# The Weekly Market View

September 13 2020

بنك أبوظبي التجاري
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## Technical correction continued

Macro-economic data releases over the last week were mixed at best. Chinese imports for August disappointed but exports surprised positively. In the US, whilst initial jobless claims remained steady, continuing jobless claims increased. Inflation in the US was higher than expected. Broadly, in line with our expectations (see The Weekly Market View, August 09 2020), global economic data surprises have moderated from their peak in mid-August. Other news flow – AstraZeneca pausing trials of its leading COVID-19 vaccine, issues surrounding Brexit relating to the Internal Market Bill, intensifying US-China stand-off, resurging virus in Europe and downward revisions to Japanese GDP numbers – resulted in some caution. As a result, equity markets registered losses. US equity markets underperformed on a continued correction in the technology sector in a holiday-shortened week. In addition to the technical correction from overbought levels, disagreement on further fiscal supportive measures in the Congress and uncertainty relating to the elections have caused further weakness in US equities. Chinese equities too posted losses with ChiNext falling c7% over the week. Japanese equities had a volatile week but ended it with small gains. Large cap UK stocks performed strongly on GBP weakness. Eurozone equities performed strongly thanks to the upbeat economic assessment from the ECB. In the fixed income space, yields on 10Y US treasuries, UK gilts, German bunds and Japanese government bonds all fell; with the exception of the latter, yield movements were volatile across the board. Amongst commodities, crude prices fell pushing both WTI and Brent benchmarks into a contango. Thanks to the uncertainty on demand and supply, Brent prices fell below the USD40/bbl mark for the first time since late June. Saudi Arabia cutting oil prices to some customers perhaps added to the weakness. Performance of precious metal prices was rather mixed with gold registering marginal gains but silver losing. Amongst industrial metals, copper prices gained while aluminium prices fell. Whilst a weaker USD has helped most commodities in recent months, for copper, both the supply-side fears (thanks to coronavirus infections at the world's largest mines in South America) and the increasing demand (growing electric vehicle market) have helped further in the rebound since March this year. Turning to currencies, USD index was volatile through the week – rising in the first half and falling subsequently. EUR appreciated against the USD following the upbeat assessment from the ECB. GBP fell on rising Brexit risks. USD stabilised against the JPY in the past week following some strong moves over past month.


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

Luciano Jannelli, Ph.D., CFA
Head Investment Strategy
Tel: +971 (0)2 696 2340
luciano.jannelli@adcb.com

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

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


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## Beta normalisation in a wobbly bull market

Whilst we do think that some caution is warranted in the near-term, we are constructive on the 12 month outlook for equities as an asset class (see The Equity Strategist: Cautious tactically, constructive strategically, August 12 2020). Especially over the next week, surging virus cases in Europe, Brexit talks and quadruple witching in the US all present risks. Further, as we work through some overbought technical conditions, volatility could persist. However, beyond the near-term, equities can continue to move higher extending their gains since March lows. As the cycle normalizes, fundamentals should begin to improve supporting earnings growth. Monetary policy (alongside the fiscal policy) should remain accommodative supporting equity valuations. Election risks in the US and Brexit risks would have passed. Sentiment is bearish (contrarian signal) and fund flows indicate no exuberance. On a relative basis too, equities' attractions remain. Equity risk premia have further room to fall and the asset class should benefit from higher yields in a low-yielding environment. Lower for longer interest rates and higher tolerance for inflation means suppressed real rates and this should support equities which are a reasonable hedge against inflation.

We are keenly observing some shift in the underlying equity market performances. COVID-19 which began as a systemic risk has transformed itself into a systematic risk causing palpable shifts in sector betas – increasing market beta for some conventionally low beta sectors like Real estate and Utilities and decreasing beta for some traditionally high beta sectors like IT and Consumer discretionary. In our view, visibility on a vaccine availability is likely to result in normalisation of this situation. However, the biggest impact of such normalisation is likely to be at the industry level (sub-division of sectors). Our 'beta normalisation' analysis highlights opportunity in Energy equipment & services, Aerospace & Defense, Oil Gas & consumables, Airlines, Industrial Conglomerates and Construction & Engineering amongst cyclicals; Gas utilities, Real Estate Maintenance & Development, Diversified Telecoms, Independent Power & Renewable Electricity Producers, Tobacco and Transportation Infrastructure themes amongst the defensives. We are also closely watching the underperformance of UK equities.

## Global markets' performance snapshot

**Index Snapshot (World Indices)**

| Index | Latest | Weekly % | YTD % |
|---|---|---|---|
| S&P 500 | 3,341 | -2.5 | 3.4 |
| Dow Jones | 27,666 | -1.7 | -3.1 |
| Nasdaq | 10,854 | -4.1 | 21.0 |
| DAX | 13,203 | 2.8 | -0.3 |
| Nikkei 225 | 23,406 | 0.9 | -1.1 |
| FTSE 100 | 6,032 | 4.0 | -20.0 |
| Sensex | 38,855 | 1.3 | -5.8 |
| Hang Seng | 24,503 | -0.8 | -13.1 |
| **Regional Markets (Sunday to Thursday)** | | | |
| ADX | 4,519 | -0.7 | -11.0 |
| DFM | 2,271 | -0.5 | -17.9 |
| Tadawul | 8,135 | 1.1 | -3.0 |
| DSM | 9,764 | -0.7 | -6.3 |
| MSM30 | 3,686 | -1.6 | -7.4 |
| BHSE | 1,390 | -1.5 | -13.7 |
| KWSE | 5,324 | 0.0 | -15.2 |
| **MSCI** | | | |
| MSCI World | 2,368 | -1.3 | 0.4 |
| MSCI EM | 1,092 | -0.7 | -2.1 |

**Global Commodities, Currencies and Rates**

| Commodity | Latest | Weekly % | YTD % |
|---|---|---|---|
| Brent USD/bbl | 39.8 | -6.6 | -39.7 |
| WTI USD/bbl | 37.3 | -6.1 | -38.9 |
| Gold USD/t oz | 1,940.6 | 0.3 | 27.9 |
| Silver USD/t oz | 26.7 | -0.7 | 49.7 |
| Platinum USD/t oz | 930.8 | 3.0 | -3.7 |
| Copper USD/MT | 6,757.5 | 1.2 | 9.8 |
| Alluminium | 1,737.5 | -1.0 | -2.9 |
| **Currencies** | | | |
| EUR USD | 1.18 | 0.1 | 5.6 |
| GBP USD | 1.28 | -3.6 | -3.5 |
| USD JPY | 106.16 | -0.1 | 2.3 |
| CHF USD | 0.91 | -0.5 | 6.3 |
| **Rates** | | | |
| USD Libor 3m | 0.25 | 0.5 | -86.9 |
| USD Libor 12m | 0.41 | -1.6 | -79.3 |
| UAE Eibor 3m | 0.39 | -26.0 | -82.2 |
| UAE Eibor 12m | 0.97 | 17.4 | -57.5 |
| US 3m Bills | 0.11 | 10.0 | -92.9 |
| US 10yr Treasury | 0.67 | -7.3 | -65.3 |

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## Summary market outlook

| | |
|---|---|
| Global Yields | Yields on 10Y US treasuries, UK gilts, German bunds and Japanese government bonds all fell; with the exception of the latter, yield movements were volatile across the board. We recommend increasing duration on US treasuries with long-term rates likely to remain pressed low on Fed's QE and low growth and inflation environment. |
| Stress and Risk Indicators | During the past week, VIX index eased from its recent highs and SKEW index fell to its lowest level since mid-June. Equity sentiment remains bearish and positioning into the asset class is light. However, we believe that volatility will likely stay elevated given the range of risks on the horizon. This entire episode of the coronavirus would be a part of our 'high volatility' narrative for 2020 and our risk-barbell positioning. |
| **Equity Markets** | |
| Local Equity Markets | GCC equity markets held up relatively well despite falling oil prices as local governments committed to improving economic growth. Saudi Arabia equities outperformed thanks to Finance Minister's upbeat assessment of the economic situation and Central Bank's commitment to the currency peg. We remain neutral on GCC equities given stable to higher oil prices and potential for revival in credit growth following the interest rate cuts. |
| Global Equity Markets | Equity markets registered losses over the week. US equity markets underperformed on a continued correction in the technology sector in a holiday-shortened week. In addition to the technical correction from overbought levels, disagreement on further fiscal supportive measures in the Congress and uncertainty relating to the elections have caused further weakness in US equities. Chinese equities too posted losses with ChiNext falling c7% over the week. Japanese equities had a volatile week but ended it with small gains. Large cap UK stocks performed strongly on GBP weakness. Eurozone equities performed strongly thanks to the upbeat economic assessment from the ECB. Overall, we remain neutral on equities with an overweight on US and underweight EU and EM outside Asia. By sector we prefer IT and Communication services. Our preference is for large cap non-cyclical growth with focus of quality. |
| **Commodities** | |
| Precious Metals | Performance of precious metal prices was rather mixed with gold registering marginal gains but silver losing. We remain overweight gold as a risk hedge against ongoing political risks. |
| Energy | Crude prices fell pushing both WTI and Brent benchmarks into a contango. Thanks to the uncertainty on demand and supply, Brent prices fell below the USD40/bbl mark for the first time since late June. Saudi Arabia cutting oil prices to some customers added to the weakness. Overall, we believe that oil prices are likely to remain sustained as the market is roughly balanced. |
| Industrial Metals | Whilst a weaker USD has helped most commodities in recent months, for copper, both the supply-side fears (thanks to coronavirus infections at the world's largest mines in South America) and the increasing demand (growing electric vehicle market) have helped further in the rebound since March this year. However, we do not recommend industrial metals exposure as China reigns in demand. |
| **Currencies** | |
| EURUSD | EUR appreciated against the USD following the upbeat assessment from the ECB. We expect the euro to remain stable. |
| Critical levels | R2 1.2166 · R1 1.2006 · S1 1.1691 · S2 1.1536 |
| GBPUSD | GBP fell on rising Brexit risks. We expect the cable to be stable with Pound sterling likely to follow the euro rather than USD. |
| Critical levels | R2 1.3733 · R1 1.3264 · S1 1.2545 · S2 1.2295 |
| USDJPY | USD stabilised against the JPY in the past week following some strong moves over past month. BoJ yield curve targeting should put continuing downward pressure on the yen. |
| Critical levels | R2 108.05 · R1 107.11 · S1 105.16 · S2 104.15 |

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

## Forthcoming important economic data/events

### United States

| | Indicator | Period | Expected | Prior | Comments |
|---|---|---|---|---|---|
| 09/15/2020 | Empire Manufacturing | Sep | 5.5 | 3.7 | Key event this week will be the FOMC Meeting. Whilst the market expects no change in the interest rate, focus will likely be on how the Fed will guide the market following its policy overhaul during August. FOMC will also give out fresh projections and focus there will be on how long the central bank can stay on hold with rates at zero lower-bound. Retail sales are expected to rise further during August, albeit at a slower pace than in July. It will be interesting to see if lack of fiscal support during the month has indeed impacted the retail sales. |
| 09/15/2020 | Industrial Production MoM | Aug | 1.00% | 3.00% | |
| 09/15/2020 | Capacity Utilization | Aug | 71.70% | 70.60% | |
| 09/16/2020 | MBA Mortgage Applications | 11-Sep | -- | 2.90% | |
| **09/16/2020** | **Retail Sales Advance MoM** | **Aug** | **1.00%** | **1.20%** | |
| 09/16/2020 | NAHB Housing Market Index | Sep | 78 | 78 | |
| **09/16/2020** | **FOMC Rate Decision** | **16-Sep** | **0.00% - 0.25%** | **0.00% - 0.25%** | |
| 09/17/2020 | Housing Starts | Aug | 1,450k | 1,496k | |
| 09/17/2020 | Philadelphia Fed Business Outlook | Sep | 15.0 | 17.2 | |
| 09/17/2020 | Initial Jobless Claims | 12-Sep | -- | 884k | |
| 09/17/2020 | Continuing Claims | 5-Sep | -- | 13,385k | |
| 09/18/2020 | U. of Mich. Sentiment | Sep P | 74.8 | 74.1 | |

### Japan

| | Indicator | Period | Expected | Prior | Comments |
|---|---|---|---|---|---|
| 09/16/2020 | Exports YoY | Aug | -15.90% | -19.20% | Market focus will be on BoJ's open market operations. The central bank's balance sheet continues to expand at a faster pace, driven by purchases of T-bills and loan provisions. |
| 09/16/2020 | Imports YoY | Aug | -17.80% | -22.30% | |
| **09/17/2020** | **BOJ Policy Balance Rate** | **17-Sep** | **--** | **-0.10%** | |
| 09/17/2020 | BOJ 10-Yr Yield Target | 17-Sep | -- | 0.00% | |
| 09/18/2020 | Natl CPI YoY | Aug | 0.20% | 0.30% | |

### Eurozone

| | Indicator | Period | Expected | Prior | Comments |
|---|---|---|---|---|---|
| 09/14/2020 | Bank of France Ind. Sentiment | Aug | 99 | 99 | Industrial Production rose strongly in June led by increases in durable consumer goods and capital goods. On ZEW survey, markets will focus on the extreme divergence between weak 'current conditions' and strong 'expectations'. |
| **09/14/2020** | **Industrial Production WDA YoY** | **Jul** | **--** | **-12.30%** | |
| 09/15/2020 | Labour Costs YoY | 2Q | -- | 3.40% | |
| **09/15/2020** | **ZEW Survey Expectations** | **Sep** | **--** | **64** | |
| 09/17/2020 | EU27 New Car Registrations | Aug | -- | -22.30% | |
| 09/17/2020 | CPI YoY | Aug F | -- | -0.20% | |

### United Kingdom

| | Indicator | Period | Expected | Prior | Comments |
|---|---|---|---|---|---|
| 09/15/2020 | Jobless Claims Change | Aug | -- | 94.4k | Markets expect BoE to keep rates unchanged at its meeting this week. Focus will be on the Central bank's economic outlook. |
| 09/16/2020 | CPI YoY | Aug | -- | 1.00% | |
| **09/17/2020** | **Bank of England Bank Rate** | **17-Sep** | **0.10%** | **0.10%** | |
| 09/18/2020 | Retail Sales Inc Auto Fuel YoY | Aug | -- | 1.40% | |

### China and India

| | Indicator | Period | Expected | Prior | Comments |
|---|---|---|---|---|---|
| **09/14/2020** | **India CPI YoY** | **Aug** | **6.90%** | **6.93%** | India CPI inflation is expected to have remained high during August. In China, IP, retail sales and Fixed asset investments will be key data releases. |
| **09/15/2020** | **China Industrial Production YoY** | **Aug** | **5.20%** | **4.80%** | |
| **09/15/2020** | **China Retail Sales YoY** | **Aug** | **0.00%** | **-1.10%** | |
| **09/15/2020** | **China Fixed Assets Ex Rural YTD YoY** | **Aug** | **-0.40%** | **-1.60%** | |
| 09/15/2020 | India Exports YoY | Aug | -- | -10.20% | |
| 09/15/2020 | India Imports YoY | Aug | -- | -28.40% | |

## 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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