The Weekly Market View

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بنك أبوظبي التجاري
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Goldilocks shaken by inflation concerns

Higher-than-expected inflation reported in the US and China last week seem to have overshadowed positive economic momentum that markets enjoyed the previous week. In the US, CPI rose 6.2% y-o-y in October, the highest rate since December 1990. Higher inflation appeared to be feeding into weaker consumer sentiment – University of Michigan consumer sentiment index for November fell to its lowest level since November 2011. In China, PPI inflation hit a 26-year high. Mainland China's CPI inflation too was higher than expected. Recent passage of the Biden administration's USD1.2trn infrastructure bill in the House of Representatives helped to some extent. Upside surprise in US CPI data pushed UST bond yields higher for the week. Core Eurozone bond yields rose in sympathy with rising UST yields. Peripheral Eurozone and UK government bond yields broadly tracked core markets. The yield on the 10Y JGBs was broadly unchanged. Thanks to the strong support from rising UST yields, the broader USD rose to the highest level seen in almost 16 months. Equities posted small losses last week. EMs registered gains and outperformed DMs which lost value. Speculation that Chinese regulators would announce easing measures to help indebted property companies helped Chinese equities. Gold prices rose for the second consecutive week to hit a five month high on rising inflation. Prices of silver and platinum increased too. Oil prices fell for the third straight week as OPEC downgraded its 2021 global oil demand forecast. Copper and aluminium prices rose as curbs on power use imposed by China are feared to have caused more production suspensions.

What to make of weak China macro?

China has been in a different phase of the economic cycle compared to many other major economies over the past several quarters. Thanks to its efforts in bringing the COVID-19 under control quickly in 2020, China emerged to be the only large economy to have posted a growth in its GDP last year. Against this backdrop, China's policy response has not been as strong as it was in the rest of the world during the past six quarters. At the same time, Chinese regulators also tried reining in excesses in some key sectors while also establishing a goal of 'common prosperity' which aims to make the Chinese society more equitable. These developments have caused China's GDP growth on a y-o-y basis to slow to 4.9% in Q3 2021 from 18.3% in Q1 and 7.9% in Q2. However, according to Bloomberg consensus economics estimates, China's GDP growth is likely to bottom in Q4 2021 at 3.5% before accelerating to 5.7% in Q4 2022. This would be in sharp contrast to trends in the US and Western Europe where the GDP growth is likely to decelerate. 2022 could be the year when China's GDP growth accelerates while the developed world's growth decelerates. Taking a long-term view, the International Monetary Fund (IMF) estimates China's annual GDP growth to normalize to more modest c5% over the next five years compared with almost 7% average over the years between 2015 and 2019 and compared with a 9.4% average annual growth figure over the past 40 years. While considering these numbers, one should keep in mind the extent of development China managed to achieve over years and where China stands now – as the second largest economy in the world in nominal GDP terms. Cyclical growth prospects for China's economy are expected to improve over coming quarters, and normalization in GDP growth over the next five years is not something unusual given the size of the Chinese economy. For long-term global investors, China is too big to ignore – even after adjusting for an investing climate that is different from some of the developed world financial markets. We think having a well-defined exposure to Chinese assets is more important now than ever given the policy-driven accelerated decoupling between the US and China.

Global markets' performance snapshot

Index Snapshot (World Indices)

Index	Latest	Weekly %	YTD %
S&P 500	4,683	-0.3	24.7
Dow Jones	36,100	-0.6	17.9
Nasdaq	15,861	-0.7	23.1
DAX	16,094	0.2	17.3
Nikkei 225	29,610	0.0	7.9
FTSE 100	7,348	0.6	13.7
Sensex	60,687	1.0	27.1
Hang Seng	25,328	1.8	-7.0
Regional Markets (Sunday to Thursday)			
ADX	8,286	3.4	64.2
DFM	3,141	1.1	26.0
Tadawul	11,899	1.2	36.9
DSM	12,041	0.8	15.4
MSM30	4,012	-0.9	9.6
BHSE	1,789	0.6	20.1
KWSE	7,318	1.6	32.0
MSCI			
MSCI World	3,224	-0.3	19.8
MSCI EM	1,285	1.7	-0.4

Global Commodities, Currencies and Rates

Commodity	Latest	Weekly %	YTD %
Brent USD/bbl	82.2	-0.7	58.6
WTI USD/bbl	80.8	-0.6	66.5
Gold USD/t oz	1,864.9	2.6	-1.8
Silver USD/t oz	25.3	4.8	-4.1
Platinum USD/t oz	1,085.8	4.8	1.3
Copper USD/MT	9,854.5	1.2	27.3
Alluminium	2,698.4	6.3	36.3
Currencies			
EUR USD	1.14	-1.1	-6.3
GBP USD	1.34	-0.6	-1.9
USD JPY	113.89	0.4	10.3
CHF USD	0.92	1.0	-3.9
Rates			
USD Libor 3m	0.16	9.3	-34.6
USD Libor 12m	0.39	8.5	13.5
UAE Eibor 3m	0.29	0.4	-42.9
UAE Eibor 12m	0.74	5.0	13.8
US 3m Bills	0.04	6.7	-30.4
US 10yr Treasury	1.56	7.6	71.0

Summary market outlook

Global Yields	Upside surprise in US CPI data pushed the UST bond yields higher for the week. Investment-grade corporate bond credit spreads widened over the holiday-shortened week, with more volatile and longer-maturity corporates underperforming slightly. Core Eurozone bond yields rose in sympathy with rising UST yields. Peripheral Eurozone and UK government bond yields broadly tracked core markets. The yield on the 10Y JGBs was broadly unchanged. Overall, we recommend a lower duration stance (5Y USTs) in anticipation of interest rate volatility in the near term.
Stress and Risk Indicators	VIX rose sharply in the first half of last week but fell subsequently. SKEW index a measure of tail risks remained well behaved. 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	GCC equity markets performed strongly despite the weakness in oil prices. All three major markets – UAE, Kuwait and Saudi Arabia – performed strongly. Within UAE, Abu Dhabi equities outperformed on strong earnings season. Abu Dhabi has proposed a regulatory framework to allow the listing of blank-cheque companies. This potentially could help special-purpose acquisition companies (SPACs). 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 markets.
Global Equity Markets	Equities posted small losses last week. EMs registered gains and outperformed DMs which lost value. Within EMs, all regions except EM EMEA posted gains. Amongst DMs, Canada and UK outperformed while Japan and Europe-ex-UK underperformed. Sector wise, materials and industrials posted gains and outperformed while consumer discretionary, energy, and utilities posted losses and underperformed. From a strategy view point, we are moderately overweight US, UK, and Asia Pacific; underweight Eurozone and EMs outside Asia. By sector we prefer industrials, IT, and communication services. 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. Yet, in the very near-term, as the new wave of COVID-19 fear subsides, we see opportunities in cyclicals, value, small caps, and re-opening sectors.
Technology Segments	HKtech index, a measure of Chinese tech equity performance, rose c5% last week paring some of its losses year-to-date. Strength in broader Chinese equities helped. In the US, Nasdaq-100 index lost c1% over the week.
Commodities	
Precious Metals	Gold prices rose for the second consecutive week to hit a five month high on rising inflation. Prices of silver and platinum increased too. We keep our overweight in gold as a hedge against potential risks on the horizon.
Energy	Oil prices fell for the third straight week as OPEC (on November 11) downgraded its 2021 global oil demand forecast by 160,000bpd, citing weaker economic factors in China and India. Overall, we believe that oil prices will remain sustained as the market approaches a balance.
Industrial Metals	Copper and aluminium prices rose as curbs on power use imposed by China are feared to have caused more production suspensions. While another commodity super-cycle appears difficult, demand for commodities linked to environmental friendly green infrastructure is likely to sustain.
Currencies	
EURUSD	EUR fell further against the USD to the lowest level since mid-July 2020. EURGBP fell on positive Brexit news flow. Re-opening is a positive for EUR while risk-off sentiment and the easier policy are moderately negative.
Critical levels	R2 1.1782 · R1 1.1614 · S1 1.1355 · S2 1.1264
GBPUSD	Stronger broad USD and lingering effect of the BoE policy disappointment meant weaker cable. We expect the cable to be driven by how the BoE policy evolves out over the near-term and to decouple from the EUR.
Critical levels	R2 1.4016 · R1 1.3715 · S1 1.3233 · S2 1.3052
USDJPY	USDJPY rose as inflation data in the US supported higher yield-differentials between the US and Japan. Over the medium-term, BoJ’s yield curve targeting should put downward pressure on JPY.
Critical levels	R2 117.02 · R1 115.45 · S1 111.57 · S2 109.26

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
11/15/21	Empire Manufacturing	Nov	22.0	19.8	Retail sales for October is highlight this week. Bloomberg survey of economists shows expectations for a pickup in retail sales growth m-o-m in October. Retail sales surged higher this spring and have stayed at an elevated level since then, partly reflecting higher prices. In inflation-adjusted terms, retail sales have dropped back modestly since April. Industrial production, NAHB housing market index, building permits, housing starts, regional activity indicators, and jobless claims data are other data releases worth watching.
11/16/21	**Retail Sales Advance MoM**	**Oct**	**1.30%**	**0.70%**	
11/16/21	**Industrial Production MoM**	**Oct**	**0.80%**	**-1.30%**	
11/16/21	Capacity Utilization	Oct	75.90%	75.20%	
11/16/21	**NAHB Housing Market Index**	**Nov**	**80**	**80**	
11/17/21	MBA Mortgage Applications	12-Nov	--	5.50%	
11/17/21	Building Permits	Oct	1,630k	1,589k	
11/17/21	Housing Starts	Oct	1,580k	1,555k	
11/18/21	**Initial Jobless Claims**	**13-Nov**	**260k**	**267k**	
11/18/21	Continuing Claims	6-Nov	2,123k	2,160k	
11/18/21	Philadelphia Fed Business Outlook	Nov	24.0	23.8	
11/18/21	Kansas City Fed Manf. Activity	Nov	30	31	

Japan

	Indicator	Period	Expected	Prior	Comments
11/15/21	**GDP SA QoQ**	**3Q P**	**-0.20%**	**0.50%**	Q3 GDP growth is expected to contract on a sequential basis as consumer spending, business investment and non-residential construction create a drag. Import growth is expected to have slowed into October while export growth has likely moderated further. On inflation headline number is expected to remain unchanged.
11/15/21	Industrial Production YoY	Sep F	--	-2.30%	
11/16/21	Tertiary Industry Index MoM	Sep	0.80%	-1.70%	
11/17/21	**Exports YoY**	**Oct**	**10.50%**	**13.00%**	
11/17/21	**Imports YoY**	**Oct**	**31.90%**	**38.60%**	
11/17/21	Core Machine Orders YoY	Sep	17.70%	17.00%	
11/19/21	**Natl CPI YoY**	**Oct**	**0.20%**	**0.20%**	
11/19/21	**Natl CPI Ex Food, Energy YoY**	**Oct**	**-0.70%**	**-0.50%**	

Eurozone

	Indicator	Period	Expected	Prior	Comments
11/16/21	France CPI YoY	Oct F	2.60%	2.60%	Eurozone Q3 GDP data is expected to show no surprises. However, the focus is likely to be on whether the region's economic output has reached its pre-pandemic levels. Final print of October inflation is expected to confirm the trend of rising inflation. German PPI is expected to have risen strongly.
11/16/21	Eurozone Employment YoY	3Q P	--	1.80%	
11/16/21	**Eurozone GDP SA YoY**	**3Q P**	**3.70%**	**3.70%**	
11/17/21	Eurozone CPI YoY	Oct F	4.10%	3.40%	
11/17/21	Eurozone CPI Core YoY	Oct F	2.10%	2.10%	
11/18/21	**EU27 New Car Registrations**	**Oct**	**--**	**-23.10%**	
11/19/21	Germany PPI YoY	Oct	16.20%	14.20%	

United Kingdom

	Indicator	Period	Expected	Prior	Comments
11/15/21	Rightmove House Prices YoY	Nov	--	6.50%	Job market data of September will be important. Market consensus expects the unemployment rate to have fallen marginally to 4.4% in September. Yet average weekly earnings is likely to have decelerated in September. However, both headline CPI and core CPI are expected to have risen during October, driven by sharp utility price rises and partial reversal of VAT cuts for the hospitality sector. These price rises are likely to result in weakness in retail sales.
11/16/21	Claimant Count Rate	Oct	--	5.20%	
11/16/21	**Jobless Claims Change**	**Oct**	**--**	**-51.1k**	
11/16/21	**Average Weekly Earnings 3M/YoY**	**Sep**	**5.60%**	**7.20%**	
11/16/21	**ILO Unemployment Rate 3Mths**	**Sep**	**4.40%**	**4.50%**	
11/17/21	**CPI YoY**	**Oct**	**3.90%**	**3.10%**	
11/17/21	**CPI Core YoY**	**Oct**	**3.10%**	**2.90%**	
11/17/21	RPI YoY	Oct	5.70%	4.90%	
11/19/21	GfK Consumer Confidence	Nov	-18	-17	
11/19/21	**Retail Sales Inc Auto Fuel YoY**	**Oct**	**-1.90%**	**-1.30%**	
11/19/21	Public Sector Net Borrowing (GBPbn)	Oct	12.4	21.0	

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China and India

Date	Indicator	Period	Expected	Prior	Comments
11/15/21	**China Retail Sales YoY**	**Oct**	**3.70%**	**4.40%**	In China, retail sales, industrial production, and fixed asset investments data will be closely watched. A slowdown in growth rates is to be expected across all three segments as per the economists' consensus. In India, trade data will be monitored – especially if exports continue to be the source of strength for the overall economy.
11/15/21	**China Industrial Production YoY**	**Oct**	**3.00%**	**3.10%**	
11/15/21	**China Fixed Assets Ex Rural YTD YoY**	**Oct**	**6.20%**	**7.30%**	
11/15/21	China Surveyed Jobless Rate	Oct	4.90%	4.90%	
11/15/21	India Wholesale Prices YoY	Oct	11.14%	10.66%	
11/15/21	**India Exports YoY**	**Oct**	**--**	**22.60%**	
11/15/21	**India Imports YoY**	**Oct**	**--**	**84.80%**	
11/15-11/16/21	China 1Y MTLF Rate	15-Nov	--	2.95%	

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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