The Weekly Market View

November 21 2021

ADCB ASSET MANAGEMENT LIMITED

Living in the future?

Financial markets had a lot to cheer last week. China's data releases were largely better than expected (fixed asset investment growth was an exception). UK's job market data was strong. In the US, retail sales and industrial production data surprised on the upside. Global economic surprises seemed to have bottomed. In what was considered his most substantial dialogue since taking office, US President Biden met with Chinese President Xi virtually on Monday, although no major breakthrough was announced. Japanese cabinet approved a fiscal spending amounting to JPY55.7trn, which was not only larger than expected but also the largest ever. The US House of Representatives passed a USD1.75trn Biden plan which will now go the senate for discussions. Despite these reasons to cheer, markets suffered "anticipatory anxiety". News flow around Austria implementing a full lockdown and the potential for Germany to follow soon left investors nervous. These concerns showed up in the rather mixed performance of financial market assets last week. Yields on USTs fell last week – with most segments of the yield curve seeing a drop in yields. Equities posted a marginal loss over the week although MSCI ACWI remained close to its all-time high it reached on Tuesday. Growth equities outperformed value equities considerably. Gold prices fell following two consecutive weeks of gains as the broader USD strengthened to levels last seen in July 2020. Prices of silver and platinum fell too. Oil prices fell on rising concerns that potential lockdowns in Europe will likely dent near-term demand. Also, the threat of release of the strategic petroleum reserves from the US and potentially also from others further pressured oil prices.

Food prices – elevated and rising

Food prices, as measured by the United Nations' Food and Agriculture Organisation's (FAO) food price index, have been on a tear this year. FAO food price index comprising of five different commodity groups including meat, dairy, cereals, vegetable oils, and sugar has risen c31% over the past year. In nominal terms this will be the highest level this index has reached in almost 10 years. In real terms, this index is currently at its highest level since the mid-1970s. International food prices tend to be influenced by some global factors, some regional factors, and some very specific to individual commodities. The current higher and rising food prices can be attributed to a range of factors including but not limited to unfavourable weather patterns, labour shortages, rising demand for premium grade products, global supply chain disruptions, higher energy prices, high feed costs, and avian flu outbreaks. The first macro level impact of higher food prices is in the form of higher headline inflation and its implications for monetary policy. Of course, the developed world central banks strip out the effect of more volatile energy and food prices while calculating the measure of their target inflation. However, higher food prices along with higher energy prices in real-terms mean higher wallet share of consumers being spent on food and energy, and therefore less on other consumption activities. This situation is even more difficult for emerging markets where food takes a larger share of the consumer wallet. Should this situation persist, it is likely to strain the post-pandemic recovery of the global economy, albeit at the margin. Looking ahead, as some of the pandemic related disturbances like labour shortages and global supply chain disruptions end, food prices could come under control. However, weather plays an important role too. According to the Climate Prediction Center at the National Oceanic and Atmospheric Administration of the US, there is a 90% chance that the current episode of La Niña will continue through the Northern Hemisphere winter and a 50% chance that it will persist through to the spring of 2022. This should keep the broad food price benchmarks supported at the current elevated levels. Further, agriculture sector remains the beneficiary of the adaptation strategies being pursued in a fight against the climate change.

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Global markets' performance snapshot

Index Snapshot (World Indices)			
Index	**Latest**	**Weekly %**	**YTD %**
S&P 500	4,698	0.3	25.1
Dow Jones	35,602	-1.4	16.3
Nasdaq	16,057	1.2	24.6
DAX	16,160	0.4	17.8
Nikkei 225	29,746	0.5	8.4
FTSE 100	7,224	-1.7	11.8
Sensex*	59,636	-1.7	24.9
Hang Seng	25,050	-1.1	-8.0
Regional Markets (Sunday to Thursday)			
ADX	8,349	0.8	65.5
DFM	3,265	4.0	31.0
Tadawul	11,710	-1.6	34.8
DSM	11,950	-0.8	14.5
MSM30	4,064	1.3	11.1
BHSE	1,791	0.1	20.2
KWSE	7,283	-0.5	31.3
MSCI			
MSCI World	3,220	-0.1	19.7
MSCI EM	1,269	-1.3	-1.7

Global Commodities, Currencies and Rates			
Commodity	**Latest**	**Weekly %**	**YTD %**
Brent USD/bbl	78.9	-4.0	52.3
WTI USD/bbl	76.1	-5.8	56.5
Gold USD/t oz	1,845.7	-1.0	-2.8
Silver USD/t oz	24.6	-2.8	-6.8
Platinum USD/t oz	1,034.2	-4.8	-3.5
Copper USD/MT	9,620.5	-2.4	24.3
Alluminium	2,699.8	0.1	36.4
Currencies			
EUR USD	1.13	-1.4	-7.6
GBP USD	1.35	0.3	-1.6
USD JPY	113.99	0.1	10.4
CHF USD	0.93	0.7	-4.6
Rates			
USD Libor 3m	0.16	3.0	-33.0
USD Libor 12m	0.39	-2.2	14.0
UAE Eibor 3m	0.37	25.8	-28.2
UAE Eibor 12m	0.71	-4.6	8.5
US 3m Bills	0.04	0.0	-30.4
US 10yr Treasury	1.55	-1.0	69.3

Notes: *Data as of November 18 2021

Summary market outlook

Global Yields	Yields on USTs fell last week as concerns about potential lockdowns in Europe weighed on the sentiment. Most segments of the yield curve saw their yields drop. Fears of further coronavirus restrictions in Europe after Austria's announcement of a nationwide lockdown added to downward pressure on core yields. Peripheral Eurozone bonds broadly tracked core markets. UK gilt yields ended the week unchanged. Yield on 10Y JGBs ticked up slightly. Overall, we recommend a lower duration stance (5Y USTs) in anticipation of interest rate volatility in the near term.
Stress and Risk Indicators	VIX ended the week at higher teens – still well below the levels seen during September and early October. 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 equities lost value in aggregate but performed in line with broader EM benchmarks. Within the region, strength in UAE equities was offset by weakness in Saudi Arabian and Kuwaiti equities. Dubai equities performed quite strongly in the first half of the week as the optimism about listing some of the state owned enterprises in the emirate remained. We stay 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 a marginal loss over the week although MSCI ACWI remained close to its all-time high it reached on Tuesday last week. EMs, led down by markets outside Asia, underperformed DMs. Within DM, Japan and US outperformed while Canada and Europe underperformed in USD terms. Sector wise, IT and consumer discretionary outperformed while energy, financials, and materials underperformed the most. 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	Nasdaq-100 index rose c2% and ended the week at a new all-time high. Chinese tech was led down by ADRs. President Xi and President Biden met virtually on Monday, although no major announcements followed.
Commodities	
Precious Metals	Gold prices fell last week following two consecutive weeks of gains as the broader USD strengthened to levels last seen in July 2020. Prices of silver and platinum fell too. We keep our overweight in gold as a hedge against potential risks on the horizon.
Energy	Oil prices fell on rising concerns that potential lockdowns in Europe will likely dent near-term demand. Also, the threat of release of the strategic petroleum reserves from the US and potentially also from others further pressured oil prices. Overall, we believe that oil prices will remain sustained as the market approaches a balance.
Industrial Metals	Copper prices fell while aluminium prices stayed unchanged as USD strengthened. While another commodity super-cycle is difficult, demand for commodities linked to "green infrastructure" is likely to sustain.
Currencies	
EURUSD	EUR fell sharply on the news flow that Austria was to implement a full lockdown and Germany may soon follow. Increased restrictions will be clear negative for EUR; risk-off sentiment and dovish ECB are moderately negative.
Critical levels	R2 1.1853 · R1 1.1571 · S1 1.1129 · S2 1.0969
GBPUSD	Strong job market data, higher CPI, and the lack of a major breakdown in Brexit talks helped the GBP. We expect the GBP to be driven by how the BoE policy evolves over the near-term and to decouple from the EUR.
Critical levels	R2 1.4028 · R1 1.3740 · S1 1.3258 · S2 1.3064
USDJPY	USDJPY rose marginally as the yield-differential between the US and Japan remained. Over the medium-term, BoJ's yield curve targeting should put downward pressure on JPY.
Critical levels	R2 116.57 · R1 115.28 · S1 112.39 · S2 110.79

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
11/22/21	Existing Home Sales	Oct	6.18m	6.29m	Busy data week ahead of Thanksgiving. Flash releases of PMIs for November will be the key data to start with. Market expectations are for both manufacturing and services sectors to have expanded further during November. Second print of the Q3 GDP is expected to be revised up slightly. Personal income is expected to have grown during October partly reversing the losses in the previous month. Personal spending is expected to have accelerated too. PCE deflators – both headline and core – will be very much in focus given the recent CPI print that came at a multi-year high. Elsewhere, UMich consumer sentiment, existing home sales, and new home sales will be important to monitor too. FOMC minutes will be vetted too.
11/23/21	**Markit US Manufacturing PMI**	**Nov P**	**59.1**	**58.4**	
11/23/21	**Markit US Services PMI**	**Nov P**	**59.0**	**58.7**	
11/24/21	MBA Mortgage Applications	19-Nov	--	-2.80%	
11/24/21	Initial Jobless Claims	20-Nov	261k	268k	
11/24/21	Continuing Claims	13-Nov	2,052k	2,080k	
11/24/21	Wholesale Inventories MoM	Oct P	1.10%	1.40%	
11/24/21	Retail Inventories MoM	Oct	0.20%	-0.20%	
11/24/21	**GDP Annualized QoQ**	**3Q S**	**2.20%**	**2.00%**	
11/24/21	Durable Goods Orders	Oct P	0.20%	-0.30%	
11/24/21	**Personal Income**	**Oct**	**0.20%**	**-1.00%**	
11/24/21	**Personal Spending**	**Oct**	**1.00%**	**0.60%**	
11/24/21	**PCE Deflator YoY**	**Oct**	**5.10%**	**4.40%**	
11/24/21	**PCE Core Deflator YoY**	**Oct**	**4.10%**	**3.60%**	
11/24/21	U. of Mich. Sentiment	Nov F	66.9	66.8	
11/24/21	New Home Sales	Oct	800k	800k	
11/24/21	**FOMC Meeting Minutes**	**3-Nov**	**--**	**--**	

Japan

	Indicator	Period	Expected	Prior	Comments
11/24/21	**Jibun Bank Japan PMI Mfg**	**Nov P**	**--**	**53.2**	PMI data is most important. Services sector will be closely watched to see if the expansion of October (which was the first in 21 months) can stick in November.
11/24/21	**Jibun Bank Japan PMI Services**	**Nov P**	**--**	**50.7**	
11/25/21	Nationwide Dept Sales YoY	Oct	--	-4.30%	
11/26/21	Tokyo CPI YoY	Nov	0.40%	0.10%	
11/26/21	Tokyo CPI Ex-Fresh Food YoY	Nov	0.30%	0.10%	

Eurozone

	Indicator	Period	Expected	Prior	Comments
11/22/21	**Eurozone Consumer Confidence**	**Nov A**	**-5.5**	**-4.8**	PMI data is expected to show a modest deceleration in both the manufacturing and services sectors during November. Yet, both the sectors have likely expanded this month. Eurozone consumer confidence, France manufacturing/consumer confidence, and Germany IFO business climate are key too.
11/23/21	**Markit Eurozone Manuf. PMI**	**Nov P**	**57.3**	**58.3**	
11/23/21	**Markit Eurozone Services PMI**	**Nov P**	**53.5**	**54.6**	
11/24/21	France Manufacturing Confidence	Nov	106	107	
11/24/21	**Germany IFO Business Climate**	**Nov**	**96.7**	**97.7**	
11/25/21	Germany GfK Consumer Confidence	Dec	-1.0	0.9	
11/26/21	France Consumer Confidence	Nov	98	99	
11/26/21	Eurozone M3 Money Supply YoY	Oct	7.40%	7.40%	

United Kingdom

	Indicator	Period	Expected	Prior	Comments
11/23/21	**Markit UK PMI Manufacturing SA**	**Nov P**	**57.3**	**57.8**	PMI data is expected to show a modest deceleration in expansion.
11/23/21	**Markit/CIPS UK Services PMI**	**Nov P**	**58.2**	**59.1**	

China and India

	Indicator	Period	Expected	Prior	Comments
11/22/21	**China 1-Year Loan Prime Rate**	**22-Nov**	**3.85%**	**3.85%**	China's policy rate is likely to remain unchanged as PBoC has stepped up targeted liquidity injections.
11/22/21	China 5-Year Loan Prime Rate	22-Nov	4.65%	4.65%	
11/27/21	China Industrial Profits YoY	Oct	--	16.30%	

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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