The Weekly Market View

June 7 2021

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Not so great, not so terrible

Tussling between strong pace of recovery and higher inflation pressures, second consecutive month of job miss proved to be a sigh of relief for those fearing inflation. US non-farm payrolls report showed that 559k new jobs were added, lower than expectation, as many employers cited labour shortage concerns. The job miss- while not triggering concerns on recovery- did bring some calm for the markets as the modest growth in payroll pared back early taper concerns and raised hopes of longer easy monetary policy conditions. Global equity markets experienced volatility over the week but ended the week with gains, helped by the jobs report. EM stocks outperformed their DM counterparts. Sector-wise, energy, real estate, and materials outperformed while healthcare, utilities, and communication services underperformed. In the fixed income market, long-term US Treasury yields were volatile, jumping to 1.62% mid-week but then settling at 1.56% in reaction to job miss. US IG bonds were well supported after the Fed announced to begin selling the corporate bonds ETF. In Europe, both core and periphery bond yields edged lower as ECB taper expectations pared back ahead of the June 10 meeting. In the currency market, the US dollar also had a volatile week, ending slightly stronger compared to the major currencies. In the commodities market, gold prices came under pressure amidst relatively stronger dollar bias. Industrial metals were weak on the back of disappointing China PMI release. Oil prices, on the other hand, continued to rise, driven by the demand outlook for the second half of the year.

EM USD sovereign bonds: slow and steady

Inflation concerns have been building in the emerging markets. Similar to the trend in developed markets, the recent rise in EM inflation is likely to be transient in nature. However, in certain EMs, there remains a risk for these transitory forces to start having second round effects. Some EM central banks like Brazil and Russia took pre-emptive measures by tightening their monetary policy. However, majority of EM central banks have been avoiding rate hikes as they struggle to address growth concerns with rampant virus cases. Hence, it is not surprising that the EM local currency bonds have performed well, outperforming EM USD sovereign bonds, in absence of an aggressively tight monetary policy coupled with overall weaker dollar bias this year. While vaccine progress has been slow and EM economies face uneven economic recovery, if the upcoming inflation pressures strengthen further, EM central banks will be compelled to become aggressive in normalising monetary policy. In fact, many EM central banks could rapidly begin to tighten monetary policy, especially when and if the Fed rings the "taper" bell. In such a scenario, EM local currency bonds will become more vulnerable. As a result, we believe that the recent underperformance of EM USD sovereign bonds is unlikely to continue. Current EM USD sovereign bond valuations look attractive on a risk-adjusted basis when compared to their peers including US HY spreads. In fact, the rally in US HY has also started showing signs of slowing while there is evidence of interest returning to EM USD sovereign bonds. We maintain our neutral stance on EM USD sovereign bonds compared to our underweight stance on US HY. Within EM USD sovereigns, valuations look attractive in BBB and BB segment. We maintain our preference for high-quality GCC, Russia and Brazil bonds (Q2 2021 Outlook: A balancing act, April 2021)

Global markets' performance snapshot

Index Snapshot (World Indices)

Index	Latest	Weekly %	YTD %
S&P 500	4,230	0.6	12.6
Dow Jones	34,756	0.7	13.6
Nasdaq	13,814	0.5	7.2
DAX	15,693	1.1	14.4
Nikkei 225	28,946	-0.7	5.5
FTSE 100	7,069	0.7	9.4
Sensex	52,100	1.3	9.1
Hang Seng	28,918	-0.7	6.2
Regional Markets (Sunday to Thursday)			
ADX	6,606	0.9	30.9
DFM	2,824	0.3	13.3
Tadawul	10,698	1.7	23.1
DSM	10,754	-0.1	3.1
MSM30	3,933	2.6	7.5
BHSE	1,538	0.4	3.3
KWSE	6,251	0.8	12.8
MSCI			
MSCI World	2,973	0.6	11.4
MSCI EM	1,384	1.5	7.0

Global Commodities, Currencies and Rates

Commodity	Latest	Weekly %	YTD %
ICE Brent USD/bbl	71.9	3.2	38.8
Nymex WTI USD/bbl	69.6	5.0	43.5
Gold USD/t oz	1,891.6	-0.6	-0.1
Silver USD/t oz	27.8	-0.5	5.5
Platinum USD/t oz	1,169.3	-1.3	9.2
Copper USD/MT	9,967.0	-3.0	27.3
Alluminium	2,389.6	-0.7	23.7
Currencies			
EUR USD	1.22	-0.2	-0.5
GBP USD	1.42	-0.2	3.7
USD JPY	109.52	-0.3	5.7
CHF USD	0.90	-0.1	-1.6
Rates	**Latest**	**Weekly (bp)**	**YTD(bp)**
USD Libor 3m	0.13	-0.1	-10.8
USD Libor 12m	0.25	-0.3	-9.6
UAE Eibor 3m	0.47	4.3	-4.5
UAE Eibor 12m	0.52	-5.4	-13.8
US 3m Bills	0.01	1.0	-4.6
US 10yr Treasury	1.55	-4.1	64.0

Source: Bloomberg, ADCB Asset Management

Summary market outlook

Global Yields	10Y UST yields were volatile but ended the week lower in reaction to the second job miss. US IG bonds performed well even with the Fed announcing the selling of corporate bond ETFs. In Eurozone, core bond yields edged lower over the week. 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 again declined near the lowest levels since Feb 2020. 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 equity markets performed strongly in absolute terms but underperformed broader EM index marginally. With the exception of Qatar, which registered small losses, all major regional markets posted gains. Saudi equity market performed strongly in line with a strong rise in oil prices last week. Building momentum in non-oil private sectors in both Saudi Arabia and UAE provided a positive environment. 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 equity markets ended the volatile week with gains. EMs outperformed DMs. Within EMs, cyclical segments – like LatAm and EMEA – outperformed. Sector-wise, energy, real estate, and materials outperformed while healthcare, utilities, and communication services 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	HK tech index outperformed broader equity benchmark last week despite President Biden signing an executive order prohibiting US investment in 59 Chinese entities. NYSE FANG+ index too delivered positive return and outperformed. Nasdaq-100, albeit positing gains, unperformed broader equity index.
Commodities	
Precious Metals	Precious metals came under pressure with the signs of dollar strength. We keep our overweight in gold as a hedge against potential risks on the horizon.
Energy	Oil prices rose for the second week in a row on the back of improving global demand recovery in the second half of the year. Overall, we believe that oil prices are likely to remain sustained as the market approaches a balance.
Industrial Metals	Industrial prices slipped last week as China PMI data disappointed. While another commodity super-cycle appears difficult, demand for commodities linked to environmental friendly green infrastructure is likely to sustain.
Currencies	
EURUSD	The euro weakened slightly versus the dollar last week. Movements in major currencies are likely to be influenced by how re-opening of the economies, and the policy support unfold.
Critical levels	R2 1.2325 · R1 1.2246 · S1 1.2096 · S2 1.2025
GBPUSD	The pound sterling was weaker versus the dollar last week. 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 1.4328 · R1 1.4242 · S1 1.4077 · S2 1.3998
USDJPY	The Japanese yen slightly strengthened versus the dollar. Over the medium-term, we believe that BoJ yield curve targeting should put downward pressure on JPY.
Critical levels	R2 110.73 · R1 110.12 · S1 109.12 · S2 108.73

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
06/08/21	Trade Balance	Apr	-$68.5b	-$74.4b	Focus will be on inflation releases. Trade balance. MBA mortgage, and initial jobless will also be important.
06/09/21	MBA Mortgage Applications	4-June	--	-4.00%	
06/09/21	Wholesale Inventories MoM	Apr F	0.80%	0.80%	
06/10/21	CPI Ex Food and Energy MoM	May	0.40%	0.90%	
06/10/21	CPI YoY	29-May	4.70%	4.20%	
06/10/21	Initial Jobless Claims	5-June	370K	385K	
06/10/21	Continuing Claims	29-May	3700K	3771K	
06/10/21	Real Avg Hourly Earning YoY	May	--	-3.70%	
06/11/21	U. of Mich. Sentiment	June P	84.2	82.9	

Japan

	Indicator	Period	Expected	Prior	Comments
06/08/21	Labor Cash Earnings YoY	Apr	0.80%	0.20%	All eyes will be on GDP releases. Machine tool orders and PPI will be closely watched.
06/08/21	GDP SA QoQ	1Q F	-1.20%	-1.30%	
06/08/21	BoP Current Account Balance	Apr	¥1490.0b	¥2650.1b	
06/09/21	Money Stock M2 YoY	May	8.40%	9.20%	
06/09/21	Machine Tool Orders YoY	May P	--	120.80%	
06/10/21	PPI YoY	May	4.50%	3.60%	

Eurozone

	Indicator	Period	Expected	Prior	Comments
06/08/21	Germany Industrial Production WDA	Apr	29.50%	5.10%	Focus will be ECB meeting. Industrial production data for April is also important.
06/08/21	France Trade Balance	Apr	-5421m	-6067m	
06/08/21	ZEW Survey Expectations	June	86	84.4	
06/10/21	ECB Main Refinancing Rate	10- June	0.00%	0.00%	

United Kingdom

	Indicator	Period	Expected	Prior	Comments
06/11/21	Industrial Production YoY	Apr	30.70%	3.60%	All data will be important this week.
06/11/21	Manufacturing Production YoY	Apr	42.20%	4.80%	
06/11/21	Construction Output YoY	Apr	82.90%	6.00%	

China and India

	Indicator	Period	Expected	Prior	Comments
06/07/21	China Trade Balance	May	$50.75b	$42.85b	All eyes will be on China May releases for foreign reserves, trade balance, exports and inflation. In India, industrial production will be important.
06/07/21	China Exports YoY	May	32.10%	32.30%	
06/07/21	China Foreign Reserves	May	$3215.00b	$3198.18b	
06/09/21	China CPI YoY	May	1.60%	0.90%	
06/09/21	China Aggregate Financing CNY	May	2001.2b	1850.0b	
06/09/21	China Money Supply M2 YoY	May	8.10%	8.10%	
06/09/21	China New Yuan Loans CNY	May	1400.0b	1470.0b	
06/11/21	Industrial Production YoY (IN)	Apr	122.50%	22.40%	

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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