets grappled with the peak growth and peak inflation narratives. Also, a perceived hawkish tone from the US Fed added to the uncertainty. Two weeks ago when the US core CPI increased at its fastest rate since 1992, markets' reaction surprised many participants. Perhaps, markets were already pricing in higher inflation and therefore, did not act much when the expectations were eventually met by the actual data (see The Weekly Market View, June 13 2021). However, markets did react to the hawkish surprise of Fed. The Federal Reserve, in its latest monetary policy meeting, acknowledged the risks of inflation uncertainty, upgraded its inflation and growth outlook forecasts, and more importantly pushed forward the forecast of the first Fed rate hike (see The Weekly Market View, June 20 2021). Last week, however, when the US President Joe Biden announced the agreement on a bipartisan infrastructure deal, markets rewarded the economic sensitive sectors which also tend to benefit from the infrastructure spending under this agreement. As a result, last week global equities hit a new all-time high after rising c2.3% – the most since mid-March. DM equities outperformed EM equities. Within DMs, US and UK outperformed in USD terms while Japan and Europe-ex-UK underperformed. 10Y UST yields increased as the core-PCE index in the US rose 3.4% y-o-y in May – fastest since 2008. Core Eurozone bond yields ended the week marginally higher. UK gilt yields, however, fell on dovish BOE reiterating its transitory view on inflation. USD strength moderated somewhat over the past week, providing some relief for commodity prices. Gold prices posted a weekly gain for the first time in four. Oil prices rose for the fifth straight week to reach the highest level since October 2018. Copper and aluminium prices rose over the week as release of reserves by China's state reserves bureau was seen lighter than expected.

Hawkish me, dovish me

Over the past few days, hawkish comments from some Fed members (like James Bullard, Raphael Bostic, and, Robert Kaplan) met the dovish comments from others (like Jerome Powell, Richard Clarida, John Williams, and Loretta Mester). This divide, to us reflects the uncertainty associated with the outlook for inflation and its potential implications for the monetary policy outlook. On this, we continue to highlight that inflation is a major risk facing financial markets this year, but persistent inflation is not a given. Many consumer surveys, forecaster surveys, and TIPS breakevens now point to a higher short-term inflation, but a long-term inflation consistent with Fed's target. Also, commodity prices started to ease (lumber, industrial commodities, and food commodities); and used car price growth moderated too. With this, many market participants recently seem to have embraced the view of a short-lived inflation, making our own "transitory camp" slightly overcrowded. In our view, whilst sustained inflation may not materialise, we think we are not out of woods when it comes to near-term inflationary overshoot, especially relative to economic growth. Yet, some recent market price action seems to imply a bit of complacency associated with inflation risks. Especially with the skew index still at its all-time high, we think contentment can prove costly. Also, peak growth, peak inflation, and peak policy accommodation are likely to remain the key macro drivers of financial markets over the next few months. Accordingly, we keep our barbell approach to counter inflation risks: with our disinflation/long-duration positions (overweight – new economy themes in US and China, build back better themes, and quality equities) hedged with inflation/short-duration positions (overweight – UK equities, gold, short-duration USTs, and energy equities).

Global markets' performance snapshot

Index Snapshot (World Indices)

Index	Latest	Weekly %	YTD %
S&P 500	4,281	2.7	14.0
Dow Jones	34,434	3.4	12.5
Nasdaq	14,360	2.4	11.4
DAX	15,608	1.0	13.8
Nikkei 225	29,066	0.4	5.9
FTSE 100	7,136	1.7	10.5
Sensex	52,925	1.1	10.8
Hang Seng	29,288	1.7	7.6
Regional Markets (Sunday to Thursday)			
ADX	6,576	-1.1	30.3
DFM	2,857	-0.2	14.7
Tadawul	10,920	0.6	25.7
DSM	10,761	0.2	3.1
MSM30	4,047	-0.8	10.6
BHSE	1,579	1.1	6.0
KWSE	6,460	1.0	16.5
MSCI			
MSCI World	3,025	2.4	12.4
MSCI EM	1,380	1.3	6.8

Global Commodities, Currencies and Rates

Commodity	Latest	Weekly %	YTD %
Brent USD/bbl	76.2	3.6	47.1
WTI USD/bbl	74.1	3.4	52.6
Gold USD/t oz	1,781.4	1.0	-6.2
Silver USD/t oz	26.1	1.2	-1.1
Platinum USD/t oz	1,110.7	6.4	3.6
Copper USD/MT	9,432.5	2.5	21.8
Alluminium	2,478.8	4.4	25.3
Currencies			
EUR USD	1.19	0.6	-2.3
GBP USD	1.39	0.5	1.5
USD JPY	110.75	0.5	-6.8
CHF USD	0.92	-0.5	-3.5
Rates			
USD Libor 3m	0.15	8.2	-38.8
USD Libor 12m	0.25	3.1	-27.6
UAE Eibor 3m	0.41	15.1	-20.2
UAE Eibor 12m	0.40	-46.2	-38.4
US 3m Bills	0.04	54.6	-26.1
US 10yr Treasury	1.52	6.0	66.9

Summary market outlook

Global Yields	10Y UST yields increased as the core-PCE index in the US rose 3.4% y-o-y in May – fastest since 2008. Core Eurozone bond yields ended the week marginally higher. UK gilt yields, however, fell on dovish BOE reiterating its transitory view on inflation. 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 retreated to its new post-pandemic lows while the SKEW index rose further to a new all-time high. 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	Despite the strong rise in oil prices, GCC equities underperformed not only their EM peers but also broader equity benchmarks. Within the region, UAE and Omani stocks posted losses. Saudi equities posted small gains. Kuwaiti equities outperformed other major markets. Abu Dhabi stock market underperformed the most as stock prices of the Emirate's largest banks came under pressure. 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.
Global Equity Markets	Global equities hit a new all-time high after rising c2.3%, most since mid-March. DMs outperformed EMs. Within DMs, US and UK outperformed in USD terms while Japan and Europe-ex-UK underperformed. Amongst EMs, EM LatAm outperformed – thanks to strong performance from Mexico. Sector wise, all 11 Global GICS sectors posted gains with energy, materials, and financials outperforming, and utilities, consumer staples, and real estate underperforming. 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	Strength in technology segments continued last week. Nasdaq-100 hit a new all-time high on Thursday before pulling back slightly on Friday. US mega-cap tech (as measured by NYSE FANG+ index) rose c5% during the week. Chinese technology segments performed strongly too with HK Tech index posting gains of c2.4%.
Commodities	
Precious Metals	Gold prices posted a weekly gain for the first time in four. Silver and platinum too posted positive returns for the week. We keep our overweight in gold as a hedge against potential risks on the horizon.
Energy	Oil prices rose for the fifth straight week to reach the highest level since October 2018. Overall, we believe that oil prices will remain sustained as the market approaches a balance.
Industrial Metals	Copper and aluminium prices rose over the week as release of reserves by China's state reserves bureau was seen relatively lighter than expected. While another commodity super-cycle appears difficult, demand for commodities linked to environmental friendly green infrastructure is likely to sustain.
Currencies	
EURUSD	EURUSD rebounded strongly last week after having fallen sharply the previous week. We believe that movements in major currencies will be influenced by re-opening, incoming data and the policy support.
Critical levels	R2 1.2434 · R1 1.2185 · S1 1.1767 · S2 1.1598
GBPUSD	Cable strengthened during first half of last week, but gave up its strength subsequently on rising COVID-19 cases in the UK and dovish BOE. 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 1.4432 · R1 1.4156 · S1 1.3695 · S2 1.3510
USDJPY	Last week 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 112.70 · R1 111.73 · S1 109.17 · S2 107.58

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
06/28/21	Dallas Fed Manf. Activity	Jun	32.5	34.9	Labour market data is the highlight this week. Market consensus expects 700k additions to non-farm payrolls in June and accordingly the unemployment rate to drop to 5.7%. Average hourly earnings are expected to have risen 3.6% in June on a year-over-year basis. Conference Board consumer confidence surveys are expected to highlight continuing improvement in the consumer sector. ISM releases are also important to watch and are expected to show enduring strong momentum in the economy.
06/29/21	FHFA House Price Index MoM	Apr	1.60%	1.40%	
06/29/21	S&P CoreLogic CS 20-City YoY NSA	Apr	14.85%	13.27%	
06/29/21	**Conf. Board Consumer Confidence**	**Jun**	**119.0**	**117.2**	
06/30/21	MBA Mortgage Applications	25-Jun	--	2.10%	
06/30/21	**ADP Employment Change**	**Jun**	**550k**	**978k**	
06/30/21	MNI Chicago PMI	Jun	70.0	75.2	
06/30/21	Pending Home Sales MoM	May	-1.00%	-4.40%	
07/01/21	Initial Jobless Claims	26-Jun	389k	411k	
07/01/21	Continuing Claims	19-Jun	3,335k	3,390k	
07/01/21	**ISM Manufacturing**	**Jun**	**61.0**	**61.2**	
07/02/21	**Change in Nonfarm Payrolls**	**Jun**	**700k**	**559k**	
07/02/21	**Unemployment Rate**	**Jun**	**5.70%**	**5.80%**	
07/02/21	**Average Hourly Earnings YoY**	**Jun**	**3.60%**	**2.00%**	
07/02/21	Factory Orders	May	1.50%	-0.60%	
07/02/21	Durable Goods Orders	May F	--	2.30%	

Japan

	Indicator	Period	Expected	Prior	Comments
06/29/21	**Jobless Rate**	**May**	**2.90%**	**2.80%**	Industrial production (IP) data for May is one of the key releases this week. IP is expected to have grown 27% year-over-year during May on favourable base effects. However, on sequential terms, IP is expected to have fallen – thanks to Japanese car manufactures halting some of their domestic plants for about a week last month due to continued global automotive chip shortages.
06/29/21	Job-To-Applicant Ratio	May	1.08	1.09	
06/29/21	**Retail Sales MoM**	**May**	**-0.70%**	**-4.50%**	
06/30/21	**Industrial Production YoY**	**May P**	**27.00%**	**15.80%**	
06/30/21	Vehicle Production YoY	Apr	--	--	
06/30/21	Housing Starts YoY	May	8.40%	7.10%	
06/30/21	Consumer Confidence Index	Jun	35.5	34.1	
07/01/21	**Tankan Large Mfg Index**	**2Q**	**16**	**5**	
07/01/21	Tankan Large Non-Mfg Index	2Q	3	-1	
07/01/21	**Jibun Bank Japan PMI Mfg**	**Jun F**	**--**	**51.5**	
07/01/21	Vehicle Sales YoY	Jun	--	30.90%	
07/02/21	Monetary Base YoY	Jun	--	22.40%	

Eurozone

	Indicator	Period	Expected	Prior	Comments
06/29/21	France Consumer Confidence	Jun	100	97	Consumer confidence, unemployment rate, price inflation (consumer, and producer), and PMI are key data releases for the bloc. Similar measures for France and Germany will also be closely watched.
06/29/21	**Eurozone Consumer Confidence**	**Jun F**	**--**	**-3.3**	
06/30/21	**Eurozone CPI MoM**	**Jun P**	**0.20%**	**0.30%**	
07/01/21	Germany Retail Sales NSA YoY	May	-1.00%	4.40%	
07/01/21	**Markit Eurozone Manufacturing**	**Jun F**	**63.1**	**63.1**	
07/01/21	**Eurozone Unemployment Rate**	**May**	**8.00%**	**8.00%**	
07/02/21	**Eurozone PPI YoY**	**May**	**9.50%**	**7.60%**	

United Kingdom

	Indicator	Period	Expected	Prior	Comments
06/29/21	Nationwide House Px NSA YoY	Jun	13.60%	10.90%	House prices, GDP, and PMI are key releases this week. House prices are expected to have risen further during June, albeit slowly.
06/29/21	Mortgage Approvals	May	85.8k	86.9k	
06/30/21	GDP YoY	1Q F	-6.10%	-6.10%	
07/01/21	**Markit UK PMI Manufacturing SA**	**Jun F**	**64.2**	**64.2**	

China and India

	Indicator	Period	Expected	Prior	Comments
06/30/21	**China NBS Non-manufacturing PMI**	**Jun**	**55.5**	**55.2**	China NBS PMI is expected to show accelerating expansion in non-manufacturing sector.
06/30/21	**China NBS Manufacturing PMI**	**Jun**	**50.8**	**51.0**	
07/01/21	Caixin China PMI Mfg	Jun	51.9	52.0	
07/01/21	Markit India PMI Mfg	Jun	--	50.8	

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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