The Weekly Market View

September 25 2023

ADCB ASSET MANAGEMENT LIMITED

Central banks delivered surprises instead of rate hikes

Central banks and PMIs were under the spotlight last week. On the PMI front, the preliminary releases from S&P Global showed that in both the UK and the US manufacturing activity was better than expected. The services sector contracted more than expected in the UK and expanded less than expected in the US. At the composite level (that is a combination of manufacturing and services) UK business activity slipped at its fastest rate since January 2021 and raised the possibility of the UK entering the recession. In the US, the composite PMI came at 50.1, a 7-month low. In the Eurozone, while both manufacturing and service sectors were in contraction, the former delivered a negative surprise and the latter surprised positively. Although at the composite level, the PMI showed improvement, it remained in a contractionary territory adding to fears of economic contraction in the third quarter. In Japan both manufacturing and services sector PMIs showed moderation with manufacturing still in contraction but services above the 50-level indicating expansion.

In terms of the central bank action, the three key central banks that met last week – Fed, BOE, and BOJ – did not move on their interest rate policy but guided in different paths. Mainland China's policy rate was also kept unchanged as expected. The Swiss National Bank kept its key interest rate unchanged at 1.75%- the first time it has not hiked since March 2022. Sweden’s Riksbank raised its policy rate by 0.25ppt and kept door open for another increase in November. Turning to emerging markets, the central Bank of Turkey raised its key policy rate by 5ppt to 30%.

Elsewhere the Eurozone and UK inflation for the month of August came below expectations.

Drawing signals from central bank actions and commentary, yields on 10Y sovereign bonds rose across the board – UK was an exception. The 10Y JGB yield last week reached 0.72%, its highest level since January 2014. 10Y UST yields jumped to their 16-year high. UK 2Y yields dropped significantly.

GBP/USD fell while EUR/USD was rather stable. USD rose against JPY.

Oil prices fell on some profit-taking as markets weighed the Russian supply ban and demand concerns. Precious metal prices were stable to higher. Copper prices fell as inventories in LME-registered warehouses hit their highest level since May 2022.

Equities posted losses as they digested higher rates and weaker growth. S&P 500 posted its third straight week of losses. Elsewhere, the UK and EMs outside Asia outperformed albeit posting losses. Sector performance showed defensive tilt with consumer staples, utilities, and healthcare emerging the outperformers.

Central bank policy: divergent and data-dependent

While the three key central banks last week have taken a similar action of choosing inaction, we think they are on divergent paths. US Federal Reserve (Fed) did a hawkish pause. Revisions to the dot plot and the summary of economic projections (SEP) were considered hawkish by the markets. The majority of Fed participants expect to deliver one more rate hike for this year. Growth estimates for 2023 and 2024 were revised higher and as a result the Fed now projects slower rate cuts in 2024 (while June SEP had 100bps of rate cuts, the current SEP indicated only 50bps of cuts) implying higher for longer rates. Chair Powell reiterated the Fed’s data dependence amidst elevated uncertainty. We believe this is the right strategy – we don’t fight the Fed! However, we still believe that the Fed is close to done with rate hikes. Yet, the risk of another 25bp hike in the next two meetings remains (as indicated in the SEP).

Bank of England (BoE) did the dovish pause. BoE’s decision to pause was guided by some data suggesting weaker wage growth picture while the official data continues to advocate a hawkish bias. The recent inflation data (released earlier last week) – which surprised significantly to the downside – seemed to have an impact on the BoE’s decision. Also, weaker growth data suggested previous rate hikes were feeding through the UK economy already. We think the focus of BoE has shifted from inflation to growth, accordingly the central bank may be looking at keeping rates higher for longer rather than raising them further. Therefore, we think the peak rate for BoE policy may be below the 5.75% level that we expected earlier. In fact, the BoE may be done hiking but here too, just like the Fed we cannot rule out further interest rate increases. However, fewer rate hikes in 2023 are likely to be compensated for by fewer cuts in the next two years.

Bank of Japan’s (BoJ) dovish pause continued. The forward guidance was dovish too with the bank promising to take “additional easing measures without hesitation”, despite recent hints from policymakers that BoJ is considering an eventual exit from the loose monetary policy. The consumer price inflation data

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Visit Investment Strategy Webpage to read our other reports for August released today surprised with a higher-than-expected print. More importantly, the consumer price growth in core sectors remained above the central bank's target (of 2%) for the 17th consecutive month. We think upside inflation surprises and weaker yen are likely to incentivize the BoJ to normalize its negative interest rate bias (NIRP) and yield curve control in the next few months with the trajectory of growth is likely to determine the timing.

Though all the three central banks (Fed, BoE, and BoJ) have maintained the policy rate unchanged last week, we note that they did it for completely different reasons. However, one common aspect is that the central banks' near-term focus has shifted away from inflation to growth. In our view, this is likely to continue. This along with data-dependency of the central banks means increased cross-asset volatility, especially in rates and FX space.

Global markets' performance snapshot

Index Snapshot (World Indices)*			
Index	**Latest**	**Weekly %**	**YTD %**
S&P 500	4,320	-2.9	12.5
Dow Jones	33,964	-1.9	2.5
Nasdaq	13,212	-3.6	26.2
DAX	15,557	-2.1	11.7
Nikkei 225	32,402	-3.4	24.2
FTSE 100	7,684	-0.4	3.1
Sensex	66,009	-2.7	8.5
Hang Seng	18,057	-0.7	-8.7
Regional Markets			
ADX	9,849	-0.3	-3.5
DFM	4,169	3.1	25.0
Tadawul**	10,949	-1.4	3.8
DSM**	10,323	0.7	-3.4
MSM30**	4,677	-0.7	-4.0
BHSE**	1,930	0.2	1.8
KWSE**	6,936	-1.1	-4.9
MSCI			
MSCI World	2,880	-2.7	10.6
MSCI EM	964	-2.1	0.8

Global Commodities, Currencies and Rates*			
Commodity	**Latest**	**Weekly %**	**YTD %**
Brent USD/bbl	93.3	-0.7	8.6
WTI USD/bbl	90.0	-0.8	12.2
Gold USD/t oz	1,927.5	0.0	6.2
Silver USD/t oz	23.6	1.8	-0.7
Platinum USD/t oz	940.0	1.4	-8.8
Copper USD/MT	8,161.7	-2.3	-2.4
Alluminium	2,200.8	2.5	-6.3
Currencies			
EUR USD	1.07	0.0	-0.5
GBP USD	1.22	-1.2	1.2
USD JPY	148.38	0.4	13.2
Rates	**Latest**	**Weekly (bp)**	**YTD (bp)**
SOFR	5.30	-1.0	100.0
UAE Eibor 3m	5.12	-12.7	80.8
UAE Eibor 12m	5.62	2.3	57.5
US 3m Bills	5.32	0.0	102.0
US 10yr Treasury	4.43	9.7	59.9
German 10yr Bund	2.74	6.7	17.4
UK 10yr Gilt	4.25	-11.1	58.1

Source: Bloomberg, and ADCB Asset Management
Notes: *Data as of September 22 2023 unless stated otherwise; **Data as of September 21 2023.

Summary market outlook

Global Yields	Yields on global government bonds mostly rose despite US, UK, and BOJ central bank decisions to keep interest rates unchanged. Yields on 10Y UST, 10Y German Bunds, 10Y JGBs rose over the week. Meanwhile, 10Y UK Gilts yields declined on dovish BoE bias. 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) rose quite significantly since the 14th of September from 12.82 to 17.20. The MOVE index rose slightly. 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 over the week with four indices falling and three rising of which, DFM outperformed. Saudi led the decline. 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 secof structural growth plays in the equity market indices. We would look to play benchmark transformation over next years.
Global Equity Markets	Global equities fell throughout the week as a flurry of central bank decisions and economic data releases continued to spread uncertainty through the market. EM outperformed DM. Within DM, Canada and US underperformed. UK outperformed peers. In global sectors. consumer staples, utilities, and healthcare were the outperformers. 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 fell 3.3% and HK Tech index fell 2%. Rising bond yields put pressure on the sector once again last week.
Commodities	
Precious Metals	Gold prices fell marginally due to a stronger dollar and higher bond yields. Silver and platinum rose. We prefer gold as a hedge against potential inflation, growth, and geopolitical risks.
Energy	Both Brent and WTI benchmarks retreated this week after rising for three weeks in a row. Over the near-term to medium-term, we expect oil prices to move sideways but with significant volatility.
Industrial Metals	Industrial metal prices were mixed as copper fell while Aluminum rose. 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 ended the week flat against the USD. We expect EUR to stabilize and record a better performance in 2023 compared to 2022.
Critical levels	R2 1.0790 · R1 1.0722 · S1 1.0600 · S2 1.0546
GBPUSD	The GBP weakened against the USD over the week on the back of BoE’s surprise dovish bias. We expect GBP to strengthen versus the USD with the BoE likely to remain the most hawkish of the lot.
Critical levels	R2 1.2493 · R1 1.2367 · S1 1.2173 · S2 1.2105
USDJPY	JPY weakened against the USD with the BoJ sticking to its ultra-loose policy stance. JPY 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 149.19 · R1 148.78 · S1 147.64 · S2 146.91

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Forthcoming important economic data/events

United States

Date & Time (GST)	Indicator	Period	Expected	Prior
09/25/2023 16:30	Chicago Fed Nat Activity Index	Aug	0.05	0.12
09/25/2023 18:30	Dallas Fed Manf. Activity	Sep	-13	-17.2
09/26/2023 17:00	FHFA House Price Index MoM	Jul	0.40%	0.30%
09/26/2023 18:00	**New Home Sales**	**Aug**	**699k**	**714k**
09/26/2023 18:00	**Conf. Board Consumer Confidence**	**Sep**	**105.5**	**106.1**
09/26/2023 18:00	Richmond Fed Manufact. Index	Sep	-7	-7
09/27/2023 15:00	MBA Mortgage Applications	22-Sep	--	5.40%
09/27/2023 16:30	Durable Goods Orders	Aug P	-0.50%	-5.20%
09/28/2023 16:30	**GDP Annualized QoQ**	**2Q T**	**2.20%**	**2.10%**
09/28/2023 16:30	Personal Consumption	2Q T	1.70%	1.70%
09/28/2023 16:30	GDP Price Index	2Q T	2.00%	2.00%
09/28/2023 16:30	Core PCE Price Index QoQ	2Q T	3.70%	3.70%
09/28/2023 16:30	**Initial Jobless Claims**	**23-Sep**	**215k**	**201k**
09/28/2023 16:30	**Continuing Claims**	**16-Sep**	**1675k**	**1662k**
09/28/2023 18:00	Pending Home Sales MoM	Aug	-1.00%	0.90%
09/29/2023 16:30	Wholesale Inventories MoM	Aug P	-0.20%	-0.20%
09/29/2023 16:30	**Personal Income**	**Aug**	**0.40%**	**0.20%**
09/29/2023 16:30	**Personal Spending**	**Aug**	**0.40%**	**0.80%**
09/29/2023 16:30	**PCE Deflator YoY**	**Aug**	**3.50%**	**3.30%**
09/29/2023 16:30	**PCE Core Deflator MoM**	**Aug**	**0.20%**	**0.20%**
09/29/2023 18:00	**U. of Mich. Sentiment**	**Sep F**	**67.7**	**67.7**
09/29/2023 18:00	U. of Mich. Current Conditions	Sep F	--	69.8
09/29/2023 18:00	**U. of Mich. 1 Yr Inflation**	**Sep F**	**--**	**3.10%**
09/29/2023 18:00	**U. of Mich. 5-10 Yr Inflation**	**Sep F**	**--**	**2.70%**

Japan

Date & Time (GST)	Indicator	Period	Expected	Prior
09/25/2023 09:30	Nationwide Dept Sales YoY	Aug	--	8.60%
09/26/2023 03:50	PPI Services YoY	Aug	1.80%	1.70%
09/27/2023 09:00	Leading Index CI	Jul F	--	107.6
09/27/2023 09:00	Coincident Index	Jul F	--	114.5
09/27/2023 10:00	Machine Tool Orders YoY	Aug F	--	-17.60%
09/29/2023 03:30	**Tokyo CPI YoY**	**Sep**	**2.80%**	**2.90%**
09/29/2023 03:30	**Tokyo CPI Ex-Fresh Food, Energy YoY**	**Sep**	**3.90%**	**4.00%**
09/29/2023 03:30	Jobless Rate	Aug	2.60%	2.70%
09/29/2023 03:50	Retail Sales YoY	Aug	6.50%	6.80%
09/29/2023 03:50	**Industrial Production MoM**	**Aug P**	**-0.80%**	**-1.80%**
09/29/2023 09:00	Annualized Housing Starts	Aug	0.815m	0.778m
09/29/2023 09:00	Housing Starts YoY	Aug	-8.70%	-6.70%

Eurozone

Date & Time (GST)	Indicator	Period	Expected	Prior
09/25/2023 12:00	**Germany IFO Business Climate**	**Sep**	**85.2**	**85.7**
09/25/2023 12:00	**Germany IFO Expectations**	**Sep**	**83**	**82.6**
09/27/2023 10:00	Germany GfK Consumer Confidence	Oct	-26	-25.5
09/28/2023 12:00	**Eurozone ECB Publishes Economic Bulletin**			
09/28/2023 13:00	**Eurozone Consumer Confidence**	**Sep F**	**--**	**-17.8**
09/28/2023 13:00	Eurozone Economic Confidence	Sep	92.4	93.3
09/28/2023 16:00	**Germany CPI YoY**	**Sep P**	**4.60%**	**6.10%**
09/28/2023 16:00	**Germany CPI EU Harmonized YoY**	**Sep P**	**4.50%**	**6.40%**
09/29/2023 10:00	Germany Retail Sales MoM	Aug	0.50%	-0.80%
09/29/2023 10:45	**France CPI EU Harmonized YoY**	**Sep P**	**5.90%**	**5.70%**
09/29/2023 10:45	**France CPI YoY**	**Sep P**	**5.10%**	**4.90%**
09/29/2023 10:45	France PPI YoY	Aug	--	0.90%
09/29/2023 13:00	**Eurozone CPI Estimate YoY**	**Sep**	**4.50%**	**5.20%**
09/29/2023 13:00	**Eurozone CPI Core YoY**	**Sep P**	**4.80%**	**5.30%**

United Kingdom

Date & Time (GST)	Indicator	Period	Expected	Prior
09/28/2023 10/03	Nationwide House Px NSA YoY	Sep	-5.80%	-5.30%
09/29/2023 10:00	**GDP QoQ**	**2Q F**	**0.20%**	**0.20%**
09/29/2023 10:00	**GDP YoY**	**2Q F**	**0.40%**	**0.40%**
09/29/2023 10:00	**Private Consumption QoQ**	**2Q F**	**0.70%**	**0.70%**
09/29/2023 10:00	**Government Spending QoQ**	**2Q F**	**3.10%**	**3.10%**
09/29/2023 10:00	Gross Fixed Capital Formation QoQ	2Q F	0.00%	0.00%
09/29/2023 10:00	**Exports QoQ**	**2Q F**	**-2.50%**	**-2.50%**
09/29/2023 10:00	**Imports QoQ**	**2Q F**	**1.00%**	**1.00%**
09/29/2023 12:30	Net Consumer Credit	Aug	1.3b	1.2b
09/29/2023 12:30	Mortgage Approvals	Aug	48.0k	49.4k
09/29/2023 12:30	M4 Money Supply YoY	Aug	--	-0.90%

China and India

Date & Time (GST)	Indicator	Period	Expected	Prior
09/27/2023 05:30	China Industrial Profits YTD YoY	Aug	--	-15.50%
09/29/2023 15:30	**India BoP Current Account Balance**	**2Q**	**-$8.90b**	**-$1.30b**
09/30/2023 05:30	**China Manufacturing PMI**	**Sep**	**50.1**	**49.7**
09/30/2023 05:30	**China Non-manufacturing PMI**	**Sep**	**51.5**	**51**
10/01/2023 05:45	**China Caixin PMI Mfg**	**Sep**	**51.2**	**51**
10/01/2023 05:45	China Caixin PMI Services	Sep	52	51.8

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