The Weekly Market View

September 20 2021

بنك أبوظبي التجاري
ADCB
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Uncertain minds

The second week of September also proved to be volatile with markets assessing uncertainty over economic data, monetary policy, delta variant spread and finally China's regulatory crackdown. Prospects of US infrastructure stimulus likely to be moderate also weighed on the sentiment. Economic data showed mixed signs with the inflation print coming in softer than expected, calming the inflation nerves. At the same time, retail sales and factory activity out of New York and Philadelphia beat estimates. Amidst the various uncertainties, global stocks experienced a sluggish week, recording marginal losses. EMs underperformed DMs. Among major EMs, Brazil, China, and South Africa underperformed while Russia, and India outperformed. Turning to DMs, Japan and US outperformed the most. Amongst global sectors, energy and healthcare outperformed while materials and utilities underperformed. In the bond market, UST yields across the curve with the 5yr UST yield rising the most ahead of the upcoming September FOMC meeting. Core Eurozone bond yields advanced, tracking the move higher in UST yields and on prospects of earlier than anticipated ECB tightening. UK Gilt yields edged higher as strong inflation print raised expectation of tighter BoE bias. US IG corporate bonds came under pressure while US HY was relatively immune. EM bonds lacked appetite amidst the rally in DM sovereign yields and stronger dollar bias. The greenback strengthened versus the major currencies ahead of the September FOMC meeting this week. Oil prices jumped on reports of larger than expected reduction in US crude inventories. Precious metals were down, driven by the broad dollar strength. Industrial metals also suffered on China growth concerns.

Taper timeline

Post the Jackson Hole Symposium, the upcoming Fed meeting will be closely watched for signs of prospective policy changes. While no policy changes are expected at the meeting, the Fed will be releasing new projections of growth, inflation and the future rate trajectory through the famous Dot plot. The Dot plot will indicate the rate projections going beyond 2023, extended to 2024. In addition, the Fed could provide cues on the bond taper timeline. Markets currently expect the Fed to officially make taper announcement in the fourth quarter of this year. It is not necessary that taper announcement will unnerve the bond markets like Taper Tantrum. However, one cannot completely rule out the possibility of the impact on various fixed income assets. Taper tantrum had triggered sell-off particularly in long-dated bonds and long-duration asset classes (The Weekly Market View, 30 August 2021). Within EM, local currency bonds could be vulnerable as the taper talk will fast track the policy normalization process of various EM central banks. We believe EM LatAM local currency bonds could be the most susceptible to taper-related risk, despite the central banks there taking a proactive approach in policy normalization. On the other hand, EM Asia local currency bonds could be less impacted as China will remain accommodative, addressing the growth concerns. While we remain neutral on both EM USD sovereign and EM local currency bonds, we express our preference for the former. EM USD sovereign bonds exhibit relatively lower correlation with the UST volatility. We agree that valuations have tightened in EM USD sovereign, yet they are relatively cheap versus EM local currency bonds. There are selective opportunities in the BBB and BB rated space and we remain positioned through our selective overweight on Russia and Brazil respectively. In addition, we prefer higher-quality EM sovereigns and the GCC region stands out the most. We express caution in adding new positions in the low-rated EM sovereigns as these could be come under pressure with the potential taper risk.

For details on allocation, see our recent investment strategy outlook note Quarterly Investment View, July 2021.

Prerana Seth
Fixed Income Strategist
Tel: +971 (0)2 696 2878
prerana.seth@adcb.com

Kishore Muktinutalapati
Equity Strategist
Tel: +971 (0)2 696 2358
kishore.muktinutalapati@adcb.com

Mohammed Al Hemeiri
Analyst
Tel: +971 (0)2 696 2236
mohammed.alhemeiri@adcb.com

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Index Snapshot (World Indices)

Index	Latest	Weekly %	YTD %
S&P 500	4,433	-0.6	18.0
Dow Jones	34,585	-0.1	13.0
Nasdaq	15,044	-0.5	16.7
DAX	15,490	-0.8	12.9
Nikkei 225	30,512	0.4	11.1
FTSE 100	6,964	-0.9	7.8
Sensex	59,016	1.2	23.6
Hang Seng	24,921	-4.9	-8.5
Regional Markets (Sunday to Thursday)			
ADX	7,883	0.3	56.2
DFM	2,901	-0.2	16.4
Tadawul	11,422	0.0	31.4
DSM	11,181	0.7	7.1
MSM30	3,935	-0.6	7.5
BHSE	1,679	0.6	12.7
KWSE	6,870	0.9	23.9
MSCI			
MSCI World	3,123	-0.8	15.1
MSCI EM	1,277	-2.3	-0.9

Global Commodities, Currencies and Rates

Commodity	Latest	Weekly %	YTD %
ICE Brent USD/bbl	75.3	3.3	45.4
Nymex WTI USD/bbl	72.0	3.2	48.3
Gold USD/t oz	1,754.3	-1.9	-7.4
Silver USD/t oz	22.4	-5.7	-15.1
Platinum USD/t oz	942.8	-1.9	-11.9
Copper USD/MT	9,392.0	-0.8	21.9
Alluminium	2,872.8	-1.1	45.8
Currencies			
EUR USD	1.17	-0.8	-4.1
GBP USD	1.37	-0.7	0.7
USD JPY	109.93	-0.0	6.0
CHF USD	0.93	1.6	-5.1
Rates	**Latest**	**Weekly (bp)**	**YTD(bp)**
USD Libor 3m	0.12	0.6	-11.6
USD Libor 12m	0.22	0.2	-11.8
UAE Eibor 3m	0.33	-7.6	-18.8
UAE Eibor 12m	0.66	-4.4	0.2
US 3m Bills	0.03	-0.8	-2.8
US 10yr Treasury	1.36	2.1	44.8

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Summary market outlook

Global Yields	10yr UST yields jumped despite the soft inflation print as markets remain convinced that the Fed will focus more on employment report. Core Eurozone bonds tracked the move higher in UST yield. UK Gilt yields jumped with strong inflation print raising BoE tightening expectations. Overall, we recommend a lower duration stance (5Y US Treasuries) in anticipation of interest rate volatility in the near term.
Stress and Risk Indicators	VIX index jumped to highest level since May. 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 markets held up relatively well and outperformed the EM benchmark last week – in part reflecting the strength in oil prices. Within GCC, Kuwaiti and Qatari equities outperformed the most. 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	Global equities posted marginal losses. EMs underperformed DMs. Among major EMs, Brazil, China, and South Africa underperformed while Russia, and India outperformed. Turning to DMs, Japan and US outperformed the most. Amongst global sectors, energy and healthcare outperformed while materials and utilities underperformed. 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, and re-opening sectors.
Technology Segments	In the US, Nasdaq-100 posted small losses and underperformed broader US equity benchmark. HKTech index, a measure of Chinese technology names lost c4% during the week. ChiNext index, another index of Chinese innovation themes fell but outperformed broader Chinese equities.
Commodities	
Precious Metals	Gold suffered its worst weekly loss in six weeks, driven by broad dollar strength. We keep our overweight in gold as a hedge against potential risks on the horizon.
Energy	Oil prices increased by over 3% helped by strengthening dollar and reports of decline in US crude inventories. Overall, we believe that oil prices will remain sustained as the market approaches a balance.
Industrial Metals	Industrial metal prices suffered on China growth concerns and stronger dollar bias. While another commodity super-cycle appears difficult, demand for commodities linked to environmental friendly green infrastructure is likely to sustain.

Currencies

EURUSD	The euro weakened versus the greenback ahead of the Fed meeting. Re-opening is a positive for EUR while risk-off sentiment and the easier policy are moderately negative.							
Critical levels	R2	1.1886	R1	1.1806	S1	1.1685	S2	1.1644
GBPUSD	The pound sterling depreciated versus the dollar despite increased prospects of tighter BoE stance post the strong inflation print. We expect the cable to be driven by how the re-opening plays out over the near-term and to decouple from the EUR.							
Critical levels	R2	1.3979	R1	1.3860	S1	1.3675	S2	1.3609
USDJPY	The Japanese yen ended the week flat versus the dollar. Over the medium-term, we believe that BoJ yield curve targeting should put downward pressure on JPY.							
Critical levels	R2	110.783	R1	110.357	S1	109.307	S2	108.683

Note: R2, R1, S2 and S1 refer to Bloomberg calculated weekly technical resistance and support levels.

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Forthcoming important economic data/events

United States

	Indicator	Period	Expected	Prior	Comments
09/20/21	NAHB Housing Market Index	Sep	74	75	All eyes will be on the FOMC meeting. Also, the focus will be on MBA mortgage applications, initial jobless claims, and PMI releases. The housing data will be closely watched.
09/21/21	Housing Starts	Aug	1550K	1534K	
09/21/21	**Housing Starts MoM**	**Aug**	**1.00%**	**-7.00%**	
09/22/21	**MBA Mortgage Applications**	**17- Sep**	**--**	**0.30%**	
09/22/21	**FOMC Meeting**	**22- Sep**	**No Change**		
09/23/21	Chicago Fed Nat Activity Index	Aug	0.5	0.53	
09/23/21	**Initial Jobless Claims**	**18- Sep**	**320K**	**332K**	
09/23/21	**Continuing Claims**	**11- Sep**	**2630K**	**2665K**	
09/23/21	**Markit Manufacturing PMI**	**Sep P**	**60.8**	**61.1**	
09/23/21	**Markit Services PMI**	**Sep P**	**55**	**55.1**	
09/23/21	**Markit Composite PMI**	**Sep P**	**--**	**55.4**	
09/23/21	Kansas City Fed Manf. Activity	Sep	25	29	
09/24/21	**New Home Sales MoM**	**Aug**	**0.30%**	**1.00%**	

Japan

	Indicator	Period	Expected	Prior	Comments
09/21/21	Machine Tool Orders YoY	Aug F	--	86.20%	Main focus will be on BoJ MPC meeting. Also, Inflation releases and PMI manufacturing are important.
09/22/21	**BoJ MPC Meeting**	**22- Sep**	**No Change**		
09/24/21	**Natl CPI YoY**	**Aug**	**-0.30%**	**-0.30%**	
09/24/21	**Natl CPI Ex Fresh Food, Energy**	**Aug**	**-0.40%**	**-0.60%**	
09/24/21	**Jibun Bank PMI Mfg**	**Sep P**	**--**	**52.7**	

Eurozone

	Indicator	Period	Expected	Prior	Comments
09/21/21	Germany PPI YoY	Aug	11.10%	10.40%	PMI data and German IFO Survey will be important.
09/22/21	Consumer Confidence	Sep A	-5.9	-5.3	
09/23/21	**ECB Publishes Economic Bulletin**				
09/23/21	**Markit Manufacturing PMI**	**Sep P**	**60.4**	**61.4**	
09/24/21	**Germany IFO Expectations**	**Sep**	**96.5**	**97.5**	

United Kingdom

	Indicator	Period	Expected	Prior	Comments
09/20/21	Rightmove House Prices YoY	Sep	--	5.60%	Attention will be on the BoE meeting. Also, PMI manufacturing will be important.
09/23/21	Markit PMI Manufacturing SA	Sep P	59	60.3	
09/23/21	**BoE MPC Meeting**	**23- Sep**	**No Change**		

China and India

	Indicator	Period	Expected	Prior	Comments
09/22/21	1-Year Loan Prime Rate	22- Sep	3.85%	3.85%	PBOC's decision on loan prime rate to be closely watched.
09/22/21	5-Year Loan Prime Rate	22- Sep	4.65%	4.65%	

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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