The Weekly Market View

November 14 2022

ADCB ASSET MANAGEMENT LIMITED

Full-on risk-on

Good tidings of moderating inflation started to trickle down last week. Mid-week saw China report its October CPI and PPI – while the former came lower than expected, the latter showed outright deflation. Turning to the US, October consumer price inflation came lower than expected and showed that inflation was moderating from a multi-decade high. Also, arguably, the better-than-expected performance of Democrats in the US mid-terms perhaps provided some comfort that inflation was not as bigger a problem as initially expected. Yet, the prospects of no absolute control of Congress by either political parties helped sentiment. Further, withdrawal of Russian troops from Kherson region of Ukraine after nine months of occupation improved risk sentiment, especially in Europe. Staying with Europe, German industrial production surprised on the upside. Hopes for China to ease COVID-19 restrictions increased through the week. Concerns of crypto-contagion and weakness in some economic data (Chinese trade, UK GDP, and US University of Michigan consumer sentiment) was not strong enough to dent the otherwise risk-on sentiment. USD extended its losses to four consecutive weeks on hopes that US Fed will slowdown, pause, and eventually pivot on its policy. Over the last two days of the week, helped by softer US CPI, broader USD was down c3.8% – the largest two-day percentage loss since March 2009. Yields on US treasury bonds fell – 10Y UST yields fell sharply by 30bp over the past week. Bond yields were softer across major markets. Global equities rose c6.6% - the largest gain since November 2020 when the announcement of COVID-19 vaccines caused a sharp squeeze higher in equities. Both VIX index (measuring implied volatility in equities), and MOVE index (measure of volatility in bonds) fell over the past week. Gold prices rose sharply as USD weakened and UST yields fell. Silver and platinum prices rose too – the latter rose 10% last week. Weakness in the USD and hopes of China reopening helped industrial commodity prices rise meaningfully. Yet, oil prices fell over the week due to rising US oil inventories.

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Are we there yet?

After a turbulent nine-month period which saw stocks and bonds lose more than 15% of their value, in recent weeks broader financial assets saw strong gains. This is understandably also the point at which investors could ask again if markets have hit a bottom. Are we there yet? Answering this is not easy – not least because the templates of bear-market bottoms of the past three instances (2000, 2008, and 2020) are not very relevant. Remember, monetary policy was a part of the solution then while it appears to be the source of the problem now. However, it is possible to describe how markets will eventually bottom out. If you believe that it is the act of the central banks that is causing economic and financial market stress, a reversal or at least a pause in monetary policy actions should cause some relief. So, what will make central banks stop this policy tightening? It is a moderation in inflation. As we had argued several times, should inflation start to cool down rapidly, there is little incentive for the Fed and other central banks to keep rates at a very elevated level for exceptionally long - especially at a time when the growth picture is softening. So, the question then is when will inflation moderate? In our view, the moderation has begun. October consumer prices data from the US has caused quite a positive market action already. A couple of more favourable readings on US CPI are likely to firm market calculations on the trajectory of inflation. The other aspect to watch for is corporate earnings, which is likely to determine the path of equity and corporate credit markets more specifically. Here, while it is true that earnings face downward pressure over the next quarters, we think earnings downgrade cycle this time around is likely to be short and shallow reflecting our assumption of an asynchronous mid-cycle slowdown rather than an outright recession for the global economy. Moreover, historical evidence suggests that markets bottom out well ahead of the earnings bottom. In fact, in the 1974 episode, the market trough coincided with the earnings peak. Bringing all this together, we believe that markets can stay strong into the year-end but encounter some volatility in Q1 2023 coinciding with peak policy and earnings revisions. That should set the stage for a strong and stable H2 2023.

Global markets' performance snapshot*

Index Snapshot (World Indices)*

Index	Latest	Weekly %	YTD %
S&P 500	3,993	5.9	-16.2
Dow Jones	33,748	4.2	-7.1
Nasdaq	11,323	8.1	-27.6
DAX	14,225	5.7	-10.5
Nikkei 225	28,264	3.9	-1.8
FTSE 100	7,318	-0.2	-0.9
Sensex	61,795	1.4	6.1
Hang Seng	17,326	7.2	-26.0
Regional Markets			
ADX	10,630	1.4	25.2
DFM	3,407	1.7	6.6
Tadawul**	11,212	-2.7	-1.1
DSM**	12,557	1.2	8.1
MSM30**	4,428	0.2	6.8
BHSE**	1,866	0.3	3.8
KWSE**	7,542	1.6	7.1
MSCI			
MSCI World	2,674	6.7	-17.3
MSCI EM	936	5.7	-24.0

Global Commodities, Currencies and Rates*

Commodity	Latest	Weekly %	YTD %
Brent USD/bbl	96.0	-2.6	23.4
WTI USD/bbl	89.0	-3.9	18.3
Gold USD/t oz	1,762.6	5.3	-3.3
Silver USD/t oz	21.5	4.3	-7.6
Platinum USD/t oz	1,040.0	9.8	8.5
Copper USD/MT	8,501.9	4.5	-12.7
Alluminium	2,445.8	4.3	-12.8
Currencies			
EUR USD	1.04	3.9	-8.9
GBP USD	1.18	4.0	-12.5
USD JPY	138.81	-5.3	20.6
USD CHF	0.94	-5.2	3.2
Rates	**Latest**	**Weekly (bp)**	**YTD (bp)**
USD Libor 3m	4.61	5.6	439.7
USD Libor 12m	5.45	-21.5	486.8
UAE Eibor 3m	4.36	6.3	399.1
UAE Eibor 12m	5.12	18.5	438.2
US 3m Bills	4.09	7.0	403.0
US 10yr Treasury	3.86	-30.0	235.8

Notes: *Data as of November 11 2022 unless stated otherwise; **Data as of November 10 2022.

Summary market outlook

Global Yields	Yields on US treasury bonds fell after weaker than expected consumer price inflation data in the US. 10Y UST yields fell sharply by 30bp over the past week. This weakness in bond yields also spread to Europe where despite the high inflation print, German bund yields fell. Contraction in the economic output in the UK triggered softness in UK gilt yields. Yields on Japanese Government bonds fell too. Bond yields and prices are inversely correlated. i.e. yields rise when prices fall and vice versa. Overall, we recommend adding duration on USTs (7-10Y segment) as growth slowdown/recession fears rise.
Stress and Risk Indicators	Both VIX index (measuring implied volatility in equities), and MOVE index (measure of volatility in bonds) fell sharply over the past week. VVIX index (measuring volatility in VIX) remained close to three-year lows. SKEW index (a measure of tail risks in equities) stayed at low levels. We expect financial market volatility to stay elevated as the monetary policy normalizes.
Equity Markets	
Local Equity Markets	MSCI GCC index posted marginal losses over the past week and underperformed not only broader equities but also EM indices. Within the region, Saudi equities fell c3% on falling oil prices. However, all other major markets in the region including Dubai, Kuwait, Abu Dhabi, and Qatar posted sizable gains over the past week. 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 markets.
Global Equity Markets	Global equities (as measured by MSCI All Country World Index) posted gains of c6.6% - the highest in two years. DM equities outperformed their EM counterparts. Within DM where gains were broad-based, Japanese, Eurozone outperformed while UK and Canada underperformed in USD terms. Amongst EMs, gains were led by Asian markets while LatAm posted losses. While all 11 GICS sectors posted gains over the past week, IT and materials outperformed while energy and healthcare underperformed the most. We are moderately overweight US, UK, and Asia Pacific; underweight Eurozone and EMs outside Asia. By sector we prefer healthcare, industrials, and communication services. Our strategic preference is for large cap non-cyclical growth with focus on quality. Our other high conviction ideas include clean energy themes (for medium to long-term); aerospace & defence, food security, energy security, and cybersecurity as plays on rising geopolitical tensions and deglobalization; and consumer services, airlines, and hotels, restaurants & leisure as plays on re-opening.
Technology Segments	Nasdaq-100 and HK tech index rose 9% and 7% respectively over the past week. Within the technology sector, we prefer non-cyclical growth over cyclical growth (tech hardware, semiconductors etc.) over a 12-month horizon.
Commodities	
Precious Metals	Gold prices rose sharply as USD weakened and UST yields fell. Silver and platinum prices rose too – the latter rose 10% last week. We are overweight gold as a hedge against potential inflation, growth, and geopolitical risks.
Energy	Oil prices fell over the week due to rising US oil inventories. Weaker USD and China reopening could not help fully to improve the performance in the second half of the week. Overall, over the medium-term we believe that oil prices will remain sustained as the market balances into the new normal.
Industrial Metals	Weakness in the USD and hopes of China reopening helped industrial commodity prices rise sharply. Another commodity super-cycle is difficult, yet demand for commodities linked to “green infrastructure” is likely to sustain.
Currencies	
EURUSD	EURUSD rose c4% last week largely contributed by the weakness in USD. We expect ECB policy divergence and growth differentials to play a major role in the performance of the euro.
Critical levels	R2 1.0850 · R1 1.0598 · S1 0.9864 · S2 0.9382
GBPUSD	GBPUSD appreciated further to reach a two and half month high on USD weakness. Less than expected Q3 GDP contraction in the UK was helpful. We expect GBP to weaken against USD and stay flat versus the EUR.
Critical levels	R2 1.2490 · R1 1.2160 · S1 1.1212 · S2 1.0594
USDJPY	JPY strengthened quite remarkably against the USD over the past. A 5% move lower in USDJPY made the JPY the best performing currency last week. BoJ policy remains odd-one out and is likely to keep JPY under pressure.
Critical levels	R2 156.56 · R1 147.69 · S1 134.20 · S2 129.58

Forthcoming important economic data/events

United States

Date & Time (GST)	Indicator	Period	Expected	Prior
11/15/22 17:30	**PPI Final Demand MoM**	**Oct**	**0.50%**	**0.40%**
11/15/22 17:30	Empire Manufacturing	Nov	-5.0	-9.1
11/16/22 16:00	MBA Mortgage Applications	11-Nov	--	-0.10%
11/16/22 17:30	**Retail Sales Advance MoM**	**Oct**	**0.90%**	**0.00%**
11/16/22 17:30	Import Price Index MoM	Oct	-0.50%	-1.20%
11/16/22 18:15	**Industrial Production MoM**	**Oct**	**0.00%**	**0.40%**
11/16/22 18:15	Capacity Utilization	Oct	80.40%	80.30%
11/16/22 19:00	NAHB Housing Market Index	Nov	36	38
11/17/22 17:30	Housing Starts	Oct	1,425k	1,439k
11/17/22 17:30	Building Permits	Oct	1,520k	1,564k
11/17/22 17:30	Philadelphia Fed Business Outlook	Nov	-5.0	-8.7
11/17/22 17:30	**Initial Jobless Claims**	**12-Nov**	**--**	**--**
11/17/22 17:30	**Continuing Claims**	**5-Nov**	**--**	**--**
11/17/22 20:00	Kansas City Fed Manf. Activity	Nov	--	-7
11/18/22 19:00	Existing Home Sales	Oct	4.38m	4.71m

Japan

Date & Time (GST)	Indicator	Period	Expected	Prior
11/15/22 03:50	**GDP SA QoQ**	**3Q P**	**0.30%**	**0.90%**
11/15/22 03:50	**GDP Deflator YoY**	**3Q P**	**-0.60%**	**-0.30%**
11/15/22 08:30	Industrial Production MoM	Sep F	--	-1.60%
11/15/22 08:30	Capacity Utilization MoM	Sep	--	1.20%
11/16/22 03:50	Core Machine Orders MoM	Sep	1.00%	-5.80%
11/16/22 08:30	Tertiary Industry Index MoM	Sep	--	0.70%
11/17/22 03:50	Imports YoY	Oct	50.60%	45.90%
11/17/22 03:50	Exports YoY	Oct	27.10%	28.90%
11/18/22 03:30	**Natl CPI YoY**	**Oct**	**3.70%**	**3.00%**
11/18/22 03:30	**Natl CPI Ex Fresh Food, Energy YoY**	**Oct**	**2.30%**	**1.80%**

Eurozone

Date & Time (GST)	Indicator	Period	Expected	Prior
11/14/22 14:00	Eurozone Industrial Production SA MoM	Sep	--	1.50%
11/15/22 14:00	Germany ZEW Survey Expectations	Nov	--	-59.2
11/15/22 14:00	Germany ZEW Survey Current Situation	Nov	--	-72.2
11/15/22 14:00	**Eurozone ZEW Survey Expectations**	**Nov**	**--**	**-59.7**
11/15/22 14:00	**Eurozone Employment QoQ**	**3Q P**	**--**	**0.40%**
11/15/22 14:00	**Eurozone GDP SA QoQ**	**3Q P**	**--**	**0.20%**
11/17/22 11:00	EU27 New Car Registrations	Oct	--	9.60%
11/17/22 14:00	Eurozone CPI YoY	Oct F	--	9.90%

United Kingdom

Date & Time (GST)	Indicator	Period	Expected	Prior
11/14/22 04:01	Rightmove House Prices MoM	Nov	--	0.90%
11/15/22 11:00	Claimant Count Rate	Oct	--	3.90%
11/15/22 11:00	Jobless Claims Change	Oct	--	25.5k
11/15/22 11:00	**Average Weekly Earnings 3M/YoY**	**Sep**	**--**	**6.00%**
11/15/22 11:00	**ILO Unemployment Rate 3Mths**	**Sep**	**--**	**3.50%**
11/16/22 11:00	**CPI YoY**	**Oct**	**--**	**10.10%**
11/16/22 11:00	**CPI Core YoY**	**Oct**	**--**	**6.50%**
11/16/22 11:00	RPI YoY	Oct	--	12.60%
11/16/22 13:30	House Price Index YoY	Sep	--	13.60%
11/17/22	**Autumn Statement**			
11/18/22 04:01	**GfK Consumer Confidence**	**Nov**	**--**	**-47**
11/18/22 11:00	**Retail Sales Inc Auto Fuel MoM**	**Oct**	**--**	**-1.40%**

China and India

Date & Time (GST)	Indicator	Period	Expected	Prior
11/13/22-11/16/22	China 1-Yr Medium-Term Lending Facility Rate	15-Nov	2.75%	2.75%
11/14/22 10:30	India Wholesale Prices YoY	Oct	8.60%	10.70%
11/14/22 16:00	**India CPI YoY**	**Oct**	**6.70%**	**7.41%**
11/14/22-11/15/22	India Exports YoY	Oct	--	4.80%
11/14/22-11/15/22	India Imports YoY	Oct	--	8.70%
11/15/22 06:00	**China Industrial Production YoY**	**Oct**	**5.20%**	**6.30%**
11/15/22 06:00	**China Retail Sales YoY**	**Oct**	**0.70%**	**2.50%**
11/15/22 06:00	**China Fixed Assets Ex Rural YTD YoY**	**Oct**	**5.90%**	**5.90%**
11/15/22 06:00	China Surveyed Jobless Rate	Oct	5.50%	5.50%

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