

Growth over inflation

Markets focus switched to economic optimism while inflation concerns took a backseat. Economic data also reaffirmed the economic optimism- weekly jobless claims declined more than expected to a new pandemic low, core durable goods order was upbeat and acceleration in regional manufacturing surveys continued. Meanwhile, inflation fears cooled off despite the recent jump in Fed's preferred inflation gauge- Core PCE and evidence of higher readings of inflation outlook in the consumer confidence and University of Michigan surveys. Global equities ended the last week of May on a strong note, driven by the risk-on mode. EM equities outperformed the DM stocks. Within DM, Japan and Canada outperformed while Europe underperformed; yet equities across all major regions posted gains. In terms of sector-wise performance, consumer discretionary, communication services, and real estate outperformed the most while consumer staples, health care, and utilities underperformed. Long-term US Treasuries remained calm as bond markets shrugged off the inflation reading as transitory. In addition, the "thinking about talking about taper" also failed to have any effect on the long-term US Treasuries. US corporate bonds advanced, with US IG benefitting the most from the stabilisation in UST yields. In Europe, core bond yields declined over the week. In the currency market, the dollar stabilized from its recent four-month low, ending the week almost unchanged. In the commodities, oil prices rebounded, driven by demand optimism amidst summer re-openings. Gold prices advanced, recording gains for the fourth week in a row.

Taper in the price

Bond markets seemed to have ignored the recent comments from the Fed on "thinking about talking about taper". This is not surprising, in our view, as the current levels of long-term yields already seemed to be fully pricing in the taper prospects with the 5yr5yr US forwards trading close to the Fed's long-term neutral rate. For the bond markets, inflation overshoot still remains more of an issue compared to prospective taper talks. More recently, markets reaction to the uptick to inflation has been muted. Inflationary expectations measured through the 5yr5yr inflation swap and the breakevens have stabilised. Yet, it is still early to conclude that the markets have started believing the Fed. It appears that the markets are definitely more on the "wait and watch" mode when it comes to inflation trends. More concerning is that from financial markets, inflation fears are now slowly building up in the average consumers' minds. This has been evident in the recent jump seen in consumer expectations and pricing of inflation outlook for the next 12 months. So far the jump in expectations appear to be driven by temporary factors. However, if the consumer expectations remain sticky, they could possibly start reflecting in demand for higher wages. Overall, we still remain in Fed's camp and believe that inflation will be a short-term problem. However, inflation-related volatility is likely to stay [Q2 2021 Outlook: A balancing act, April 2021](#). Another pressing concern for the bond markets is that real yields are back deep in the negative zone, lowest since 1970s. Clearly this widening disconnect between the real yields and the growth outlook is unlikely to be sustainable, so any further downside in long-term bond yields is limited. We maintain our low duration stance on USTs.

Global markets' performance snapshot

Index Snapshot (World Indices)			
Index	Latest	Weekly %	YTD %
S&P 500	4,204	1.2	11.9
Dow Jones	34,529	0.9	12.8
Nasdaq	13,749	2.1	6.7
DAX	15,520	0.5	13.1
Nikkei 225	28,642	2.9	6.2
FTSE 100	7,023	0.1	8.7
Sensex	51,423	1.7	7.7
Hang Seng	29,124	2.3	7.0
Regional Markets (Sunday to Thursday)			
ADX	6,548	0.5	29.2
DFM	2,816	2.4	13.1
Tadawul	10,520	1.7	21.1
DSM	10,764	0.6	3.2
MSM30	3,832	-0.9	4.7
BHSE	1,533	-0.3	2.9
KWSE	6,241	-1.3	12.4
MSCI			
MSCI World	2,971	1.2	10.8
MSCI EM	1,354	2.3	5.4

Global Commodities, Currencies and Rates

Commodity	Latest	Weekly %	YTD %
ICE Brent USD/bbl	69.6	4.8	32.7
Nymex WTI USD/bbl	66.3	4.3	36.7
Gold USD/t oz	1,903.8	1.2	0.5
Silver USD/t oz	27.9	1.3	6.0
Platinum USD/t oz	1,184.4	1.0	10.7
Copper USD/MT	10,032.5	1.5	31.2
Alluminium	2,461.3	4.9	24.6
Currencies			
EUR USD	1.22	0.1	-0.3
GBP USD	1.42	0.3	3.9
USD JPY	109.85	0.8	6.0
CHF USD	0.90	0.2	-1.6
Rates			
	Latest	Weekly (bp)	YTD(bp)
USD Libor 3m	0.13	-1.2	-10.4
USD Libor 12m	0.25	-1.1	-9.3
UAE Eibor 3m	0.42	7.9	-8.8
UAE Eibor 12m	0.57	14.3	-8.4
US 3m Bills	0.00	0.5	-5.6
US 10yr Treasury	1.59	-2.7	68.1

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Summary market outlook

Global Yields 10Y UST yields declined over the week, despite the uptick in inflation readings. In Eurozone, core bond yields edged lower over the week. 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 again declined near the lowest levels since Feb 2020. 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 underperformed broader global equity benchmarks last week despite a strong rise in oil prices. Within the region, UAE, and Saudi Arabia equities outperformed while Kuwait, Oman, and Qatar underperformed. In both UAE and Saudi, reopening gathered momentum. As a result, Dubai equity market, which is a high beta play on reopening, has outperformed all other regional markets. 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 posted strong gains last week. EMs outperformed DMs. All three EM regions – Asia, LatAm and EMEA – delivered strong positive returns. Within DM, Japan and Canada outperformed while Europe underperformed; yet equities across all major regions posted gains. Sector-wise, consumer discretionary, communication services, and real estate outperformed the most while consumer staples, health care, and utilities 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 New economy themes outperformed in the US as bond yields declined during the week. Nasdaq-100 and NYSE FANG+ index delivered strong positive returns. However, reversing the performance of last week, US tech outperformed Chinese tech (HK tech index fell slightly last week after rising c6% during the previous week).

Commodities

Precious Metals Gold prices extended their gains for the fourth consecutive week. Silver also advanced last week. We keep our overweight in gold as a hedge against potential risks on the horizon.

Energy Oil prices rebounded driven by demand optimism on summer re-openings. Overall, we believe that oil prices are likely to remain sustained as the market approaches a balance.

Industrial Metals Industrial metal prices also rebounded, led by the overall global growth optimism. While another commodity super-cycle appears difficult, demand for commodities linked to environmental friendly green infrastructure is likely to sustain.

Currencies

EURUSD The euro was mostly unchanged versus the dollar 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** 1.2330 **R1** 1.2261 **S1** 1.2128 **S2** 1.2064

GBPUSD The pound sterling stabilized versus the dollar last week. 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** 1.4293 **R1** 1.4241 **S1** 1.4114 **S2** 1.4039

USDJPY The Japanese yen weakened versus the dollar with the risk-on mood dominating the sentiment. Over the medium-term, we believe that BoJ yield curve targeting should put downward pressure on JPY.

Critical levels **R2** 111.18 **R1** 110.51 **S1** 108.87 **S2** 107.90

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

The Weekly Market View

May 31 2021

Forthcoming important economic data/events

United States

Indicator	Period	Expected	Prior	Comments
06/01/21	Markit US Manufacturing PMI	May F	61.5	61.5
06/01/21	Construction Spending MoM	Apr	0.50%	0.20%
06/01/21	ISM Manufacturing	May	60.9	60.7
06/03/21	ADP Employment Change	May	650K	742K
06/03/21	Initial Jobless Claims	29-May	395K	742K
06/03/21	Continuing Claims	22-May	3615K	3642K
06/03/21	Langer Consumer Comfort	30-May	--	53.8
06/03/21	Markit US Services PMI	May F	70.1	70.1
06/03/21	Markit US Composite PMI	May F	--	68.1
06/03/21	ISM Services Index	May	63	62.7
06/04/21	Change in Nonfarm Payrolls	May	650K	266K
06/04/21	Unemployment Rate	May	5.90%	6.10%
06/04/21	Durable Goods Orders	Apr F	-1.30%	-1.30%
06/04/21	Factory Orders	Apr	-0.20%	1.10%

Market attention will be on market payroll data and PMI. Also, ISM Manufacturing, Initial Jobless Claims, Durable Goods Orders will be closely watched.

Japan

Indicator	Period	Expected	Prior	Comments
05/31/21	Industrial Production MoM	Apr P	3.90%	1.70%
05/31/21	Retail Sales YoY	Apr	15.20%	5.20%
05/31/21	Housing Starts YoY	Apr	5.00%	--
05/31/21	Annualized Housing Starts	Apr	0.858m	--
06/01/21	Capital Spending YoY	1Q	-7.20%	-4.80%
06/01/21	Jibun Bank Japan PMI Mfg	May F	--	52.5
06/01/21	Vehicle Sales YoY	May	--	22.20%
06/02/21	Monetary Base YoY	May	--	24.30%
06/03/21	Jibun Bank Japan PMI Services	May F	--	45.7
06/03/21	Jibun Bank Japan PMI Composite	May F	--	48.1

Focus will be on PMI releases.

Eurozone

Indicator	Period	Expected	Prior	Comments
05/31/21	Germany CPI YoY	May P	2.30%	2.00%
06/01/21	France Markit Manufacturing PMI	May F	59.2	59.2
06/01/21	Eurozone Markit Manufacturing PMI	May F	62.8	62.8

All focus will be on PMI releases.

United Kingdom

Indicator	Period	Expected	Prior	Comments
06/01/21	Nationwide House Px NSA YoY	May	9.40%	7.10%
06/01/21	Markit UK PMI Manufacturing SA	May F	66.1	66.1
06/02/21	Mortgage Approvals	Apr	81.0K	82.7K

PMI Manufacturing will be important.

China and India

Indicator	Period	Expected	Prior	Comments
05/31/21	China Non-manufacturing PMI	May	55.1	54.9
05/31/21	China Manufacturing PMI	May	51.1	51.1
05/31/21	India GDP YoY	1Q	0.90%	0.40%
06/01/21	Caixin China PMI Mfg	May	52	51.9
06/01/21	Markit India PMI Mfg	May	--	55.5
06/04/21	India RBI MPC Meeting	4-June	No Change	

All eyes will be on China PMI. In India focus will be on RBI meeting.

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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