

The Weekly Market View

May 22 2023

Dealing with a debt deal

Financial markets danced to the tune of rising and fading optimism around a debt ceiling deal in the US. The week started on a rather optimistic note with both President Joe Biden and Speaker of the House of Representatives Kevin McCarthy indicating that a deal was likely and US default will be avoided. However, markets reacted marginally negatively to the news on Friday that the Republican lawmakers walked out of negotiations on the debt deal. Staying with US, speaking at a research conference on Friday, Fed Chair Jerome Powell indicated that tighter credit conditions may mean the Fed will not have to raise interest rates as high. In a meeting with large bank CEOs on Thursday, US Treasury secretary Janet Yellen told that more mergers in the sector may be necessary. Elsewhere, BoE Governor Andrew Bailey reiterated that monetary policy would have to tighten further. From a geopolitical angle G7, meeting in Japan, issued its strongest condemnation of China. Turning to economic data, US retail sales grew less than expected during April at the slowest y-o-y pace since early in the pandemic. However, industrial production in the US surprised positively. US jobless claims fell more than expected and continuing claims hit a nine-week low. Eurozone industrial production fell more than expected during March. In Germany, ZEW survey expectations index fell more than expected. In Asia, Japanese GDP was much better than expected. Chinese retail sales, industrial production, and fixed asset investment have all printed below market expectations for April. Digesting these news, bond yields rose sharply, USD strengthened to its seven-week high, commodity prices showed mixed trends, and equities gained after two consecutive weeks of declines.

India's improving cyclical outlook

After having outperformed significantly during 2021 and the first nine months of 2022, Indian equities underperformed their global peers by c20% since Q4'22. This was due to some global and some domestic reasons. On the global front, banking sector stresses weighed on Indian markets too where financials sector makes up the largest share of the equity benchmark. Further, domestic concerns including weakness in consumption of urban and middle-income segments, slowing activity in the rural sector, and issues surrounding Adani group also impacted negatively. We think this is likely to change now and that recent market underperformance provides an opportunity for long-term investors to position back into Indian equities. At the macro level, the services sector PMI hit a 13-year high in April. Strong services export growth and resilient remittances provide a cushion for the current account deficit. Forex reserves reached a 12-month high in May. Despite the slowdown in industry credit, the manufacturing sector remains strong with the PMIs for the sector remaining firmly above the 50-mark at 57.2 in April. Better than expected rainfall and elevated water storage in reservoirs bodes well for agriculture and rural sector broadly. Admittedly there are concerns that an El Nino will result in deficient rains in the second half of the season. Mobile phone exports more than doubled to USD10bn in FY23 reflecting India's ambitions to be high-skilled export hub. Commodity prices have been falling and this provides a tailwind for Indian macro. Falling inflation should allow the Reserve Bank of India to go on a pause after having hiked interest rates by c250bp over the past 12 months. The impact of monetary policy tightening is evident in consumer discretionary spending like restaurant and housing. Tighter monetary policy has also impacted the urban disposable incomes meaningfully. A pause in rate hikes now and an eventual rate cut early next year should reverse some of these weaknesses. Taking a structural view, India remains a bright spot on the global stage. IMF expects India's GDP to grow at a consistent rate of 6% over the next five years. This compares with IMF expectations for global GDP growth of just 3%. The rise of a high-skilled tech-focused export sector, a strong ecosystem of start-ups, the demographic advantage, healthy macro, and the apt pace of structural reforms could help India achieve elevated levels of growth over the next decade.

Global markets' performance snapshot*

Index Snapshot (World Indices)*			
Index	Latest	Weekly %	YTD %
S&P 500	4,192	1.7	9.2
Dow Jones	33,427	0.4	0.8
Nasdaq	12,658	3.0	20.9
DAX	16,275	2.3	16.9
Nikkei 225	30,808	4.8	18.1
FTSE 100	7,757	0.0	4.1
Sensex	61,730	-0.5	1.5
Hang Seng	19,451	-0.9	-1.7
Regional Markets			
ADX	9,479	-1.6	-7.2
DFM	3,545	-0.4	6.3
Tadawul**	11,344	0.0	7.6
DSM**	10,644	-0.2	-0.4
MSM30**	4,697	-0.2	-3.6
BHSE**	1,943	0.1	2.5
KWSE**	6,801	-1.5	-6.7
MSCI			
MSCI World	2,843	1.2	9.2
MSCI EM	977	0.4	2.2

Source: Bloomberg, and ADCB Asset Management
Notes: *Data as of May 19 2023 unless stated otherwise; **Data as of May 18 2023.

Global Commodities, Currencies and Rates*

Commodity	Latest	Weekly %	YTD %
Brent USD/bbl	75.6	1.9	-12.0
WTI USD/bbl	71.6	2.2	-10.9
Gold USD/t oz	1,967.3	-2.1	8.4
Silver USD/t oz	23.9	-0.1	0.5
Platinum USD/t oz	1,071.0	-0.9	3.9
Copper USD/MT	8,201.0	-0.3	-2.0
Alluminium	2,290.0	3.1	-2.5
Currencies			
EUR USD	1.08	-0.4	0.9
GBP USD	1.24	-0.1	2.9
USD JPY	137.97	1.7	5.2
Rates			
	Latest	Weekly (bp)	YTD (bp)
SOFR	5.05	0.0	75.0
USD Libor 3m	5.39	7.4	62.5
USD Libor 12m	5.44	18.9	-3.8
UAE Eibor 3m	5.10	-22.5	79.3
UAE Eibor 12m	5.28	7.5	23.7
US 3m Bills	5.12	4.0	82.0
US 10yr Treasury	3.71	24.6	-12.0

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Summary market outlook

Global Yields

Yields on 10Y USTs rose over the week on upbeat economic data. Yields on 10 German bunds increased despite disappointing economic releases. Yields on 10Y Gilt bonds jumped on hawkish BoE comments. Yield on 10Y JGBs fell during the middle of the week, however ended the week unchanged. 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

VIX index (measure of implied volatility in equities) ended the week lower for a second week in a row. MOVE Index (measure of bond volatility) rose over the week. 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 underperformed global equities. All GCC markets recorded losses with the exception of Saudi Arabia and Bahrain which ended the week flat. UAE and Kuwait markets led the underperformance of the region. 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 ended the week higher, shrugging off the uncertainty over debt ceiling. DM equities outperformed EM equities. In DM, Japan outperformed the most while UK underperformed in local currency terms. We are overweight North America, and Asia Pacific ex Japan; underweight Europe 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 HK equities and Chinese hotels & leisure (beneficiaries of the post-pandemic reopening of the Chinese economy), Cybersecurity and Chinese Semiconductors (play on rising deglobalisation risks and national security prominence), and US Diversified banks over US Regional banks (Diversified banks in the US do not have same risks that regional banks carry).

Technology Segments

Nasdaq-100 index ended the week higher. HK tech had a volatile week and ended slightly lower.

Commodities

Precious Metals

Precious metal prices declined over the week on account of broad USD strength. Gold prices led the decline. We are overweight gold as a hedge against potential inflation, growth, and geopolitical risks.

Energy

Oil prices had a volatile week but both benchmarks rose c2% over 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 showed mixed trends as aluminium had a good week while copper decreased slightly. Another commodity super-cycle is difficult, yet demand for commodities linked to "green infrastructure" is likely to sustain.

Currencies

EURUSD

EUR/USD declined on broader dollar strength. We expect euro to stabilize and record a better performance in 2023 compared to 2022.

Critical levels



GBPUSD

GBP/USD dropped only marginally over the week with hawkish comments from the BoE offsetting the broad USD strength bias. We expect GBP to weaken against EUR and stay flat versus the USD.

Critical levels



USDJPY

USD/JPY rose for the second consecutive week on account of broad USD strength and rising UST yields. Yen is likely to strengthen in 2023 as interest rate differentials tighten, and as broad USD weakens.

Critical levels



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Forthcoming important economic data/events

United States



Date & Time (GST)	Indicator	Period	Expected	Prior
05/23/23 17:45	S&P Global US Manufacturing PMI	May P	50.0	50.2
05/23/23 17:45	S&P Global US Services PMI	May P	--	53.6
05/23/23 18:00	New Home Sales	Apr	660k	683k
05/24/23 15:00	MBA Mortgage Applications	19-May	--	-5.70%
05/24/23 22:00	FOMC Meeting Minutes	3-May	--	--
05/25/23 16:30	Initial Jobless Claims	20-May	--	--
05/25/23 16:30	Continuing Claims	13-May	--	--
05/25/23 16:30	GDP Annualized QoQ	1Q S	1.10%	1.10%
05/25/23 16:30	Personal Consumption	1Q S	--	3.70%
05/25/23 18:00	Pending Home Sales NSA YoY	Apr	--	-23.30%
05/26/23 16:30	Personal Income	Apr	0.40%	0.30%
05/26/23 16:30	Personal Spending	Apr	0.40%	0.00%
05/26/23 16:30	PCE Deflator YoY	Apr	--	4.20%
05/26/23 16:30	PCE Core Deflator YoY	Apr	4.50%	4.60%
05/26/23 16:30	Wholesale Inventories MoM	Apr P	--	0.00%
05/26/23 16:30	Durable Goods Orders	Apr P	-1.00%	3.20%
05/26/23 18:00	U. of Mich. Sentiment	May F	--	57.7
05/26/23 18:00	U. of Mich. Current Conditions	May F	--	64.5
05/26/23 18:00	U. of Mich. Expectations	May F	--	53.4
05/26/23 18:00	U. of Mich. 1 Yr Inflation	May F	--	4.50%
05/26/23 18:00	U. of Mich. 5-10 Yr Inflation	May F	--	3.20%

Japan



Date & Time (GST)	Indicator	Period	Expected	Prior
05/23/23 04:30	Jibun Bank Japan PMI Mfg	May P	--	49.5
05/23/23 04:30	Jibun Bank Japan PMI Services	May P	--	55.4
05/23/23 09:30	Nationwide Dept Sales YoY	Apr	--	9.80%
05/24/23 10:00	Machine Tool Orders YoY	Apr F	--	-14.40%
05/26/23 03:30	Tokyo CPI YoY	May	3.50%	3.50%
05/26/23 03:30	Tokyo CPI Ex-Fresh Food, Energy YoY	May	3.80%	3.80%
05/26/23 03:50	PPI Services YoY	Apr	--	1.60%

Eurozone



Date & Time (GST)	Indicator	Period	Expected	Prior
05/22/23 18:00	Eurozone Consumer Confidence	May P	-16.9	-17.5
05/23/23 11:15	France HCOB Services PMI	May P	--	54.6
05/23/23 11:30	Germany HCOB Manufacturing PMI	May P	45.0	44.5
05/23/23 11:30	HCOB Germany Services PMI	May P	55.0	56
05/23/23 11:15	France HCOB Manufacturing PMI	May P	--	45.6
05/23/23 12:00	Eurozone HCOB Manufacturing PMI	May P	46.0	45.8
05/23/23 12:00	Eurozone HCOB Services PMI	May P	55.7	56.2
05/23/23 12:00	Eurozone ECB Current Account SA	Mar	--	24.3b
05/24/23 12:00	Germany IFO Business Climate	May	93.3	93.6
05/24/23 12:00	Germany IFO Expectations	May	92.2	92.2
05/25/23 10:00	Germany GDP SA QoQ	1Q F	-0.10%	0.00%
05/25/23 10:00	Germany GfK Consumer Confidence	Jun	-25.0	-25.7
05/25/23 10:45	France Manufacturing Confidence	May	--	101

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United Kingdom

Date & Time (GST)	Indicator	Period	Expected	Prior
05/23/23 12:30	S&P Global/CIPS UK Manufacturing PMI	May P	--	47.8
05/23/23 12:30	S&P Global/CIPS UK Services PMI	May P	--	55.9
05/24/23 10:00	CPI YoY	Apr	8.00%	10.10%
05/24/23 10:00	CPI Core YoY	Apr	6.00%	6.20%
05/24/23 10:00	RPI YoY	Apr	--	13.50%
05/26/23 10:00	Retail Sales Inc Auto Fuel MoM	Apr	--	-0.90%
05/26/23 10:00	Retail Sales Ex Auto Fuel YoY	Apr	--	-3.20%
05/28/23-06/03/23	Nationwide House Px NSA YoY	May	--	-2.70%

China and India

Date & Time (GST)	Indicator	Period	Expected	Prior
05/27/23 05:30	China Industrial Profits YTD YoY	Apr	--	-21.40%

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