

The Weekly Market View

May 29 2023

Deal or no deal

The uncertainty over the debt ceiling deal or no deal continued to weigh on market sentiment. Markets also digested mixed economic data which confirmed that it may be still early to conclude a victory over inflation. The week started with reports of President Joe Biden resuming debt ceiling talks with the Speaker of the House of Representatives Kevin McCarthy. However, no concrete progress on the deal was made while some Republicans expressed doubts over the stipulated X-date (5th June) estimated by the US Treasury. Moreover, Fitch placed US' AAA long-term foreign-currency issuer rating on negative watch which further aggravated market apprehension. But finally over the weekend, the White House and the Republicans agreed on a bipartisan deal in principle (subject to voting from Congress) – suspending the USD31.4trn debt ceiling until January 2025. Staying with US, Fed meeting minutes revealed that the Fed members were split over the interest rate outlook but leaning towards a rate pause. In economic data, Fed's preferred inflation gauge- core PCE rose by 0.4% m-o-m and 4.7% y-o-y in April, above market expectations. Preliminary US May PMI indicated a contraction in manufacturing activity while US Services PMI beat market expectations. In Europe, German economy contracted by 0.3% in 1Q 23, marking the second consecutive quarterly contraction. German Ifo Institute's business confidence index also fell in May for the first time in seven months. Eurozone Flash Composite PMI fell in the expansionary territory, led by the contraction in manufacturing activity. In the UK, inflation declined less than expected with core inflation jumping to a 31-year record high, fueling BoE rate hike expectations.

Global equities recorded marginal losses. Global bond yields jumped while USD rose to two month high on debt ceiling uncertainty. Oil prices rose while precious and industrial metals declined on strong dollar bias.

EM local currency bonds- a rising star

After being the best performer in 2022, EM local currency bonds (EM LCY) have continued to shine in 2023 so far. The outperformance vs EM USD sovereigns has widened since end-February with the EM LCY benefitting from both the prospects of Fed pivot and slowing China growth momentum. Similar to EM USD sovereigns, EM LCY performance is also dependent on the trajectory of UST yields and the USD (in terms of FX performance influencing the total return performance). But- overall vulnerability is lower in case of EM LCY compared to EM USD sovereigns. At the same time, the sensitivity of EM LCY index to UST yields tends to jump during periods of sharp decline in UST yields- (positive beta). The influence of external drivers in impacting EM LCY performance has reduced in line with the decline in foreign holdings of EM LCY debt. As a result, EM LCY sovereigns are more insular to offshore bond redemptions during periods of elevated global market volatility. In addition, the inclusion of China LCY bonds in the Global bond benchmark index has also increased EM LCY sensitivity to China's growth outlook. This correlation is rising again with key EM central bank monetary policy divergence reducing against China's more accommodative policy stance. Many EMs started to tighten rates earlier (some also aggressive) than the DM central banks. Hence the EM central banks have the advantage of switching to a more accommodative stance earlier than the DM central banks. This is particularly in case of EM countries where there is evidence of slowing price pressures (EM EMEA is an exception here). Lower external vulnerability, influence of domestic factors, increased correlation to China growth outlook (which is softening now) act as supporting forces and make the EM LCY a good diversification play. However, valuations are not cheap with EM LCY bond yield trading lower than the EM USD sovereign bond index. In addition, there are few EMs where real rates are in the positive territory (EM EMEA in negative zone). The 10yr EM LCY spread against 10yr UST spread has also tightened since 2021 in most EM countries, as markets price in rate cuts. Lastly, increased domestic factors influence mean that selectivity is key. As such, we maintain an underweight stance on EM LCY bonds.

Global markets' performance snapshot*

Index Snapshot (World Indices)*			
Index	Latest	Weekly %	YTD %
S&P 500	4,205	0.32	9.53
Dow Jones	33,093	-1.00	-0.16
Nasdaq	12,976	2.51	23.97
DAX	15,984	-1.79	14.80
Nikkei 225	30,916	0.35	20.05
FTSE 100	7,627	-1.67	2.35
Sensex	62,502	1.25	2.73
Hana Sena	24,209	-3.62	-5.70
Regional Markets			
ADX	9,453	-0.27	-7.42
DFM	3,541	-0.09	6.16
Tadawul**	11,185	-1.41	6.29
DSM**	10,456	-1.77	-2.39
MSM30**	4,642	-1.17	-4.67
BHSE**	1,962	0.99	3.46
KWSE**	6,765	-0.52	-6.77
MSCI			
MSCI World	2,828	-0.52	8.65
MSCI EM	973	-0.45	1.72

Source: Bloomberg, and ADCB Asset Management

Notes: *Data as of May 26 2023 unless stated otherwise; **Data as of May 25 2023.

Global Commodities, Currencies and Rates*

Commodity	Latest	Weekly %	YTD %
ICE Brent USD/bbl	77.0	1.81	-9.71
Nymex WTI USD/bbl	72.7	1.57	-8.60
Gold USD/t oz	1,946.5	-1.59	6.67
Silver USD/t oz	23.3	-2.31	-2.85
Platinum USD/t oz	1,026.4	-3.77	-4.30
Copper USD/MT	8,082.0	-1.70	-3.64
Alluminium	2,223.0	-2.12	-5.38
Currencies			
EUR USD	1.07	-0.76	0.25
GBP USD	1.23	-0.81	2.20
USD JPY	140.60	1.90	6.72
Rates			
	Latest	Weekly (bp)	YTD(bp)
SOFR	5.06	1.00	76.00
USD Libor 3m	5.48	8.30	70.84
USD Libor 12m	5.66	21.57	17.82
UAE Eibor 3m	5.14	3.70	82.72
UAE Eibor 12m	5.18	-10.05	7.40
US 3m Bills	5.23	1.22	88.65
US 10yr Treasury	3.80	12.57	-7.65

Prerana Seth

Fixed Income Strategist
Tel: +971 (0)2 696 2878
prerana.seth@adcb.com

Kishore Muktinutalapati

Head - Investment Strategy
Tel: +971 (0)2 696 2358
kishore.muktinutalapati@adcb.com

Mohammed Al Hemeiri

Analyst
Tel: +971 (0)2 696 2236
mohammed.alhemeiri@adcb.com

Ahmed Al Falahi

Analyst
Tel: +971 (0)2 497 3934
ahmed.a5@adcb.com

Visit [Investment Strategy Webpage](#) to read our other reports

Summary market outlook

Global Yields

Yields on 10Y USTs rose significantly over the week amidst US debt ceiling uncertainty. Yields on 10 German bunds increased despite reports of Germany entering into a technical recession. Yields on 10Y Gilt bonds jumped on hawkish BoE comments. Yield on 10Y JGBs increased over the week. 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 higher- peaking during the middle of the week. MOVE Index (measure of bond volatility) rose over the week for the second time in a row. 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 ended the week lower. All GCC markets recorded losses with the exception of Bahrain which recorded marginal gains while Qatar underperformed the most in 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 lower, due to a mixture of bad economic data, and uncertainty over the debt ceiling. DM equities slightly underperformed EM equities. In DM, US and Japan equities outperformed while UK equities underperformed the most. European equities also recorded losses. In the US, we had mixed results with technology heavy- Nasdaq gaining c2.5% while Dow Jones declined c1%. 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 increased over the week peaking at the end of the week. HK tech had another volatile week and declined over the week.

Commodities

Precious Metals

Precious metal prices declined for a second week in a row on broad dollar strength with Silver leading the underperformance. We are overweight gold as a hedge against potential inflation, growth, and geopolitical risks.

Energy

Oil prices increased over the week mainly on reports of declining US inventories and markets anticipating possible steps at the upcoming June 4th OPEC+ meeting after warning from Saudi energy ministers to the short-sellers. 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 declined this week due to China's weakening demand outlook with aluminium underperforming copper. Another commodity super-cycle is difficult, yet demand for commodities linked to "green infrastructure" is likely to sustain.

Currencies

EURUSD

EUR/USD declined on increased dollar strength and a higher than expected fall in Eurozone manufacturing PMI. We expect euro to stabilize and record a better performance in 2023 compared to 2022.

Critical levels



GBPUSD

GBP/USD declined this week despite the upside surprise in UK inflation spurring BoE rate hike expectations. We expect GBP to weaken against EUR and stay flat versus the USD.

Critical levels



USDJPY

USD/JPY rose for the third consecutive week outperforming G-10 peers amid U.S default worries. Yen is likely to strengthen in 2023 as interest rate differentials tighten, and as broad USD weakens.

Critical levels



The Weekly Market View

May 29 2023

Forthcoming important economic data/events

United States

Date & Time (GST)	Indicator	Period	Expected	Prior
05/30/23 18:00	Conf. Board Consumer Confidence	May	99.5	101.3
05/30/23 18:30	Dallas Fed Manf. Activity	May	--	-23.4
05/31/23 15:00	MBA Mortgage Applications	26-May	--	-4.60%
05/31/23 22:00	Federal Reserve Releases Beige Book			
06/01/23 16:30	Nonfarm Productivity	1Q F	-2.70%	-2.70%
06/01/23 16:30	Initial Jobless Claims	27-May	--	--
06/01/23 16:30	Continuing Claims	20-May	--	--
06/01/23 17:45	S&P Global US Manufacturing PMI	May F	--	48.5
06/01/23 18:00	ISM Manufacturing	May	47	47.1
06/01/23 18:00	ISM New Orders	May	--	45.7
06/02/23 16:30	Change in Nonfarm Payrolls	May	175k	253k
06/02/23 16:30	Unemployment Rate	May	3.50%	3.40%
06/02/23 16:30	Average Hourly Earnings YoY	May	4.30%	4.40%
06/02/23 16:30	Labor Force Participation Rate	May	--	62.60%

Japan

Date & Time (GST)	Indicator	Period	Expected	Prior
05/30/23 03:30	Jobless Rate	Apr	--	2.80%
05/31/23 03:50	Retail Sales YoY	Apr	--	7.20%
05/31/23 03:50	Industrial Production MoM	Apr P	--	1.10%
05/31/23 09:00	Annualized Housing Starts	Apr	--	0.877m
05/31/23 09:00	Consumer Confidence Index	May	--	35.4
06/01/23 04:30	Jibun Bank Japan PMI Mfg	May F	--	50.8
06/02/23 03:50	Monetary Base YoY	May	--	-1.70%

Eurozone

Date & Time (GST)	Indicator	Period	Expected	Prior
05/30/23 13:00	Eurozone Consumer Confidence	May F	--	-17.4
05/31/23 10:45	France CPI YoY	May P	5.60%	5.90%
05/31/23 10:45	France PPI YoY	Apr	--	12.90%
05/31/23 10:45	France GDP QoQ	1Q F	0.20%	0.20%
05/31/23 16:00	Germany CPI YoY	May P	6.50%	7.20%
06/01/23 11:50	France HCOB Manufacturing PMI	May F	--	46.1
06/01/23 11:55	Germany HCOB Manufacturing PMI	May F	42.9	42.9
06/01/23 12:00	Eurozone HCOB Manufacturing PMI	May F	44.6	44.6
06/01/23 13:00	Eurozone Unemployment Rate	Apr	6.50%	6.50%
06/01/23 13:00	Eurozone CPI Estimate YoY	May	6.40%	7.00%
06/01/23 13:00	Eurozone CPI Core YoY	May P	5.50%	5.60%
06/02/23 10:45	France Industrial Production YoY	Apr	--	-0.10%
06/02/23 10:45	France Manufacturing Production YoY	Apr	--	0.70%

The Weekly Market View

May 29 2023

United Kingdom

Date & Time (GST)	Indicator	Period	Expected	Prior
05/28/23-06/03/23	Nationwide House Px NSA YoY	May	--	-2.70%
05/31/23 12:30	Net Consumer Credit	Apr	--	1.6b
05/31/23 12:30	Mortgage Approvals	Apr	--	52.0k
06/01/23 12:30	S&P Global/CIPS UK Manufacturing PMI	May F	--	46.9

China and India

Date & Time (GST)	Indicator	Period	Expected	Prior
05/31/23 05:30	China Manufacturing PMI	May	49.2	49.2
05/31/23 05:30	China Non-manufacturing PMI	May	--	56.4
05/31/23 16:00	India GDP YoY	1Q	5.10%	4.40%
06/01/23 05:45	China Caixin PMI Mfg	May	49.3	49.5
06/01/23 09:00	India S&P Global PMI Mfg	May	--	57.2

Disclaimer

ADCB Asset Management Limited ("AAML"), is a member of ADCB Group, licensed by Financial Services Regulatory Authority in Abu Dhabi Global Markets under financial services permission number 170036.

This publication is intended for general information purposes only. It should not be construed as an offer, recommendation or solicitation to purchase or dispose of any securities or to enter in any transaction or adopt any hedging, trading or investment strategy. Neither this publication nor anything contained herein shall form the basis of any contract or commitment whatsoever. Distribution of this publication does not oblige ADCB Group to enter into any transaction.

The content of this publication should not be considered as legal, regulatory, credit, tax or accounting advice. Anyone proposing to rely on or use the information contained in the publication should independently verify and check the accuracy, completeness, reliability and suitability of the information and should obtain independent and specific advice from appropriate professionals or experts regarding information contained in this publication. Investment products are not available to US persons.

Information and opinions contained herein is are based on various sources, including but not limited to public information, annual reports and statistical data that AAML considers accurate and reliable. However, AAML makes no representation or warranty as to the accuracy or completeness of any statement made in or in connection with this publication and accepts no responsibility whatsoever for any loss or damage caused by any act or omission taken as a result of the information contained in this publication. This publication is intended for customers who are either retail or professional investors.

Charts, graphs and related data or information provided in this publication are intended to serve for illustrative purposes only. The information contained in this publication is prepared as of a particular date and time and will not reflect subsequent changes in the market or changes in any other factors relevant to their determination. All statements as to future matters are not guaranteed to be accurate. AAML expressly disclaims any obligation to update or revise any forward looking statement to reflect new information, events or circumstances after the date of this publication or to reflect the occurrence of unanticipated events.

ADCB Group does and may at any time solicit or provide commercial banking, investment banking, credit, advisory or other services to the companies covered in its publications. As a result, recipients of this publication should be aware that any or all of foregoing services may at time give rise to a conflict of interest that could affect the objectivity of this publication. Opinions expressed herein may differ from opinions expressed by other businesses or affiliates of ADCB Group.

Past performance does not guarantee future results. Investment products are not bank deposits and are not guaranteed by ADCB Group. They are subject to investment risk, including possible of loss of principal amount invested. This publication may not be reproduced or circulated without ADCB Group written authority. The manner of circulation and distribution may be restricted by law or regulation in certain jurisdictions. Persons who come into possession of this document are required to inform themselves of, and to observe such restrictions. Any unauthorized use, duplication, or disclosure of this document is prohibited by law and may result in prosecution.