The Weekly Market View

March 14 2022

ADCB ASSET MANAGEMENT LIMITED

Overworked markets

Financial markets are notorious for their inability to focus on more than one issue at a time. When multiple influences take hold, markets tend to turn very volatile thanks to the uncertainty around the range of outcomes possible for each of those influences. We think this is something that we have been experiencing over the recent weeks. Ranging from weaker growth and persistent inflation, to war fears and implications, to potential tighter central bank policy, financial markets have had to deal with a range of issues.

Last week saw these headwinds intensify with escalation in the Russia-Ukraine war, strong CPI in the US and hawkish ECB. US bond yields rose sharply last week as inflation concerns outweighed the risk-off sentiment in the week before the US FOMC was scheduled to meet. On Monday, the spread between 2- and 10-year Treasury yields reached its tightest level since March 2020 but widened subsequently. Global equity benchmarks lost another 2% over the past week as risk-off sentiment persisted. However, Europe-ex-UK, UK, and Canada markets not only outperformed but also posted gains for the week. EMs, thanks to weakness in Asian and EMEA markets, underperformed DMs. Broader USD strength was observed in currency markets. Gold prices rose despite USD strength as risk-off sentiment prevailed. Oil prices fell over the week after reaching multi-year highs on concerns about demand destruction. News about potential rise in OPEC+ output also did not help oil prices. Metal prices remained volatile through the week. Aluminium, copper, and nickel prices rose sharply at the start of the week but later fell on mounting uncertainty. Nickel trading was suspended on London Metal Exchange due to a sharp price rise that triggered margin calls.

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Dealing with one issue at a time

While it is difficult to time the turn in the market sentiment, should the geopolitical tensions abate, financial markets could see a tactical bounce over the next weeks to months. As such most geopolitical risk-off events of the past (outside the world wars) provided a good buying opportunity with most risk assets recording a robust performance over the subsequent 12 months. In our view, the fundamental impact of any sharp rise in commodity prices due to disruptions, and the implications of sanctions are likely to be felt over the next 12-18 months. Beyond that too, the impact of the war could be felt over the next several years in the form of higher defence spends etc. Should geopolitical risks abate over the next weeks, the investor focus is likely to shift back to the problems that markets were dealing with before the geopolitical tensions took hold. These include the concerns of slowing growth, persistent inflation, and tighter central bank policy. As we had argued before, we are dealing with the mid-cycle transition of a faster-moving asynchronous global cycle. Such transitions in the past were usually associated with higher uncertainty and financial market volatility. However, as the cycle matures into a new normal, uncertainties should start to diminish and provide a reasonably clear path for financial markets. On the central bank policy, as we have been highlighting, we thought that market pricing had moved to a hawkish extreme even before the geopolitical risks surfaced. However, recent weeks saw some moderation in market expectations of rate hikes and the balance sheet unwind by the US Fed. Even regarding policy at European Central Bank, the expectations have now moderated somewhat. Yet, we think the key question to be asking is not on how many times or by how much the central banks are going to tighten, but rather if the policy changes are appropriate to the evolution of the growth and inflation mix. Here, we believe that central banks are likely to stay on their course of policy normalization but will remain vigilant of risks to growth and inflation. In that context, Fed's policy meeting this week is likely to shed some light and thereby address market concerns at least in part. All this means headline volatility will remain high over the next couple of months possibly paving a way for a better second half of the year. But in absence of concrete evidence of a recession (which we are monitoring very closely), we think it is prudent to stay invested with an objective, diversified, and disciplined approach.

Global markets' performance snapshot*

Index Snapshot (World Indices)*

Index	Latest	Weekly %	YTD %
S&P 500	4,204	-2.9	-11.8
Dow Jones	32,944	-2.0	-9.3
Nasdaq	12,844	-3.5	-17.9
DAX	13,628	4.1	-14.2
Nikkei 225	25,163	-3.2	-12.6
FTSE 100	7,156	2.4	-3.1
Sensex	55,550	2.2	-4.6
Hang Seng	20,554	-6.2	-12.2
Regional Markets			
ADX	9,636	-0.5	13.5
DFM	3,402	-1.4	6.5
Tadawul**	12,684	-0.9	11.9
DSM**	13,633	1.3	17.3
MSM30**	4,328	3.5	4.4
BHSE**	2,053	3.1	14.3
KWSE**	7,958	1.5	13.0
MSCI			
MSCI World	2,840	-2.0	-12.1
MSCI EM	1,086	-5.2	-11.9

Global Commodities, Currencies and Rates*

Commodity	Latest	Weekly %	YTD %
Brent USD/bbl	112.7	-4.6	44.9
WTI USD/bbl	109.3	-5.5	45.4
Gold USD/t oz	1,983.2	1.1	8.8
Silver USD/t oz	26.0	1.7	11.7
Platinum USD/t oz	1,057.0	-3.2	10.2
Copper USD/MT	10,150.8	-5.2	4.2
Alluminium	3,459.5	-10.8	23.3
Currencies			
EUR USD	1.09	-0.1	-4.0
GBP USD	1.30	-1.4	-3.6
USD JPY	117.30	2.2	1.9
USD CHF	0.93	2.0	2.5
Rates	**Latest**	**Weekly (bp)**	**YTD (bp)**
USD Libor 3m	0.83	21.6	61.7
USD Libor 12m	1.60	24.3	101.3
UAE Eibor 3m	0.84	16.9	47.2
UAE Eibor 12m	1.52	14.2	78.4
US 3m Bills	0.36	6.0	33.0
US 10yr Treasury	1.99	28.4	50.8

Notes: *Data as of March 11 2022 unless stated otherwise; **Data as of March 10 2022

Summary market outlook

Global Yields	US bond yields rose sharply last week as inflation concerns outweighed the risk-off sentiment in the week before the US FOMC was scheduled to meet. On Monday, the spread between 2- and 10-year Treasury yields reached its tightest level since March 2020 but widened subsequently. Core Eurozone bond yields increased after inflation expectations strengthened and the ECB surprised with a hawkish tone. Yields on Eurozone's peripheral bonds and UK gilts rose too along with the yields on 10Y JGBs. Overall, we recommend a lower duration stance (5Y USTs) in anticipation of interest rate volatility in the near term.
Stress and Risk Indicators	Both VIX index and MOVE index fell during the week. SKEW index stayed at low levels. We expect financial market volatility to stay elevated through this year as the pandemic era policy accommodation is withdrawn.
Equity Markets	
Local Equity Markets	MSCI GCC index stayed flat over the week when oil prices retreated from multi-year highs. Within the region, UAE and Saudi equities posted losses while the other markets posted strong gains. 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 equity benchmarks lost another 2% over the past week as risk-off sentiment persisted. However, Europe-ex-UK, UK, and Canada markets not only outperformed but also posted gains for the week. EMs, thanks to weakness in Asian and EMEA markets, underperformed DMs. Sector wise, utilities, energy, and financials outperformed while consumer staples, IT, and communication services underperformed. We are moderately overweight US, UK, and Asia Pacific; underweight Eurozone and EMs outside Asia. By sector we prefer industrials, IT, and communication services. 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. Yet, in the very near-term, as the new wave of COVID-19 fear subsides, we see opportunities in cyclicals, value, small caps, and re-opening sectors.
Technology Segments	Nasdaq-100 index posted a loss of c4% for the week as yields on US treasury yields climbed higher. HK tech index fell 10% on the news that US SEC identified 5 issuers under the Holding Foreign Companies Accountable Act (HFCAA), renewing market concerns on potential ADR delisting risks.
Commodities	
Precious Metals	Gold prices rose despite USD strength as risk-off sentiment prevailed. Silver prices rose too but platinum prices fell. We keep our overweight in gold as a hedge against potential inflation and geopolitical risks.
Energy	Oil prices fell over the week after reaching multi-year highs on concerns about demand destruction. News about potential rise in OPEC+ output also did not help oil prices. Overall, over the medium-term we believe that oil prices will remain sustained as the market balances into the new normal.
Industrial Metals	Metal prices remained volatile through the week. Aluminium, copper, and nickel prices rose sharply at the start of the week but later fell on mounting uncertainty. Nickel trading was suspended on London Metal Exchange due to a sharp price rise that triggered margin calls. Another commodity super-cycle is difficult, yet demand for commodities linked to "green infrastructure" is likely to sustain.
Currencies	
EURUSD	EUR lost further against the USD over the week that started with the currency pair falling to its lowest level since mid-2020. We expect ECB policy divergence to play a major role in the performance of the euro.
GBPUSD	GBP/USD fell to its weakest level since November 2020 on broader USD strength despite strong UK data. We expect the GBP to be driven by how the BoE policy evolves over the near-term and to decouple from the EUR.
USDJPY	USD/JPY rose to its highest level since December 2016 on broader strength in the greenback. Over the medium-term, BoJ's yield curve targeting should put downward pressure on JPY.

Critical levels	R2	R1	S1	S2
EURUSD	1.1261	1.1087	1.0772	1.0631
GBPUSD	1.3339	1.3188	1.2957	1.2877
USDJPY	119.05	118.17	115.59	113.89

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

Forthcoming important economic data/events

United States

Date & Time (GST)	Indicator	Period	Expected	Prior
03/15/22 16:30	PPI Final Demand YoY	Feb	10.00%	9.70%
03/15/22 16:30	Empire Manufacturing	Mar	7.8	3.1
03/16/22 15:00	MBA Mortgage Applications	11-Mar	--	8.50%
03/16/22 16:30	**Retail Sales Advance MoM**	**Feb**	**0.40%**	**3.80%**
03/16/22 16:30	Import Price Index MoM	Feb	1.50%	2.00%
03/16/22 18:00	NAHB Housing Market Index	Mar	81	82
03/16/22 22:00	**FOMC Rate Decision**	**16-Mar**	**0.25%-0.50%**	**0.00%-0.25%**
03/17/22 16:30	Building Permits	Feb	1,868k	1,899k
03/17/22 16:30	Housing Starts	Feb	1,700k	1,638k
03/17/22 16:30	Philadelphia Fed Business Outlook	Mar	15.5	16.0
03/17/22 16:30	**Initial Jobless Claims**	**12-Mar**	**--**	**227k**
03/17/22 16:30	Continuing Claims	5-Mar	--	1,494k
03/17/22 17:15	**Industrial Production MoM**	**Feb**	**0.50%**	**1.40%**
03/18/22 18:00	Existing Home Sales	Feb	6.10m	6.50m

Japan

Date & Time (GST)	Indicator	Period	Expected	Prior
03/16/22 03:50	**Exports YoY**	**Feb**	**20.70%**	**9.60%**
03/16/22 03:50	**Imports YoY**	**Feb**	**25.10%**	**39.60%**
03/16/22 08:30	Industrial Production YoY	Jan F	--	-0.90%
03/17/22 03:50	Core Machine Orders YoY	Jan	9.60%	5.10%
03/18/22 03:30	**Natl CPI YoY**	**Feb**	**1.00%**	**0.50%**
03/18/22 03:30	Natl CPI Ex Fresh Food YoY	Feb	0.60%	0.20%
03/18/22	**BOJ Policy Balance Rate**	**18-Mar**	**--**	**-0.10%**
03/18/22	**BOJ 10-Yr Yield Target**	**18-Mar**	**--**	**0.00%**

Eurozone

Date & Time (GST)	Indicator	Period	Expected	Prior
03/15/22 11:45	France CPI YoY	Feb F	--	3.60%
03/15/22 14:00	**Germany ZEW Survey Expectations**	**Mar**	**0.0**	**54.3**
03/15/22 14:00	**Germany ZEW Survey Current Situation**	**Mar**	**-33.0**	**-8.1**
03/15/22 14:00	Eurozone ZEW Survey Expectations	Mar	--	48.6
03/15/22 14:00	**Eurozone Industrial Production WDA YoY**	**Jan**	**-0.20%**	**1.60%**
03/15/22-03/25/22	OECD Publishes Interim Economic Outlook			
03/17/22 11:00	EU27 New Car Registrations	Feb	--	-6.00%
03/17/22 14:00	**Eurozone CPI YoY**	**Feb F**	**5.80%**	**5.10%**
03/17/22 14:00	Eurozone CPI Core YoY	Feb F	2.70%	2.70%
03/18/22 14:00	Eurozone Labour Costs YoY	4Q	--	2.50%

United Kingdom

Date & Time (GST)	Indicator	Period	Expected	Prior
03/15/22 11:00	Jobless Claims Change	Feb	--	-31.9k
03/15/22 11:00	**Average Weekly Earnings 3M/YoY**	**Jan**	**--**	**4.30%**
03/15/22 11:00	**ILO Unemployment Rate 3Mths**	**Jan**	**4.00%**	**4.10%**
03/17/22 16:00	**Bank of England Bank Rate**	**17-Mar**	**0.75%**	**0.50%**

China and India

Date & Time (GST)	Indicator	Period	Expected	Prior
03/13/22-03/16/22	China 1-Yr Medium-Term Lending Facility Rate	15-Mar	2.85%	2.85%
03/14/22 10:30	India Wholesale Prices YoY	Feb	12.00%	12.96%
03/14/22 16:00	**India CPI YoY**	**Feb**	**5.94%**	**6.01%**
03/15/22 06:00	**China Property Investment YTD YoY**	**Feb**	**-6.00%**	**4.40%**
03/15/22 06:00	**China Industrial Production YTD YoY**	**Feb**	**4.00%**	**9.60%**
03/15/22 06:00	**China Fixed Assets Ex Rural YTD YoY**	**Feb**	**5.00%**	**4.90%**
03/15/22 06:00	**China Retail Sales YTD YoY**	**Feb**	**3.00%**	**12.50%**
03/15/22 06:00	China Surveyed Jobless Rate	Feb	5.10%	5.10%
03/15/22 15:30	India Exports YoY	Feb	--	25.30%
03/15/22 15:30	India Imports YoY	Feb	--	23.50%

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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