The Weekly Market View

March 20 2023

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Turmoil

Volatility rose sharply in financial markets last week as they started to reprice Central Bank policy expectations against the backdrop of the banking stresses spreading to Europe from the US. Following the US bank failures over the previous week, concerns about health of Credit Suisse triggered fears of contagion amongst European banks. Swiss regulators including FINMA and the Central Bank stepped in and offered support. At the time of writing this report, Financial Times reported that UBS has offered to buy Credit Suisse for up to USD3.25bn, with Swiss authorities planning to change the country's laws to bypass a shareholder vote on the transaction. Elsewhere, in terms of the central bank actions last week, ECB raised its policy rate by 50bp to 3.5%, and confirmed that it is ready to step in and address any risks to financial stability. Economic data was rather mixed. Starting with China, retail sales was in-line, industrial production was weaker-than-expected and fixed asset investment was higher-than-expected. In the UK, employment picture was better-than-expected and the Spring budget included larger-than-expected spending of about GBP21bn (equivalent to 0.8% of GDP a year). Eurozone industrial production surprised on the upside. In the US, CPI and retail sales were largely in-line while PPI was lower-than-expected; but initial jobless claims rose, while industrial production and consumer sentiment both disappointed. Taking all these macro and micro developments into consideration, volatility rose sharply in the fixed income space with MOVE index jumping to its highest level since 2008. Global equities remained resilient though. In the commodities space, gold prices hit a 11-month high while crude oil posted its worst week since early December.

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China's Two sessions

Developments in the US and European banking sectors over the past several days shadowed what is arguably the most important event in the World's second largest economy China. National People's Congress (NPC) is the national legislative and constitutional body which has the supreme authority of the People's Republic of China. Every year around the springtime, NPC conducts its plenary sessions and is attended by c3,000 delegates. Generally, these plenary sessions are conducted alongside Political Consultative Conference and hence called "Two Sessions". Outcome of these meetings has meaningful implications for policy and politics and hence is closely watched by investors. Two sessions for this year were conducted between March 5 and March 13. This year's event was more important than usual due to four key aspects which include Government Working Report, State Council Institutional Reforms, appointment of key personnel, and new Premier's first press conference. Overall, there are five key themes that emerged from the NPC policy setting this year and each of them have investment implications. First, consumption recovery is clearly in focus; this should help home appliances, services, and hospitality sectors alongside EVs. Second, an upgrade to industrial sectors was proposed as a key driver to enhance productivity; robotics, and big tech companies are likely to benefit. Third, the policy is leaning towards mitigating financial risks in the housing sector and local government debt; real estate and infrastructure sectors could get some support. Fourth, National security has been emphasized; local aerospace & defense, cybersecurity, and semiconductor sectors are likely to be the key beneficiaries. Fifth, to attract FDI, NPC proposed several measures including improving market access, opening up the services sector, and facilitating the launch of foreign-funded projects while joining CPTPP.

Global markets' performance snapshot*

Index Snapshot (World Indices)*

Index	Latest	Weekly %	YTD %
S&P 500	3,917	1.4	2.0
Dow Jones	31,862	-0.2	-3.9
Nasdaq	11,631	4.4	11.1
DAX	14,768	-4.3	6.1
Nikkei 225	27,334	-2.9	4.8
FTSE 100	7,335	-5.3	-1.6
Sensex	57,990	-1.9	-4.7
Hang Seng	19,519	1.0	-1.3
Regional Markets			
ADX	9,650	-1.8	-5.5
DFM	3,349	-1.1	0.4
Tadawul**	9,977	-3.9	-5.4
DSM**	9,910	-6.2	-7.2
MSM30**	4,888	0.5	0.3
BHSE**	1,897	-0.7	0.1
KWSE**	7,046	-2.7	-3.4
MSCI			
MSCI World	2,656	0.0	2.1
MSCI EM	952	-0.4	-0.5

Global Commodities, Currencies and Rates*

Commodity	Latest	Weekly %	YTD %
Brent USD/bbl	73.0	-11.9	-15.1
WTI USD/bbl	66.7	-13.0	-16.9
Gold USD/t oz	1,961.2	5.5	8.0
Silver USD/t oz	22.2	8.6	-6.5
Platinum USD/t oz	979.0	2.7	-5.0
Copper USD/MT	8,573.3	-3.1	2.5
Alluminium	2,226.5	-1.6	-5.2
Currencies			
EUR USD	1.07	0.2	-0.3
GBP USD	1.22	1.2	0.6
USD JPY	131.82	-2.4	0.5
Rates	**Latest**	**Weekly (bp)**	**YTD (bp)**
SOFR	4.57	2.0	27.0
USD Libor 3m	4.96	-17.6	19.5
USD Libor 12m	4.83	-90.9	-65.3
UAE Eibor 3m	4.87	-12.7	55.8
UAE Eibor 12m	5.00	-15.9	-4.4
US 3m Bills	4.39	-37.0	9.0
US 10yr Treasury	3.43	-25.7	-40.3

Source: Bloomberg, and ADCB Asset Management
Notes: *Data as of March 17 2023 unless stated otherwise; **Data as of March 16 2023.

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Summary market outlook

Global Yields	Concerns about the banking sector stress morphing itself into a systemic crisis caused investors pare back their rate hike expectations. As a result, yields fell across the maturities of the USTs. Yields on both 10Y and 2Y USTs fell but the 10Y-2Y yield curve steepened significantly but remained inverted. Credit spreads widened. In Eurozone, 10Y German bund yields fell on rising concerns around European banks. Yields on 10Y UK gilts fell too despite being choppy in the second half of last week. Yield on 10Y JGBs fell sharply. Bond yields and prices are inversely correlated. i.e. yields rise when prices fall and vice versa. Overall, we maintain our slight duration exposure with preference for USTs (7-10Y segment).
Stress and Risk Indicators	Volatility rose across the board. MOVE index – a measure of volatility in bonds – jumped to its highest level since 2008. VIX index (implied volatility in equities) increased marginally over the week. SKEW index (a measure of tail risks) remained stable after jumping to a 1-year high. We expect financial market volatility to stay elevated as the monetary policy normalizes and markets weigh recession probabilities.
Equity Markets	
Local Equity Markets	MSCI GCC index fell c5% over the past week and underperformed both global and EM equity benchmarks. A sharp fall in energy commodity prices did not help. Within the region, Qatar and Saudi equities underperformed the most. Kuwait and UAE equities also posted negative returns over the past week. 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 several years are all balanced by lack of structural growth plays in the equity market indices.
Global Equity Markets	Global equities remained resilient overall with MSCI ACWI closing the week relatively flat. DMs outperformed EMs albeit marginally. US and Asia outperformed while Europe and EMs outside Asia underperformed and posted significant losses. Within sectors, communication services, and IT posted gains and outperformed while energy, financials, and materials sectors posted losses and underperformed. We are moderately overweight US, UK, and Asia Pacific; underweight Eurozone and EMs outside Asia. By sector we prefer healthcare, and industrials. 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	Both Nasdaq-100 index and HK tech index rose more than 5% last 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 11-month high as concerns of systemic risks increased the allure of the yellow meal. We are overweight gold as a hedge against potential inflation, growth, and geopolitical risks.
Energy	Crude oil posted its worst week since early December as concerns of banking sector issues fuelled recession fears in turn impacting the demand outlook. 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 last week as recessionary fears impacted the demand outlook. Another commodity super-cycle is difficult, yet demand for commodities linked to "green infrastructure" is likely to sustain.
Currencies	
EURUSD	EUR/USD ended the week with marginal gains as concerns of banking sector spread from the US to Europe. We expect euro to stabilize and record a better performance in 2023 compared to 2022.
Critical levels	R2 1.0893 / R1 1.0781 / S1 1.0537 / S2 1.0405
GBPUSD	GBP/USD rose strongly on the weakness in the greenback, the UK budget proposal, and stronger-than-expected UK job market data. We expect GBP to weaken against EUR and stay flat versus the USD.
Critical levels	R2 1.2322 / R1 1.2248 / S1 1.2055 / S2 1.1936
USDJPY	Falling UST yields, and systemic concerns in the US banking sector meant USD lost ground against the JPY. Yen is likely to strengthen in 2023 as interest rate differentials tighten, and as broad USD weakens.
Critical levels	R2 136.39 / R1 134.12 / S1 130.57 / S2 129.29

Forthcoming important economic data/events

United States

Date & Time (GST)	Indicator	Period	Expected	Prior
03/21/23 18:00	Existing Home Sales	Feb	4.15m	4.00m
03/22/23 15:00	MBA Mortgage Applications	17-Mar	--	6.50%
03/22/23 22:00	**FOMC Rate Decision (Upper Bound)**	**22-Mar**	**5.00%**	**4.75%**
03/22/23 22:00	**FOMC Rate Decision (Lower Bound)**	**22-Mar**	**4.75%**	**4.50%**
03/23/23 16:30	Current Account Balance	4Q	-$213.2b	-$217.1b
03/23/23 16:30	**Initial Jobless Claims**	**18-Mar**	**--**	**--**
03/23/23 16:30	**Continuing Claims**	**11-Mar**	**--**	**--**
03/23/23 18:00	New Home Sales	Feb	650k	670k
03/24/23 16:30	Durable Goods Orders	Feb P	1.70%	-4.50%
03/24/23 17:45	**S&P Global US Manufacturing PMI**	**Mar P**	**--**	**47.3**
03/24/23 17:45	**S&P Global US Services PMI**	**Mar P**	**--**	**50.6**

Japan

Date & Time (GST)	Indicator	Period	Expected	Prior
03/22/23 10:00	Machine Tool Orders YoY	Feb F	--	-10.70%
03/23/23 09:30	Nationwide Dept Sales YoY	Feb	--	15.10%
03/24/23 03:30	**Natl CPI YoY**	**Feb**	**3.30%**	**4.30%**
03/24/23 03:30	**Natl CPI Ex Fresh Food YoY**	**Feb**	**3.10%**	**4.20%**
03/24/23 04:30	**Jibun Bank Japan PMI Mfg**	**Mar P**	**--**	**47.7**
03/24/23 04:30	**Jibun Bank Japan PMI Services**	**Mar P**	**--**	**54.0**

Eurozone

Date & Time (GST)	Indicator	Period	Expected	Prior
03/20/23 11:00	**Germany PPI YoY**	**Feb**	**--**	**17.80%**
03/21/23	**France Retail Sales SA YoY**	**Feb**	**--**	**-2.60%**
03/21/23 14:00	Germany ZEW Survey Expectations	Mar	15	28.1
03/22/23 13:00	Eurozone ECB Current Account SA	Jan	--	15.9b
03/23/23 19:00	Eurozone Consumer Confidence	Mar P	--	-19
03/24/23 13:00	**Eurozone S&P Global Manufacturing PMI**	**Mar P**	**48.8**	**48.5**
03/24/23 13:00	**Eurozone S&P Global Services PMI**	**Mar P**	**52.5**	**52.7**

United Kingdom

Date & Time (GST)	Indicator	Period	Expected	Prior
03/20/23 04:01	Rightmove House Prices YoY	Mar	--	3.90%
03/22/23 11:00	**CPI YoY**	**Feb**	**9.90%**	**10.10%**
03/22/23 11:00	**CPI Core YoY**	**Feb**	**--**	**5.80%**
03/22/23 11:00	**RPI YoY**	**Feb**	**--**	**13.40%**
03/22/23 13:30	House Price Index YoY	Jan	--	9.80%
03/23/23 16:00	**Bank of England Bank Rate**	**23-Mar**	**4.25%**	**4.00%**
03/24/23 04:01	**GfK Consumer Confidence**	**Mar**	**--**	**-38**
03/24/23 11:00	Retail Sales Inc Auto Fuel MoM	Feb	--	0.50%
03/24/23 11:00	Retail Sales Ex Auto Fuel YoY	Feb	--	-5.30%
03/24/23 13:30	**S&P Global/CIPS UK Manufacturing PMI**	**Mar P**	**--**	**49.3**
03/24/23 13:30	**S&P Global/CIPS UK Services PMI**	**Mar P**	**--**	**53.5**

China and India

Date & Time (GST)	Indicator	Period	Expected	Prior
03/15/23-03/31/23	India BoP Current Account Balance	4Q	-$23.00b	-$36.40b
03/20/23 05:15	**China 5-Year Loan Prime Rate**	**20-Mar**	**4.30%**	**4.30%**
03/20/23 05:15	**China 1-Year Loan Prime Rate**	**20-Mar**	**3.65%**	**3.65%**

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