The Weekly Market View

May 23 2021

ADCB Asset Management Limited

Thinking about thinking

That's what the US FOMC meeting minutes hinted at in relation to tapering the asset purchases which are currently running at USD120bn per month. At least, markets seem to have read it that way. This, alongside a marginal pull-back in inflation fears, has created a volatile environment for risk assets. In terms of economic data releases, last week started with Chinese statistics – industrial production, fixed asset investments, and retail sales – all disappointing. In Japan, Q1 GDP not only contracted but also missed expectations; however trade data was better. Inflation data out of UK and Eurozone was broadly in line with estimates. Staying with UK, retail sales growth during April was very strong with the actual print coming twice the projection. PMI data releases last week surprised positively across the board with few exceptions.

Global equities ended a volatile week marginally higher. EMs outperformed DMs strongly. Sector wise, health care, real estate, and IT outperformed, while energy, materials, and industrials underperformed. In the commodities space, gold prices rose further extending their rebound from the end-March lows to c12%. Silver held to its gains last week. Oil prices fell through the week as concerns of return of Iranian crude supplies intensified. However, weather concerns in the Gulf of Mexico provided some support to the prices at the end of the week. Industrial metal prices fell as Chinese authorities pledged to step up their management of commodity supply and demand. In FX, broader USD weakness was observed. Turning to rates, 10Y UST yields remained largely unchanged over the week. In Eurozone, core bond yields ended higher while peripheral bond yields fell. Yield on the 10-year JGBs fell slightly.

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Two conflicting viewpoints

In relation to central bank policy, especially in the US, there appears to be an inherent conflict between what the central bank focuses on and what financial markets focus on. US Fed is more fixed on its objective of achieving 'maximum sustainable employment' while keeping an eye on 'price stability'. However, financial markets which have already priced in economic recovery are now more worried about inflation overshooting the central bank target. We observe that both the parties – central banks and financial markets – are right in their own perspective. On the one hand, the Fed might be worried that the level of US economic output has scaled back to its pre-pandemic levels but with c7.7 million payrolls still missing. Also, given their new average inflation targeting framework, the Fed perhaps has incentive to wait out before acting on inflation. On the other hand, markets which are more forward looking have priced in the recovery and have now started to worry about inflation which also tends to lag the economic growth. This conflict makes financial markets worried about a potential 'stagflationary' environment and could result in financial market volatility in the near-term but the uptrend should resume subsequently (The Weekly Market View, May 02 2021). We held the view that inflation is the major risk facing financial markets this year, but persistent inflation is not a given (Q2 2021 Outlook: A balancing act, April 2021). One of the key drivers of inflation concerns in the recent months has been a strong rise in commodity prices. In our view, while another commodity super-cycle appears difficult, demand for commodities linked to environmental friendly green infrastructure is likely to sustain. Overall, we are in Fed's camp and believe that rise in price pressures is transient. However the risk is that, the upcoming inflation data could be higher than expected, putting this key risk in the spotlight.

Global markets' performance snapshot

Index Snapshot (World Indices)

Index	Latest	Weekly %	YTD %
S&P 500	4,156	-0.4	10.6
Dow Jones	34,208	-0.5	11.8
Nasdaq	13,471	0.3	4.5
DAX	15,438	0.1	12.5
Nikkei 225	28,318	0.8	3.2
FTSE 100	7,018	-0.4	8.6
Sensex	50,540	3.7	5.8
Hang Seng	28,458	1.5	4.5
Regional Markets (Sunday to Thursday)			
ADX	6,518	5.0	29.2
DFM	2,751	2.0	10.4
Tadawul	10,340	0.2	19.0
DSM	10,695	-2.1	2.5
MSM30	3,868	0.9	5.7
BHSE	1,537	0.5	3.2
KWSE	6,290	0.2	13.4
MSCI			
MSCI World	2,943	0.2	9.4
MSCI EM	1,330	1.7	3.0

Global Commodities, Currencies and Rates

Commodity	Latest	Weekly %	YTD %
Brent USD/bbl	66.4	-3.3	28.3
WTI USD/bbl	63.6	-2.7	31.0
Gold USD/t oz	1,881.3	2.1	-0.9
Silver USD/t oz	27.6	0.5	4.4
Platinum USD/t oz	1,172.3	-4.7	9.3
Copper USD/MT	10,011.0	-2.0	29.3
Alluminium	2,351.3	-3.6	18.8
Currencies			
EUR USD	1.22	0.3	-0.3
GBP USD	1.42	0.4	3.5
USD JPY	108.96	-0.4	-5.2
CHF USD	0.90	-0.4	-1.4
Rates			
USD Libor 3m	0.15	-3.2	-37.0
USD Libor 12m	0.26	-0.7	-22.8
UAE Eibor 3m	0.35	-10.5	-32.6
UAE Eibor 12m	0.43	-25.3	-34.7
US 3m Bills	0.00	0.0	-104.3
US 10yr Treasury	1.62	-0.4	77.6

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Summary market outlook

Global Yields	10Y UST yields remained largely unchanged over the week as risk-off tone was offset by taper talks in Fed minutes. In Eurozone, core bond yields ended higher while peripheral bond yields fell. Yield on the 10-year JGBs fell slightly. 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 edged marginally higher over the week – rose strongly through the first half and fell subsequently. 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	Regional equity markets were resilient last week. With the exception of Qatar, all major markets ended the week higher. UAE equity markets, led by Abu Dhabi equities outperformed the most. Saudi Arabian equities ended the week only marginally higher. Expectations of foreign inflows into the largest bank in Abu Dhabi helped the index overall. In Dubai, real estate and banks stocks helped the broader index. Weak performance of a heavy weight petrochemical/industrial stock exerted a drag on Qatar's index performance. 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 equities ended a volatile week marginally higher. EMs outperformed DMs strongly. Strong performance from India, Taiwan, and China helped the broader EM index. EM LatAm underperformed. Within DM, Japan and Canada outperformed the most while US underperformed. Sector wise, health care, real estate, and IT outperformed, while energy, materials, and industrials 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	Technology segments performed strongly last week as inflation fears receded somewhat giving long-duration structural stories a tailwind. HKTech index rose c6% during the week while NYSE FANG+ index rose 1%.
Commodities	
Precious Metals	Gold prices rose further extending their rebound from the end-March lows to c12%. Silver held to its gains last week. Volatility in risk assets and weaker USD created a nice environment for gold prices to rise. We keep our overweight in gold as a hedge against potential risks on the horizon.
Energy	Oil prices fell through the week as concerns of return of Iranian crude supplies intensified. However, weather concerns in the Gulf of Mexico provided some support to the prices at the end of the week. Overall, we believe that oil prices are likely to remain sustained as the market approaches a balance.
Industrial Metals	Industrial metal prices fell as Chinese authorities pledged to step up their management of commodity supply and demand. While another commodity super-cycle appears difficult, demand for commodities linked to environmental friendly green infrastructure is likely to sustain.
Currencies	
EURUSD	EURUSD reached the highest level since early January 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 1.2473 · R1 1.2328 · S1 1.1954 · S2 1.1725
GBPUSD	Last week saw the cable at its strongest level in three years before retreating slightly on Friday. 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 1.4583 · R1 1.4366 · S1 1.3801 · S2 1.3453
USDJPY	JPY strengthened slightly during week but worth noting that USDJPY has moved sideways over the past several weeks. Over the medium-term, we believe that BoJ yield curve targeting should put downward pressure on JPY.
Critical levels	R2 111.05 · R1 110.01 · S1 107.70 · S2 106.43

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
05/24/21	Chicago Fed Nat Activity Index	Apr	1.10	1.71	Next week is expected to see many US data releases. Second release of Q1 GDP is expected to be slightly revised up to 6.5% (q-o-q). Focus will be on personal income and spending where market consensus expects the income to have fallen c15% in April compared with March and the personal spending growth to have moderated too in April. In line with this, PCE and core-PCE are expected to have risen by 3.5% and 2.9% y-o-y in April. Other data releases for the week include regional activity indicators (Chicago Fed Nat activity index, Richmond Fed manufacturing index, Kansas city Fed manufacturing activity and MNI Chicago PMI), housing market data, durable goods orders, and consumer sentiment.
05/25/21	FHFA House Price Index MoM	Mar	1.30%	0.90%	
05/25/21	S&P CoreLogic CS 20-City YoY NSA	Mar	12.55%	11.94%	
05/25/21	New Home Sales	Apr	950k	1,021k	
05/25/21	**Conf. Board Consumer Confidence**	**May**	**118.9**	**121.7**	
05/25/21	Richmond Fed Manufact. Index	May	18	17	
05/26/21	MBA Mortgage Applications	21-May	--	1.20%	
05/27/21	Durable Goods Orders	Apr P	0.80%	0.80%	
05/27/21	**GDP Annualized QoQ**	**1Q S**	**6.50%**	**6.40%**	
05/27/21	**Initial Jobless Claims**	**22-May**	**425k**	**444k**	
05/27/21	**Continuing Claims**	**15-May**	**--**	**3,751k**	
05/27/21	Pending Home Sales NSA YoY	Apr	--	25.30%	
05/27/21	Kansas City Fed Manf. Activity	May	29	31	
05/28/21	Wholesale Inventories MoM	Apr P	1.10%	1.30%	
05/28/21	**Personal Income**	**Apr**	**-14.80%**	**21.10%**	
05/28/21	**Personal Spending**	**Apr**	**0.50%**	**4.20%**	
05/28/21	**PCE Deflator YoY**	**Apr**	**3.50%**	**2.30%**	
05/28/21	**PCE Core Deflator YoY**	**Apr**	**2.90%**	**1.80%**	
05/28/21	MNI Chicago PMI	May	69.0	72.1	
05/28/21	U. of Mich. Sentiment	May F	83.0	82.8	

Japan

	Indicator	Period	Expected	Prior	Comments
05/24/21	Nationwide Dept Sales YoY	Apr	--	21.80%	Jobless rate is expected to have ticked up slightly in April after having fallen from a high of 3.1% in October 2020. Tokyo CPI, nationwide department sales and machine tool orders are key too.
05/25/21	Machine Tool Orders YoY	Apr F	--	121%	
05/28/21	**Jobless Rate**	**Apr**	**2.70%**	**2.60%**	
05/28/21	**Tokyo CPI YoY**	**May**	**-0.50%**	**-0.60%**	
05/28/21	Tokyo CPI Ex-Fresh Food YoY	May	-0.20%	-0.20%	

Eurozone

	Indicator	Period	Expected	Prior	Comments
05/25/21	Germany GDP SA QoQ	1Q F	-1.70%	-1.70%	German IFO expectations are likely to rise in May and reach the highest level in three years. In France, inflation is expected to move higher in May. Germany/France GDP and Eurozone consumer/economic confidence will be important to watch too.
05/25/21	**Germany IFO Expectations**	**May**	**101.0**	**99.5**	
05/27/21	Germany GfK Consumer Confidence	Jun	-5.2	-8.8	
05/28/21	**France CPI YoY**	**May P**	**1.40%**	**1.20%**	
05/28/21	France GDP QoQ	1Q F	0.40%	0.40%	
05/28/21	**Eurozone Consumer Confidence**	**May F**	**--**	**-5.1**	
05/28/21	**Eurozone Economic Confidence**	**May**	**112.1**	**110.3**	

United Kingdom

	Indicator	Period	Expected	Prior	Comments
05/25/21	Public Sector Net Borrowing ex Banking	Apr	32.0b	28.0b	UK house prices are expected to rise further in May after having risen substantially already.
05/28/21	Lloyds Business Barometer	May	--	29	
05/28-06/03/21	**Nationwide House Px NSA YoY**	**May**	**9.40%**	**7.10%**	

China and India

	Indicator	Period	Expected	Prior	Comments
05/27/21	China Industrial Profits YoY	Apr	--	92.30%	--

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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