The Weekly Market View

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ADCB ASSET MANAGEMENT LIMITED

Turbulent end to September

Last week saw a spike in volatility across equity, rates and currency markets. Joining the other central bank interventions, Bank of England stepped in and surprised with emergency purchases of long-term gilts in an effort to stabilise the sell-off in the gilt markets. This paused the rally in the DM bond yields. The 10yr UST yields settled lower at 3.8% after breaching the 4% level for the first time since 2005. However, markets continued to grapple with the hawkish Fed pricing with lack of any signs of inflation abating. The core PCE- the Fed's preferred gauge of inflation- rose by 4.7% yoy in the second quarter, beating market expectations. Monthly core PCE print was also upbeat with core PCE rising by 4.9% yoy in August, up from 4.7% yoy in July. US weekly jobless claims declined to the lowest level since April 2022. In the euro area, preliminary data indicated that inflation rose by 10% yoy in September, higher than 9.1% yoy in August. German inflation also surprised on the upside. As a result, the sell-off in the equity markets worsened with global equities recording third consecutive week of decline. The S&P 500 Index declined to a new 2022 low, taking the year-to-date losses to cross c24%. Last week, EM stocks underperformed their DM peers. In the DM, Japanese equities were the worst performers. European equities and UK equities recorded losses despite the BoE's QE announcement, but outperformed peers. In the currency market, the USD pared its strong gains with the BoE's move stabilising the pound sterling while higher inflation print propelled the euro. The Japanese yen continued to weaken against the US dollar. In the bond market, the 10yr UST yield rose by c14bp over the week, even after declining from 4% level mid-week. UK gilt yields also ended the week higher despite recording their largest single-day decline in over a decade. Eurozone bond yields jumped on the back of higher inflation print. In commodities, oil prices jumped for the first time in five weeks on reports of OPEC+ considering supply cuts. Gold prices rose as the strong dollar bias waned.

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Million Dollar Smile

The famous "dollar" smile is proving to be detrimental for the countries around the globe and has triggered many central banks, both in DM and the EM world, to intervene in the bond and currency markets. Interestingly, this time around, the dollar pain has been more prominent for the DM currencies while EM currencies have been relatively resilient so far. In fact, the trade-weighted dollar index versus the DM currencies has surged at a faster rate compared to the EM equivalent this year. Similarly, JP Morgan G7 FX volatility has also been higher compared to EM FX equivalent. So far, rising interest rates differential between the US and the rest of the world with the Fed leading the race of tightening has been an important support for the dollar rally. But going forward, with other central banks playing catch-up, interest rate differentials will not be as influential in determining the path of the USD. This does not mean that the end of the dollar rally is near. The dollar will continue to remain strong especially with increased evidence of US growth outperforming peers amidst global slowdown fears. In fact, 1yr recession probabilities indicate that the slowdown risks are the highest in the Eurozone and the UK. Dollar is also the favourite-safe-haven asset during periods of increased volatility and risk-off sentiment. Meanwhile, strong dollar is not Fed's problem as it will eventually aid in bringing down the imported inflation cost pressures. However, sustained dollar strength and rising US borrowing rates is ugly for the global economy given it raises the dollar funding costs, imposing more funding stress and tighter financial conditions. Financial conditions in the Eurozone and the UK have tightened to the levels seen during the Covid-19 sell-off, thus calling for frequent policy intervention to stabilise the markets. We believe that the Fed will stick to tightening policy and react to the dollar rally unless there is evidence of spill-over risks of financial instability. While signs of stress are rising across the globe, financial conditions in the US, though tight, still remain relatively stable compared to the Covid-19 sell-off and also compared to the Euro-area peers. As long as the liquidity conditions do not sharply deteriorate in the US, the Fed is likely to stay put.

Global markets' performance snapshot*

Index Snapshot (World Indices)*

Index	Latest	Weekly %	YTD %
S&P 500	3,586	-2.91	-24.77
Dow Jones	28,726	-2.92	-20.95
Nasdaq	10,576	-2.69	-32.40
DAX	12,114	-1.38	-23.74
Nikkei 225	25,937	-4.48	-9.36
FTSE 100	6,894	-1.78	-6.65
Sensex	57,427	-1.16	-1.42
Hang Seng	17,223	-3.96	-27.28
Regional Markets			
ADX	9,751	-2.74	14.87
DFM	3,339	-2.05	4.48
Tadawul**	11,405	-0.49	1.82
DSM**	12,695	0.41	7.93
MSM30**	4,528	1.24	10.73
BHSE**	1,882	-2.39	4.67
KWSE**	7,106	-4.55	-1.71
MSCI			
MSCI World	2,379	-2.45	-26.40
MSCI EM	876	-3.32	-28.91

Global Commodities, Currencies and Rates*

Commodity	Latest	Weekly %	YTD %
ICE Brent USD/bbl	88.0	2.10	12.43
Nymex WTI USD/bbl	79.5	0.95	8.60
Gold USD/t oz	1,660.6	1.01	-9.03
Silver USD/t oz	19.0	0.84	-17.56
Platinum USD/t oz	864.0	0.51	-10.72
Copper USD/MT	7,647.0	2.70	-21.10
Alluminium	2,164.3	0.19	-22.79
Currencies			
EUR USD	0.98	1.19	-13.73
GBP USD	1.12	2.86	-17.83
USD JPY	144.74	1.00	20.55
USD CHF	0.99	0.53	7.35
Rates	**Latest**	**Weekly (bp)**	**YTD(bp)**
USD Libor 3m	3.75	12.63	354.56
USD Libor 12m	4.78	-5.43	419.74
UAE Eibor 3m	3.56	44.48	319.44
UAE Eibor 12m	4.39	15.55	365.34
US 3m Bills	3.25	6.44	321.62
US 10yr Treasury	3.83	14.40	231.85

Source: Bloomberg | Notes: *Data as of September 30 2022 unless stated otherwise; **Data as of September 29 2022

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Summary market outlook

Global Yields	The 10yr UST yields crossed the 4% level, but declined by c20bp on the surprise BoE QE move. UK gilt yields also ended the week higher despite recording their largest single-day decline in over a decade. Eurozone bond yields jumped on the back of higher inflation print. 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	VIX index, a measure of implied volatility in equities, rose sharply last week jumping past the 30 mark. VVIX, a measure of volatility in VIX rose sharply too reflecting the higher volatility in the asset class. SKEW index, a measure of tail risks, rose sharply. MOVE index, which measures implied volatility in bonds, jumped to the highest level since March 2020 mid-week but later stabilized. We expect financial market volatility to stay elevated as the monetary policy normalizes.
Equity Markets	
Local Equity Markets	GCC equity markets were mixed with Qatar and Oman being the only two markets recording weekly gains. Kuwait was the worst performer. 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 ACWI) slumped to new year-to-date lows with the broader asset class having declined by c27% in 2022. EM posted losses and underperformed DM. Within DM, Japan was the worst performer while Europe outperformed peers. 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 index fell c5% over the past week. HK tech index declined by c6%. 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, silver and platinum prices jumped as dollar strength waned. We are overweight gold as a hedge against potential inflation, growth, and geopolitical risks.
Energy	Oil prices rose for the first time in five weeks on reports of the OPEC+ considering supply cuts. Overall, over the medium-term we believe that oil prices will remain sustained as the market balances into the new normal.
Industrial Metals	Copper and alluminum recorded weekly gains helped by the dollar weakness. Another commodity super-cycle is difficult, yet demand for commodities linked to “green infrastructure” is likely to sustain.
Currencies	
EURUSD	The euro appreciated versus the dollar on the back of strong Euro-area inflation print. We expect ECB policy divergence to play a major role in the performance of the euro.
Critical levels	R2 0.9856 · R1 0.9821 · S1 0.9764 · S2 0.9742
GBPUSD	The pound sterling strengthened versus the US dollar with the BoE’s surprise QE move. We expect GBP to weaken against USD and stay flat versus the EUR.
Critical levels	R2 1.1324 · R1 1.1292 · S1 1.1097 · S2 1.0994
USDJPY	Latest MPC minutes signaled dovish BoJ policy bias, resulting in further weakness in the yen. BoJ policy remains odd-one out and is likely to cause JPY weakness.
Critical levels	R2 145.77 · R1 144.98 · S1 144.67 · S2 144.19

Forthcoming important economic data/events

United States

Date & Time (GST)	Indicator	Period	Expected	Prior
10/03/22 17:45	**S&P Global US Manufacturing PMI**	**Sep F**	**51.8**	**51.8**
10/03/22 18:00	Construction Spending MoM	Aug	-0.20%	-0.40%
10/03/22 18:00	**ISM Manufacturing**	**Sep**	**52.2**	**52.8**
10/04/22 18:00	Factory Orders	Aug	0.40%	-1.00%
10/04/22 18:00	Durable Goods Orders	Aug F	--	-0.20%
10/04/22 18:00	JOLTS Job Openings	Aug	--	11239K
10/05/22 15:00	MBA Mortgage Applications	30- Sep	--	-3.70%
10/05/22 16:30	Trade Balance	Aug	-$67.7b	-$70.7b
10/05/22 17:45	**S&P Global US Services PMI**	**Sep F**	**--**	**49.2**
10/05/22 18:00	**ISM Services Index**	**Sep**	**56**	**56.9**
10/06/22 16:30	Initial Jobless Claims	1- Oct	--	--
10/06/22 16:30	Continuing Claims	24- Sep	--	--
10/07/22 16:30	**Change in Nonfarm Payrolls**	**Sep**	**250K**	**315K**
10/07/22 16:30	**Unemployment Rate**	**Sep**	**3.70%**	**3.70%**
10/07/22 16:30	**Average Hourly Earnings YoY**	**Sep**	**5.20%**	**5.20%**
10/07/22 16:30	Labor Force Participation Rate	Sep	--	62.40%
10/07/22 18:00	Wholesale Inventories MoM	Aug F	--	1.30%

Japan

Date & Time (GST)	Indicator	Period	Expected	Prior
10/04/22 03:30	**Tokyo CPI YoY**	**Sep**	**2.90%**	**2.90%**
10/04/22 03:30	**Tokyo CPI Ex-Fresh Food YoY**	**Sep**	**2.80%**	**2.60%**
10/04/22 03:50	Monetary Base YoY	Sep	--	0.40%
10/07/22 03:30	Household Spending YoY	Aug	7.20%	3.40%
10/07/22 03:30	Labor Cash Earnings YoY	Aug	1.50%	1.80%

Eurozone

Date & Time (GST)	**Indicator**	**Period**	**Expected**	**Prior**
10/04/22 13:00	Eurozone PPI YoY	Aug	--	37.90%
10/04/22 10:45	France Industrial Production MoM	Aug	--	-1.60%
10/04/22 10:45	**France Manufacturing Production YoY**	**Aug**	**--**	**0.20%**
10/05/22 12:00	Eurozone S&P Global Services PMI	Sep F	--	48.9
10/06/22 10:00	Germany Factory Orders MoM	Aug	--	-1.10%
10/07/22 13:00	**Eurozone Retail Sales MoM**	**Aug**	**--**	**0.30%**
10/07/22 10:00	**Germany Retail Sales MoM**	**Aug**	**-1.00%**	**1.90%**
10/07/22 10:00	Germany Industrial Production WDA YoY	Aug	--	-1.10%

United Kingdom

Date & Time (GST)	Indicator	Period	Expected	Prior
10/05/22 12:30	New Car Registrations YoY	Sep	--	1.20%
10/05/22 12:30	**S&P Global/CIPS UK Services PMI**	**Sep F**	**--**	**49.2**

China and India

Date & Time (GST)	Indicator	Period	Expected	Prior
10/06/22 09:00	India S&P Global PMI Services	Sep	--	57.2
10/07/22	China Foreign Reserves	Sep	--	$3054.88b
10/08/22 05:45	**China Caixin PMI Services**	**Sep**	**54.5**	**55**
10/09/22 10/15	China Aggregate Financing CNY	Sep	--	2430.0b
10/09/22 10/15	China New Yuan Loans CNY	Sep	--	1250.0b
10/09/22 10/15	China Money Supply M2 YoY	Sep	--	12.20%

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