The Weekly Market View

September 18 2023

ADCB ASSET MANAGEMENT LIMITED

Hang in there

Global markets digested the "not so great but not so bad" economic data last week, with the sentiment focused on the signs of end of monetary tightening. Starting with the US, all eyes were on the US inflation release which mostly confirmed the continuation of the disinflation trend. US headline CPI rose 0.6% m-o-m and 3.7% y-o-y in August, slightly higher than the growth in July but in line with expectations and was primarily driven by higher energy prices. On the other hand, core CPI, moved lower, from 4.7% to 4.3%, but the 0.3% monthly rise was slightly more than expected. August producer price index (PPI) data indicated that headline producer prices climbed more than expected, with core PPI in line with expectations. US August retail sales print was strong, underlining the US consumer resilience. Despite the positive economic data, market expectations for the Fed to hold rates at the upcoming September 19-20 meeting were fairly unchanged. Sticking with central banks, the ECB raised interest rates but signaled that it could be closer to the end of the monetary tightening despite raising the inflation forecasts. Elsewhere, the European Commission (EC) slashed the Eurozone GDP projections to 0.8% from 1.1% and forecasted a contraction in the German economy. In the UK, latest July GDP print showed that the economy contracted faster than expected, but GDP growth rate increased on a three month rolling basis. UK unemployment rose unexpectedly in three months to July while total wage growth accelerated during the same period. In Japan, BOJ Governor Ueda hinted at the possibility of an exit from the current loose monetary policy provided there is enough supporting evidence of wage inflation. Finally, in China, economic data was better than expected (industrial production, retail sales, unemployment, and inflation) signaling that the worst may be behind in terms of economic slowdown. Meanwhile, the PBOC reduced the reserve ratio requirements for the second time this year. Amidst the above backdrop, global markets ended the week mostly flat, bond yields rose, USD strengthened for the ninth consecutive week. Oil prices jumped for the third consecutive week on renewed supply concerns and upbeat China economic data. Stronger than expected China economic data also resulted in positive gains in industrial metals.

USD exceptionalism takes over

The USD has been one of best performers compared to other asset classes and witnessed a strong summer, helped by the resilient US economic data versus the peers. There have been two factors in the driver's seat-supporting the recent USD rally 1) US growth exceptionalism narrative and 2) interest rate differentials. Incoming economic data has continued to beat market expectations in the US compared to the Eurozone, UK and China where the outlook has deteriorated. Increasing market confidence towards soft-landing prospects from hard-landing has further supported the USD rally. Going into last four months of the year, there is increasing possibility of the USD to end 2023 on strong YTD levels. We believe that the US growth outperformance should continue to drive the USD rally as economic confidence particularly in the Eurozone and the UK deteriorates. Also on the interest rates front, we are reaching a point where the Fed may begin to appear hawkish compared to other central banks. The ECB has already signaled that it may be close to end of its tightening at the latest September meeting. Comments from Bank of England has also been on similar lines lately on the back of weak UK domestic economic activity. This should bolster the possibility of the US interest rate differentials remaining wide versus peers. Wide US interest rate differentials and our expectations of bear flattening of the UST curve should keep the USD strong. Having said that, the possibility of the USD returning to 2022 high levels is low for the following reasons- 1) We are in the late phase of the Fed tightening cycle and historically the USD tends to peak before the last Fed rate hike 2) US growth differential with peers should normalize in 2024 (In July 2023 outlook- the IMF forecasts US growth underperformance in 2024) 3) our expectation of bull steepening to begin in 1Q 24 and the USD tends to underperform during bull steepening episodes. In summary, we expect USD to remain strong in the near term but the strength to fade in 2024.

Global markets' performance snapshot

Index Snapshot (World Indices)*

Index	Latest	Weekly %	YTD %
S&P 500	4,450	-0.16	15.91
Dow Jones	34,618	0.12	4.44
Nasdaq	13,708	-0.39	30.97
DAX	15,894	0.94	14.15
Nikkei 225	33,533	2.84	28.51
FTSE 100	7,711	3.12	3.48
Sensex	67,839	1.86	11.50
Hang Seng	18,048	-0.11	-8.96
Regional Markets			
ADX	9,880	1.96	-3.24
DFM	4,043	-0.59	21.20
Tadawul**	11,155	-0.54	5.97
DSM**	10,319	0.80	-4.00
MSM30**	4,726	0.77	-3.01
BHSE**	1,931	-0.54	1.56
KWSE**	7,029	0.27	-3.85
MSCI			
MSCI World	2,961	0.41	13.77
MSCI EM	985	1.14	2.99

Global Commodities, Currencies and Rates*

Commodity	Latest	Weekly %	YTD %
ICE Brent USD/bbl	93.9	3.62	9.73
Nymex WTI USD/bbl	90.8	3.73	13.68
Gold USD/t oz	1,923.9	0.25	5.73
Silver USD/t oz	23.0	0.48	-3.30
Platinum USD/t oz	929.7	3.69	-13.10
Copper USD/MT	8,376.5	1.84	-0.13
Alluminium	2,148.3	0.07	-8.57
Currencies			
EUR USD	1.07	-0.40	-0.36
GBP USD	1.24	-0.68	2.56
USD JPY	147.85	0.01	11.25
Rates	**Latest**	**Weekly (bp)**	**YTD(bp)**
SOFR	5.30	0.00	100.00
UAE Eibor 3m	5.24	0.57	93.18
UAE Eibor 12m	5.59	3.92	49.01
US 3m Bills	5.45	1.04	111.01
US 10yr Treasury	4.33	6.83	45.76
German 10yr Bund	2.67	6.50	10.80
UK 10yr Gilt	4.35	-6.54	68.99

Source: Bloomberg, and ADCB Asset Management
Notes: *Data as of September 15 2023 unless stated otherwise; **Data as of September 14 2023.

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Summary market outlook

Global Yields	Yields on global government bonds rose on the back of higher-for-longer narrative. Yields on 10Y UST edged higher on strong retail sales print. 10Y German Bunds jumped after the ECB raised rates. 10Y JGBs jumped to 0.7% level on hawkish BoJ comments. On the other hand, 10Y UK Gilts declined on weak UK economic data. Bond yields and prices are inversely correlated. i.e. yields rise when prices fall and vice versa. Overall, we maintain our slight duration exposure with preference for USTs (7-10Y segment) over other DM sovereigns.
Stress and Risk Indicators	VIX index (measure of implied volatility in equities) dropped to the lowest level since 2019 on Thursday, but later increased on Friday on the quarterly triple witching. The MOVE index slumped to the lowest level since March 2022. We expect recession probabilities and uncertainty around the timing of the first rate cut from the Fed to feed into financial market volatility.
Equity Markets	
Local Equity Markets	GCC equity markets were mixed despite rising oil prices. Abu Dhabi, Qatar, Oman and Kuwait recorded positive returns while Dubai, Saudi and Bahrain posted marginal losses. We stay neutral GCC equities within our global equity framework. Stable 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 market indices. We would look to play benchmark transformation over next years.
Global Equity Markets	Global equities ended the week flat, digesting the “not so great but not bad” economic releases. EM significantly outperformed DM. Within DM, Canada and Japan were the best performers in USD terms while US was the only market to record negative returns. All global sectors jumped with the exception of IT. Financials outperformed the most. We are overweight North America, and Asia Pacific; underweight EMs outside Asia and significantly underweight Europe. Our strategic preference is for large cap non-cyclical growth with focus on quality. We prefer Japanese equity exposure through local indices on a FX-hedged basis. Our other high conviction ideas include HK equities and Chinese hotels & leisure (beneficiaries of the post-pandemic reopening of the Chinese economy), and Cybersecurity and Chinese Semiconductors (play on rising deglobalisation risks and national security prominence). For long-term investors, we have identified 13 different themes to play disruptive trends in the global economy.
Technology Segments	Nasdaq-100 index and HK Tech index both posted marginal declines. Rising bond yields put pressure on the sector over the week.
Commodities	
Precious Metals	Gold prices ended the week in the positive territory despite rise in UST yields and strong USD bias. Silver posted marginal gains while platinum prices jumped 3.7%. We prefer gold as a hedge against potential inflation, growth, and geopolitical risks.
Energy	Both Brent and WTI benchmarks jumped more than 3.5%, recording weekly gains for the third week in a row on the back of supply concerns and upbeat China economic data. Over the near-term to medium-term, we expect oil prices to move sideways but with significant volatility.
Industrial Metals	Industrial metal prices rose with both copper and aluminium registering gains on the back of better-than-expected China data. In our view, another commodity super-cycle is difficult, yet demand for commodities linked to “green infrastructure” is likely to sustain. We prefer copper for the near-term.

Currencies								
EURUSD	The EUR weakened versus the USD for the ninth consecutive week with the ECB signaling an end to the monetary tightening. We expect euro to stabilize and record a better performance in 2023 compared to 2022.							
Critical levels	R2	1.0823	R1	1.0740	S1	1.0603	S2	1.0549
GBPUSD	The GBP depreciated versus the USD on the back of weak UK economic activity. We expect GBP to strengthen versus the USD with the BoE likely to remain the most hawkish of the lot.							
Critical levels	R2	1.2606	R1	1.2494	S1	1.2325	S2	1.2268
USDJPY	The JPY ended the week flat against the USD. Yen is likely to remain weak in the near-term in absence of hawkish BoJ bias, but could strengthen once the Fed takes a dovish turn.							
Critical levels	R2	149.28	R1	148.56	S1	146.52	S2	145.20

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Forthcoming important economic data/events

United States

Date & Time (GST)	Indicator	Period	Expected	Prior
09/18/2023 18:00	NAHB Housing Market Index	Sep	50	50
09/19/2023 16:30	Building Permits	Aug	1448k	1442k
09/19/2023 16:30	Housing Starts	Aug	1440k	1452k
09/20/2023 15:00	MBA Mortgage Applications	15-Sep	--	-0.80%
09/20/2023 22:00	**FOMC Rate Decision (Upper Bound)**	**20-Sep**	**5.50%**	**5.50%**
09/20/2023 22:00	**FOMC Rate Decision (Lower Bound)**	**20-Sep**	**5.25%**	**5.25%**
09/21/2023 16:30	Current Account Balance	2Q	-$219.8b	-$219.3b
09/21/2023 16:30	**Initial Jobless Claims**	**16-Sep**	**--**	**220k**
09/21/2023 16:30	**Continuing Claims**	**9-Sep**	**--**	**1688k**
09/21/2023 16:30	Philadelphia Fed Business Outlook	Sep	-0.4	12
09/21/2023 18:00	Existing Home Sales	Aug	4.10m	4.07m
09/21/2023 18:00	Leading Index	Aug	-0.40%	-0.40%
09/22/2023 17:45	**S&P Global US Manufacturing PMI**	**Sep P**	**47.9**	**47.9**
09/22/2023 17:45	**S&P Global US Services PMI**	**Sep P**	**--**	**50.5**

Japan

Date & Time (GST)	Indicator	Period	Expected	Prior
09/20/2023 03:50	Trade Balance	Aug	-¥675.0b	-¥78.7b
09/20/2023 03:50	Trade Balance Adjusted	Aug	-¥371.6b	-¥557.2b
09/22/2023 03:30	**Natl CPI YoY**	**Aug**	**3.00%**	**3.30%**
09/22/2023 03:30	**Natl CPI Ex Fresh Food YoY**	**Aug**	**3.00%**	**3.10%**
09/22/2023 04:30	**Jibun Bank Japan PMI Mfg**	**Sep P**	**--**	**49.6**
09/22/2023 04:30	Jibun Bank Japan PMI Services	Sep P	--	54.3
09/22/2023	**BOJ Policy Balance Rate**	**22-Sep**	**--**	**-0.10%**
09/22/2023	**BOJ 10-Yr Yield Target**	**22-Sep**	**--**	**0.00%**

Eurozone

Date & Time (GST)	Indicator	Period	Expected	Prior
09/19/2023 12:00	Eurozone ECB Current Account SA	Jul	--	35.8b
09/19/2023 13:00	**Eurozone CPI YoY**	**Aug F**	**5.30%**	**5.30%**
09/19/2023 13:00	Eurozone CPI Core YoY	Aug F	5.30%	5.30%
09/20/2023 10:00	**Germany PPI YoY**	**Aug**	**--**	**-6.00%**
09/21/2023 10:45	**France Manufacturing Confidence**	**Sep**	**95**	**96**
09/21/2023 18:00	Eurozone Consumer Confidence	Sep P	-15	-16
09/22/2023 11:15	**HCOB France Manufacturing PMI**	**Sep P**	**--**	**46**
09/22/2023 11:15	HCOB France Services PMI	Sep P	--	46
09/22/2023 11:30	**HCOB Germany Manufacturing PMI**	**Sep P**	**39.2**	**39.1**
09/22/2023 11:30	HCOB Germany Services PMI	Sep P	47.5	47.3
09/22/2023 12:00	**HCOB Eurozone Manufacturing PMI**	**Sep P**	**43.7**	**43.5**
09/22/2023 12:00	HCOB Eurozone Services PMI	Sep P	47.5	47.9

United Kingdom

Date & Time (GST)	Indicator	Period	Expected	Prior
09/20/2023 10:00	**CPI YoY**	**Aug**	**7.00%**	**6.80%**
09/20/2023 10:00	CPI Core YoY	Aug	--	6.90%
09/20/2023 10:00	Retail Price Index	Aug	--	374.2
09/20/2023 10:00	**RPI YoY**	**Aug**	**--**	**9.00%**
09/21/2023 15:00	**Bank of England Bank Rate**	**21-Sep**	**5.50%**	**5.25%**
09/22/2023 03:01	GfK Consumer Confidence	Sep	--	-25
09/22/2023 10:00	Retail Sales Inc Auto Fuel MoM	Aug	--	-1.20%
09/22/2023 10:00	Retail Sales Ex Auto Fuel YoY	Aug	--	-3.40%
09/22/2023 12:30	**S&P Global/CIPS UK Manufacturing PMI**	**Sep P**	**--**	**43**
09/22/2023 12:30	S&P Global/CIPS UK Services PMI	Sep P	--	49.5

China and India

Date & Time (GST)	Indicator	Period	Expected	Prior
09/20/2023 05:15	China 5-Year Loan Prime Rate	20-Sep	4.20%	4.20%
09/20/2023 05:15	China 1-Year Loan Prime Rate	20-Sep	3.45%	3.45%

ADCB ASSET MANAGEMENT LIMITED

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