The Weekly Market View

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The inflation peak that wasn't

Markets that were expecting to find evidence that the inflation has peaked in the US got a shocker as May CPI rose more-than-expected at an annual pace of 8.6% above April's 8.3%. Prices for food, energy and shelter all increased. This combined with weaker consumer sentiment data brought the market concerns of stagflation to the fore. Perceptions of a stagflationary environment (where growth remains weak and inflation remains elevated) have driven market performances over the recent months. Last week, World Bank cut its global growth estimates for 2022 and highlighted the rising risks of a stagflation. Elsewhere, ECB indicated that it may lift its policy rate in July and hinted at the possibility of taking the interest rates above zero for the first time in eight years by September. The ECB also lowered its outlook for economic growth and raised its projection for inflation. Last week UST yields increased following the US CPI data release. 10Y UST yields rose to their highest level since mid-November-2018. Yields on short- and intermediate-term maturities rose even sharply causing the certain parts of the yield curve to flatten. For instance, 2Y UST yields rose above 3% for the first time since 2008. Yield on 5Y UST rose above the yield on 30Y UST. USD index rose to its highest level since mid-May as investors sought out haven assets. Gold prices hit a four-week high despite the USD strength as higher inflation and weaker growth brightened the prospects for the metal. Oil prices rose for most of the week as tightness in the market was compounded by the US driving season, possible Norwegian oil strikes, and fading prospects of an Iranian nuclear deal. However, higher-than-expected inflation in the US and rising COVID-19 cases in China weighed on the prices towards end of the week. S&P 500 and Nasdaq indices recorded their worst week since January. At the global level, equities declined for the second consecutive week taking the year-to-date losses to c18%.

Implications of spiking food prices

The United Nations' Food and Agriculture Organization (UN FAO) food price index rose by 18% in the first five months of the year in nominal terms (and by 16% in real terms). Amongst the constituents, oil and cereal prices rose 28% and 23% respectively in nominal terms so far in 2022. Meat and dairy prices rose 10% each while sugar prices rose by a modest 3%. It is worth noting that the UN FAO food price index rose a whopping 73% in nominal terms (and 67% in real terms) since hitting a bottom in May 2020. The current move higher in food prices can be attributed to a range of reasons including: weather patterns unfavorable to the crop produce, labor shortages, rising demand for premium grade products, Global supply chain disruptions, higher energy prices, high feed costs and avian flu outbreaks, and more recently the Russia's invasion of Ukraine. This sharp rise in food prices has now become a regional and global issue and of course also a political and geopolitical one. Governments across developed and emerging economies have started enacting measures to try to contain their domestic prices. In the developed world, these measures include attempts to boost domestic production. In the emerging world, some governments have opted to cut food taxes or put in place price controls. In addition, some governments have also imposed bans on exports of certain agricultural products. The immediate consequences of this elevated food prices can be two-fold. First, consumption spending on discretionary items could slow as consumers spend more on their essential food items thereby reducing the growth of the economy. The second impact of rising food prices is its contribution to the overall consumer price inflation. So, both these consequences together would mean slower growth and higher inflation adding to the stagflationary winds that are already blowing through the world economy. Equally, a fall in food prices or even stable food prices could help take some price pressure off the consumer. But the outlook remains uncertain given a range of factors driving the food prices - more importantly, with elevated and rising food prices becoming a political and geopolitical issue.

Global markets' performance snapshot*

Index Snapshot (World Indices)*

Index	Latest	Weekly %	YTD %
S&P 500	3,901	-5.1	-18.2
Dow Jones	31,393	-4.6	-13.6
Nasdaq	11,340	-5.6	-27.5
DAX	13,762	-4.8	-13.4
Nikkei 225	27,824	0.2	-3.4
FTSE 100	7,318	-2.9	-0.9
Sensex	54,303	-2.6	-6.8
Hang Seng	21,806	3.4	-6.8
Regional Markets			
ADX	9,628	-2.1	13.4
DFM	3,377	-0.3	5.7
Tadawul**	12,604	-0.4	11.2
DSM**	13,099	2.3	12.7
MSM30**	4,135	0.3	-0.3
BHSE**	1,883	-1.1	4.8
KWSE**	7,609	-0.9	8.0
MSCI			
MSCI World	2,642	-4.9	-18.3
MSCI EM	1,055	-0.6	-14.4

Global Commodities, Currencies and Rates*

Commodity	Latest	Weekly %	YTD %
Brent USD/bbl	122.0	1.9	56.9
WTI USD/bbl	120.7	1.5	60.5
Gold USD/t oz	1,858.4	0.1	2.0
Silver USD/t oz	21.9	0.0	-5.8
Platinum USD/t oz	969.0	-2.1	1.0
Copper USD/MT	9,447.3	-0.5	-3.0
Alluminium	2,661.0	-1.4	-5.2
Currencies			
EUR USD	1.05	-1.9	-7.5
GBP USD	1.23	-1.4	-9.0
USD JPY	134.44	2.7	16.8
USD CHF	0.99	2.6	8.2
Rates	**Latest**	**Weekly (bp)**	**YTD (bp)**
USD Libor 3m	1.74	11.9	153.6
USD Libor 12m	3.01	23.0	242.2
UAE Eibor 3m	1.37	-34.7	100.7
UAE Eibor 12m	2.63	-0.7	188.8
US 3m Bills	1.34	17.0	128.0
US 10yr Treasury	3.16	20.2	165.8

Notes: *Data as of June 10 2022 unless stated otherwise; **Data as of June 09 2022

Summary market outlook

Global Yields	UST yields increased following the CPI data release in the US. 10Y UST yields rose to their highest level since mid-November-2018. Yields on short- and intermediate-term maturities rose even sharply causing the yield curve to flatten (2Y UST yields rose above 3% for the first time since 2008). Yields on core Eurozone government bonds moved higher as markets perceived the ECB meeting to be more hawkish. Peripheral Eurozone and UK government bond yields broadly moved in line with core markets. Yields on 10Y JGBs rose marginally. Overall, we recommend a lower duration stance (5Y USTs) on the back of higher interest rate volatility in the near term.
Stress and Risk Indicators	VIX index (measuring implied volatility in equities) rose strongly over the week while SKEW index (a measure of tail risks) remained well-behaved. MOVE index (a measure of bond market volatility) rose too reflecting the higher bond yields. We expect financial market volatility to stay elevated through as the monetary policy normalises.
Equity Markets	
Local Equity Markets	GCC equity markets ended the week lower but outperformed global equity markets. Within the region, Qatar equities outperformed helped by financials sector. Elsewhere, Abu Dhabi and Kuwaiti equities underperformed their regional peers. 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 posted losses for the second consecutive week (MSCI ACWI index down in 17 out of 23 weeks so far this year) taking the year-to-date losses to c18%. Last week, EM outperformed DM. Within EM, Asia outperformed while LatAm underperformed. Amongst DMs, Japan outperformed while Europe-ex-UK underperformed the most. All 11 GICS sectors ended the week lower. However, energy and communication services outperformed while IT and Financials underperformed. 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	Nasdaq-100 lost c6% while HK tech index rose c10% 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 hit a four-week high despite the USD strength as higher inflation and weaker growth brightened the prospects. We are overweight gold as a hedge against potential inflation, growth, and geopolitical risks.
Energy	Oil prices rose for most of the week as tightness in the market was compounded by the US driving season, possible Norwegian oil strikes, and fading prospects of an Iranian nuclear deal. However, higher-than-expected inflation in the US and rising COVID-19 cases in China weighed on the prices towards end of the week. Overall, over the medium-term we believe that oil prices will remain sustained as the market balances into the new normal.
Industrial Metals	Industrial metal prices fell but only marginally as strong USD and risk-off mood were offset by improving outlook for China. Another commodity super-cycle is difficult, yet demand for commodities linked to “green infrastructure” is likely to sustain.
Currencies	
EURUSD	EUR fell sharply against the USD to a three-week low following the higher-than-expected CPI data in the US. We expect ECB policy divergence to play a major role in the performance of the euro.
Critical levels	R2 1.0544 · R1 1.0517 · S1 1.0470 · S2 1.0450
GBPUSD	GBP/USD touched its lowest level since mid-May on broader USD strength, the risk-off mood in markets, and the vote of confidence for PM Johnson. We expect GBP to weaken against USD and stay flat versus the EUR.
Critical levels	R2 1.2363 · R1 1.2324 · S1 1.2254 · S2 1.2223
USDJPY	JPY fell to its weakest level in 20 years against the USD on widening yield differential between USTs and JGBs. Over the near to medium-term, BoJ’s yield curve targeting should put downward pressure on JPY.
Critical levels	R2 135.75 · R1 135.41 · S1 134.50 · S2 133.93

Forthcoming important economic data/events

United States

Date & Time (GST)	Indicator	Period	Expected	Prior
06/14/22 14:00	NFIB Small Business Optimism	May	93.0	93.2
06/14/22 16:30	**PPI Ex Food and Energy MoM**	**May**	**0.60%**	**0.40%**
06/14/22 16:30	**PPI Final Demand YoY**	**May**	**10.80%**	**11.00%**
06/15/22 15:00	MBA Mortgage Applications	10- Jun	--	-6.50%
06/15/22 16:30	**Retail Sales Advance MoM**	**May**	**0.20%**	**0.90%**
06/15/22 18:00	NAHB Housing Market Index	Jun	69	69
06/15/22 22:00	**FOMC Rate Decision**	**15- Jun**	**-**	**-**
06/15/22 22:00	Building Permits	May	1,802K	1,819K
06/16/22 16:30	Housing Starts	May	1,717K	1,724K
06/16/22 16:30	Philadelphia Fed Business Outlook	Jun	5.0	2.6
06/16/22 16:30	**Initial Jobless Claims**	**11- Jun**	**--**	**--**
06/16/22 16:30	**Continuing Claims**	**4- Jun**	**--**	**--**
06/17/22 17:15	**Industrial Production MoM**	**May**	**0.40%**	**1.10%**
06/17/22 17:15	Capacity Utilization	May	79.30%	79.00%

Japan

Date & Time (GST)	Indicator	Period	Expected	Prior
06/14/22 08:30	Capacity Utilization MoM	Apr	--	-1.60%
06/14/22 08:30	Industrial Production YoY	Apr F	--	-4.80%
06/15/22 03:50	Core Machine Orders YoY	Apr	5.70%	7.60%
06/16/22 03:50	**Imports YoY**	**May**	**41.90%**	**28.20%**
06/16/22 03:50	**Exports YoY**	**May**	**16.00%**	**12.50%**
06/17/22	**BOJ Policy Balance Rate**	**17- Jun**	**--**	**-0.10%**
06/17/22	**BOJ 10-Yr Yield Target**	**17- Jun**	**--**	**0.00%**

Eurozone

Date & Time (GST)	Indicator	Period	Expected	Prior
06/13/22 06/16	Germany Wholesale Price Index YoY	May	--	23.80%
06/14/22 10:00	**Germany CPI YoY**	**May F**	**--**	**7.90%**
06/14/22 13:00	**Eurozone ZEW Survey Expectations**	**Jun**	**--**	**-29.5**
06/15/22 13:00	**Eurozone Industrial Production WDA YoY**	**Apr**	**--**	**0.80%**
06/15/22 03:50	**France CPI YoY**	**May F**	**--**	**5.20%**
06/17/22 13:00	**Eurozone CPI YoY**	**May F**	**--**	**7.40%**

United Kingdom

Date & Time (GST)	Indicator	Period	Expected	Prior
06/13/22 10:00	Construction Output YoY	Apr	4.00%	4.70%
06/13/22 10:00	**Monthly GDP**	Apr	0.40%	0.80%
06/13/22 10:00	**Industrial Production MoM**	**Apr**	**0.30%**	**-0.2%**
06/13/22 10:00	Manufacturing Production YoY	Apr	1.80%	1.90%
06/13/22 10:00	Index of Services 3M/3M	Apr	0.10%	0.40%
06/14/22 10:00	Average Weekly Earnings 3M/YoY	Apr	4.00%	4.20%
06/14/22 10:00	**ILO Unemployment Rate 3Mths**	**Apr**	**3.60%**	**3.70%**
06/16/22 15:00	**Bank of England Bank Rate**	**16- Jun**	**1.25%**	**1.00%**
06/17/22 10:00	**Retail Sales Inc Auto Fuel MoM**	**May**	**-0.60%**	**1.40%**
06/17/22 10:00	Retail Sales Ex Auto Fuel YoY	May	-5.00%	-6.10%

China and India

Date & Time (GST)	Indicator	Period	Expected	Prior
06/13/22 16:00	**India CPI YoY**	**May**	**7.10%**	**7.79%**
06/13/22 06/16	China 1-Yr Medium-Term Lending Facility Rate	15- Jun	2.85%	2.85%
06/14/22 10:30	**India Wholesale Prices YoY**	**May**	**15.02%**	**15.08%**
06/15/22 06:00	**China Industrial Production YTD YoY**	**May**	**3.10%**	**4.00%**
06/15/22 06:00	**China Retail Sales YTD YoY**	**May**	**-1.70%**	**-0.20%**
06/15/22 06:00	**China Fixed Assets Ex Rural YTD YoY**	**May**	**6.10%**	**6.80%**
06/15/22 06:00	**China Property Investment YTD YoY**	**May**	**-4.00%**	**-2.70%**
06/15/22 06:00	China Surveyed Jobless Rate	May	6.10%	6.10%

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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