The Weekly Market View

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بنك أبوظبي التجاري
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Economic moderation and policy deliberation

Global economic data surprises continued to moderate – Citi Global Economic surprises index fell further to 91.7 by end of last week from 94.2 a week earlier after peaking at 115.9 in mid-August. This is very much expected as we move from the rebound to the recovery phase (see The Equity Strategist: Cautious tactically, constructive strategically, August 12 2020). Last week, in the US, industrial production and retail sales for August missed expectations while the continuing jobless claims surprised on the upside. In Europe, COVID-19 infections continued to rise; especially France and UK reported strong rise in their case numbers. Despite this, German ZEW economic sentiment was better than expected. Otherwise, last week was busy for Central bank watchers – the US Fed, BoE and BoJ announced their policy decisions. In case of the Fed, the market was slightly disappointed by the lack of details on its QE program and also the implications of average-inflation-targeting (AIT) regime on rates. Looking at the fresh economic projections and the dot-plot (which included 2023 for the first time), markets appeared unconvinced on the Fed's ability to achieve its inflation target. BoE left its policy rates unchanged but highlighted the risks of rising virus cases and Brexit to its economic projections. At the same time, BoE hinted to the market that it was considering negative interest rates. BoJ kept its interest rates unchanged and marginally upgraded its economic projections for Japan. Equity markets remained volatile and ended the week flat. US equities registered losses with the S&P 500 index falling for the third consecutive week. Mid and small caps in the US outperformed large caps. UK, German and French equities registered losses but Swiss equities gained. Emerging market outperformance was helped by strong performances from China and Taiwan and stronger Asian FX. Staying with Asia, stronger JPY, however, did not help Japanese equity returns last week. Turning to fixed income markets, yields on 10Y UK Gilts, German bunds and JGBs ended the week flat from the week earlier. However, yields on USTs rose marginally as a mild protest against the lack of details on Fed's asset purchase program. Oil prices rose strongly on larger than expected fall in US commercial crude inventories and Saudi Arabia's attempts to reinforce compliance with supply cuts across OPEC. Both Brent and WTI benchmarks ended the week above the USD40/bbl mark. Precious metal prices registered slow gains last week after strong year-to-date move higher. Industrial metal prices rose in line with Chinese equity markets. Copper with strong gains from its march lows stands out. In the FX space, trends were rather mixed. EUR lost marginally against the USD last week after having appreciated considerably since May this year. Cable continues to have a tug of war between the Brexit risks and the broader USD weakness that persisted over the past few months. JPY appreciated as Mr. Suga was voted in as Japan's prime minister– implying policy continuity.

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Waiting for a vaccine

Market performances in the near future are likely to be influenced by the news flow on a potential vaccine to treat COVID-19. Indeed, we have seen in recent months some optimism about a potential vaccine becoming available soon. For example, "Super forecaster analysis" from Good Judgment puts a 66% probability of having a vaccine (enough doses of FDA-approved COVID-19 vaccine(s) to inoculate 25mn people be distributed) in the next six months and a total 93% probability of having one in the next 12 months in the US. In absence of this optimism, markets are potentially facing a range of near-term risks – moderating momentum in economic recovery, rising virus cases, lack of clarity on the next round of fiscal stimulus, US elections, looming Brexit deadlines and continuing US-China stand-off. Against this backdrop, equity markets and other risk assets have already seen a strong rebound since their March-lows. Within the equity market, structural growth stories (new economy themes) have had a stellar run this year. For the broader equity market to move higher other segments, which have been negatively impacted by COVID-19 will need to pick-up the market leadership. However, this is possible only upon the availability of a vaccine. As such, as and when a vaccine is available, we expect some 'beta normalisation' (for discussion see The Weekly Market View, September 13 2020). Taking the rough with the smooth, looking beyond near-term risks, we think equities can continue to move higher extending their gains since March lows. As the cycle normalizes, fundamentals should begin to improve supporting earnings growth – fiscal policy could lend a hand too. Monetary 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.

Global markets' performance snapshot

Index Snapshot (World Indices)

Index	Latest	Weekly %	YTD %
S&P 500	3,319	-0.6	2.7
Dow Jones	27,657	0.0	-3.1
Nasdaq	10,793	-0.6	20.3
DAX	13,116	-0.7	-1.0
Nikkei 225	23,360	-0.2	-1.3
FTSE 100	6,007	-0.4	-20.4
Sensex	38,846	0.0	-5.8
Hang Seng	24,455	-0.2	-13.2
Regional Markets (Sunday to Thursday)			
ADX	4,511	-0.2	-11.1
DFM	2,321	2.2	-16.1
Tadawul	8,338	2.5	-0.6
DSM	9,942	1.8	-4.6
MSM30	3,648	-1.0	-8.4
BHSE	1,435	3.3	-10.9
KWSE	5,447	2.3	-13.3
MSCI			
MSCI World	2,368	0.0	0.4
MSCI EM	1,109	1.5	-0.5

Global Commodities, Currencies and Rates

Commodity	Latest	Weekly %	YTD %
Brent USD/bbl	43.2	8.3	-34.6
WTI USD/bbl	41.1	10.1	-32.7
Gold USD/t oz	1,950.9	0.5	28.6
Silver USD/t oz	26.8	0.2	50.0
Platinum USD/t oz	931.2	0.0	-3.7
Copper USD/MT	6,833.5	1.1	11.0
Alluminium	1,768.8	1.8	-1.1
Currencies			
EUR USD	1.18	-0.1	5.6
GBP USD	1.29	0.9	-2.6
USD JPY	104.57	-1.5	3.9
CHF USD	0.91	0.3	6.0
Rates			
USD Libor 3m	0.23	-9.2	-88.1
USD Libor 12m	0.38	-9.1	-81.2
UAE Eibor 3m	0.44	12.4	-80.0
UAE Eibor 12m	0.81	-17.2	-64.8
US 3m Bills	0.08	-25.6	-94.7
US 10yr Treasury	0.69	4.2	-63.8

Summary market outlook

Global Yields	Yields on 10Y UK Gilts, German bunds and JGBs ended the week flat from the week earlier. However, yields on USTs rose marginally as a mild protest against the lack of details on Fed's asset purchase program. 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 remained volatile – thanks to quadruple witching – but ended the week lower. 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 delivered positive returns last week trimming their underperformance year-to-date. Sharp rise in oil prices did help. We remain neutral on GCC equities given stable to higher oil prices and potential for revival in growth.
Global Equity Markets	Equity markets remained volatile and ended the week flat. Developed markets underperformed emerging markets. US equities registered losses with the S&P 500 index falling for the third consecutive week. Mid and small caps in the US outperformed. UK, German and French equities registered losses but Swiss equities gained. Emerging market outperformance was helped by strong performances from China and Taiwan and stronger Asian FX. Staying with Asia, stronger JPY, however, did not help Japanese equity returns last week. Whilst we are cautious near-term, we are constructive on equities over a 12 month time frame. 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	Precious metal prices registered slow gains last week after strong year-to-date move higher. Lack of clarity on new additional policies regarding its average-inflation-targeting framework contributed too. We remain overweight gold as a risk hedge against ongoing political risks.
Energy	Oil prices rose strongly on higher than expected fall in US commercial crude inventories and Saudi Arabia's attempts to reinforce compliance with supply cuts across OPEC. Both Brent and WTI benchmarks ended the week above the USD40/bbl mark. Overall, we believe that oil prices are likely to remain sustained as the market is roughly balanced.
Industrial Metals	Industrial metal prices rose in line with Chinese equity markets last week. Copper with strong gains from its March lows stands out. However, we do not recommend industrial metals exposure as China reigns in demand.
Currencies	
EURUSD	EUR lost marginally against the USD last week after having appreciated considerably since May this year. We expect the euro to remain stable.
Critical levels	R2 1.2154 · R1 1.1997 · S1 1.1697 · S2 1.1554
GBPUSD	Cable continues to have a tug of war between the Brexit risks and broader USD weakness that persisted over the past few months. We expect the cable to be stable with Pound sterling likely to follow the euro rather than USD.
Critical levels	R2 1.3773 · R1 1.3345 · S1 1.2626 · S2 1.2335
USDJPY	JPY appreciated against the USD as Mr. Suga was voted in as Japan's prime minister by both houses of parliament implying policy continuity. BoJ yield curve targeting should put continuing downward pressure on the yen.
Critical levels	R2 108.08 · R1 106.32 · S1 103.54 · S2 102.52

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
09/21/2020	Chicago Fed Nat Activity Index	Aug	1.19	1.18	Existing home sales have crossed their pre-crisis peak and market expects the momentum to continue. On the PMI front, both manufacturing and services sectors are firmly in expansionary zone and markets expect little change there. Continuing jobless claims have trended lower over past months and markets anticipate this trend to continue. Durable goods orders had a strong recovery till July and markets expect a small bounce in August.
09/22/2020	**Existing Home Sales**	**Aug**	**6.00m**	**5.86m**	
09/22/2020	Richmond Fed Mfg. Index	Sep	12	18	
09/23/2020	MBA Mortgage Applications	18-Sep	--	-2.50%	
09/23/2020	**Markit US Manufacturing PMI**	**Sep P**	**53.5**	**53.1**	
09/23/2020	**Markit US Services PMI**	**Sep P**	**54.5**	**55.0**	
09/23/2020	Markit US Composite PMI	Sep P	--	54.6	
09/24/2020	Initial Jobless Claims	19-Sep	845k	860k	
09/24/2020	**Continuing Claims**	**12-Sep**	**--**	**12,628k**	
09/24/2020	New Home Sales	Aug	891k	901k	
09/25/2020	**Durable Goods Orders**	**Aug P**	**1.40%**	**11.40%**	

Japan

	Indicator	Period	Expected	Prior	Comments
09/23/2020	**Jibun Bank Japan PMI Mfg**	**Sep P**	**--**	**47.2**	Both the manufacturing and service sector PMIs remain in contractionary zone. It will be interesting to see if some of this underperformance can reverse.
09/23/2020	**Jibun Bank Japan PMI Services**	**Sep P**	**--**	**45.0**	
09/23/2020	Jibun Bank Japan PMI Comp.	Sep P	--	45.2	
09/24/2020	Nationwide Dept Sales YoY	Aug	--	-20.30%	
09/25/2020	PPI Services YoY	Aug	1.20%	1.20%	

Eurozone

	Indicator	Period	Expected	Prior	Comments
09/22/2020	Eurozone Consumer Confidence	Sep A	-14.6	-14.7	PMIs and German IFO data releases gain more importance against the backdrop of the recent increase in COVID-19 cases. PMIs for August fell already but remain above the 50 level. It is therefore worth watching if these levels can hold.
09/23/2020	**Markit Eurozone Mfg. PMI**	**Sep P**	**51.9**	**51.7**	
09/23/2020	**Markit Eurozone Services PMI**	**Sep P**	**50.5**	**50.5**	
09/23/2020	Markit Eurozone Composite PMI	Sep P	51.9	51.9	
09/24/2020	ECB Publishes Economic Bulletin				
09/24/2020	**Germany IFO Business Climate**	**Sep**	**93.8**	**92.6**	
09/25/2020	M3 Money Supply YoY	Aug	10.20%	10.20%	

United Kingdom

	Indicator	Period	Expected	Prior	Comments
09/21/2020	Rightmove House Prices YoY	Sep	--	4.60%	Given rising virus cases and looming expiry of the furlough scheme, markets expect some weakness in PMIs.
09/23/2020	**Markit UK PMI Manufacturing SA**	**Sep P**	**54.0**	**55.2**	
09/23/2020	Markit/CIPS UK Services PMI	Sep P	56.0	58.8	
09/23/2020	Markit/CIPS UK Composite PMI	Sep P	56.1	59.1	

China and India

	Indicator	Period	Expected	Prior	Comments
09/21/2020	**China 1-Year Loan Prime Rate**	**21-Sep**	**3.85%**	**3.85%**	Markets expect PBoC to stay on hold with its policy rate. It is worth watching on how the central bank plans to support the credit demand.
09/21/2020	China 5-Year Loan Prime Rate	21-Sep	4.65%	4.65%	
09/25/2020	China BoP Current Account Balance	2Q F	--	$119.6b	

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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