The Weekly Market View

September 26 2022

بنك أبوظبي التجاري
ADCB
ASSET MANAGEMENT LIMITED

Kishore Muktinutalapati
Head - Investment Strategy
Tel: +971 (0)2 696 2358
kishore.muktinutalapati@adcb.com

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

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

Visit Investment Strategy Webpage to read our other reports

Way too much

Central banks are increasing their policy rates at a record pace to fight inflation. Just over the past week, more than a dozen central banks, including the US Fed and Bank of England (BoE), have jumped to raise their policy rates. These days, for every central bank that is cutting rates, there are 25 central banks raising rates. Focussing on the past week, a few central banks including Bank of Japan (BoJ) and Reserve Bank of India (RBI) have even intervened in the FX market to bring stability to their domestic currencies against the USD. UK's new Chancellor announced debt-financed tax-cutting package worth GBP45bn which sparked a sharp rise in borrowing rates. Geopolitical risks rose sharply on escalation in the US-China-Taiwan and Russia-Ukraine situations. Italian elections increased the political concerns in Europe. Disappointing PMIs and higher-than-expected inflation put further pressure on risk sentiment. All this put together was way too much to digest for financial markets which are notoriously famous for their inability to price in more than one risk at a time. As a result, financial markets reacted with increased volatility. VIX index and MOVE index, which measure the implied volatility in equities and bonds respectively, rose. Global equities fell to their fresh year-to-date lows with the broader asset class now down c25% in 2022. Last week's loss of c5% for MSCI ACWI was the highest since mid-June. Broad USD rose further to a new 20-year high. EUR/USD fell to a fresh two-decade low. GBP/USD fell to a fresh 37-year low. Stronger USD and concerns of a global recession caused oil prices to fall sharply to an eight-month low. Gold, silver and platinum prices fell on broader USD strength. Copper and alluminum registered price falls on stronger USD and concerns about global growth. Hawkish Fed pushed the yields on 2Y USTs to the highest level since October 2007 and the yields on 10Y USTs to the highest level since November 2008. Yield on 10Y German government bonds hit a new decade high. Italian, Spanish, and French bond yields rose too.

Can inflation be tamed?

In most major developed markets, inflation in consumer and producer prices is running at a multi-decade high. As central banks have adopted a tight monetary policy to counter this, investors are left to wonder if inflation can be tamed. Looking at the central bank actions so far this year, the three large central banks of the west – the US Fed, the European Central bank (ECB), and the BoE in aggregate raised their policy rates by 6.25ppt. This is in addition to the quantitative tightening. BoJ, however, going against the crowd maintained its accommodative monetary policy. Despite this record tightening in monetary policies, why has inflation continued to remain elevated? There are many reasons - some that apply to any tightening cycle and some extremely specific to the present instance. In general, tighter interest rate policy works with a lag called 'response lag' or 'impact lag.' A combination of theory and practice points to a response lag of anywhere between 9 months up to 2 years. Worth noting that financial conditions as measured by credit spreads, equity prices, and the currencies have tightened already. These financial conditions tighten before the actual impact of tighter monetary policy shows up in the real economy. More specific to the current instance, various sectors are moving with varying degrees of progress towards achieving equilibrium following the pandemic-induced disruptions. Therefore, demand supply dynamic has not reached the so-called steady state across all sectors of the economy. Furthermore, sensitivity of certain sectors to interest rates has changed over a period – making it difficult to estimate the response lag for those sectors. Now, if central banks are tightening aggressively and we know that monetary policy operates with a significant lag, how does one know what the appropriate monetary policy rate is? Well, that is a trillion-dollar question. As central bankers go on a tightening mode, they need to keep an eye on the evolution of growth and inflation data to determine the appropriate interest rate level. Given the pace of policy tightening, it is easy for the Central banks to miss obvious signals that they have done enough. This would account for a policy error. Until there is a confirmation that policy error will be avoided, financial markets are likely to remain volatile.

Global markets' performance snapshot*

Index Snapshot (World Indices)*

Index	Latest	Weekly %	YTD %
S&P 500	3,693	-4.7	-22.5
Dow Jones	29,590	-4.0	-18.6
Nasdaq	10,868	-5.1	-30.5
DAX	12,284	-3.6	-22.7
Nikkei 225	27,154	-1.5	-5.7
FTSE 100	7,019	-3.0	-5.0
Sensex	58,099	-1.3	-0.3
Hang Seng	17,933	-4.4	-23.4
Regional Markets			
ADX	10,026	-1.7	18.1
DFM	3,409	-2.3	6.7
Tadawul**	11,461	-1.0	1.1
DSM**	12,644	-3.3	8.8
MSM30**	4,473	0.2	7.9
BHSE**	1,928	-0.5	7.3
KWSE**	7,444	-1.9	5.7
MSCI			
MSCI World	2,439	-5.1	-24.5
MSCI EM	906	-4.1	-26.5

Global Commodities, Currencies and Rates*

Commodity	Latest	Weekly %	YTD %
Brent USD/bbl	86.2	-5.7	10.8
WTI USD/bbl	78.7	-7.5	4.7
Gold USD/t oz	1,643.9	-1.9	-9.8
Silver USD/t oz	18.8	-2.8	-19.1
Platinum USD/t oz	874.0	-2.0	-8.9
Copper USD/MT	7,518.0	-4.5	-22.8
Alluminium	2,148.1	-5.3	-23.5
Currencies			
EUR USD	0.97	-3.2	-14.8
GBP USD	1.09	-4.9	-19.8
USD JPY	143.34	0.3	24.5
USD CHF	0.98	1.8	7.6
Rates	**Latest**	**Weekly (bp)**	**YTD (bp)**
USD Libor 3m	3.64	7.6	343.2
USD Libor 12m	4.80	12.7	421.6
UAE Eibor 3m	3.11	-17.5	275.0
UAE Eibor 12m	4.24	35.3	349.8
US 3m Bills	3.12	2.0	306.0
US 10yr Treasury	3.69	24.1	218.9

Source: Bloomberg | Notes: *Data as of September 23 2022 unless stated otherwise; **Data as of September 22 2022.

Summary market outlook

Global Yields	Hawkish Fed pushed the yields on 2Y USTs to the highest level since October 2007 and the yields on 10Y USTs to the highest level since November 2008. Yield on 10Y German government bonds hit a new decade high. Italian, Spanish, and French bond yields rose too. Yields on UK gilts rose sharply after the Chancellor's announcement of a tax cut which was the largest since 1972. Bond yields and prices are inversely correlated. i.e. yields rise when prices fall and vice versa. Overall, we recommend adding duration on USTs (7-10Y segment) as growth slowdown/recession fears rise.
Stress and Risk Indicators	VIX index, a measure of implied volatility in equities, rose sharply last week nearing the 30-level. VVIX, a measure of volatility in VIX rose sharply too reflecting the higher volatility in the asset class. SKEW index, a measure of tail risks, rose only marginally and remained at low levels. MOVE index, which measures implied volatility in bonds, rose sharply. We expect financial market volatility to stay elevated as the monetary policy normalizes.
Equity Markets	
Local Equity Markets	GCC equity markets posted losses but managed to outperform broader equity benchmark. Within the region, Qatar, Dubai, and Kuwait equities fell the most. Smaller markets like Oman and Bahrain outperformed. We stay neutral GCC equities within our global equity framework. Stable to higher 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 markets.
Global Equity Markets	Global equities (as measured by MSCI ACWI) fell to their fresh year-to-date lows with the broader asset class now down c25% in 2022. Last week's loss of c5% was the highest since mid-June. EM posted losses but outperformed DM. Within DM, Europe-ex-UK, UK, and Canada underperformed the most in USD terms while Japan outperformed. Amongst global sectors, consumer staples, utilities, and IT outperformed while energy, consumer discretionary, and real estate underperformed. We are moderately overweight US, UK, and Asia Pacific; underweight Eurozone and EMs outside Asia. By sector we prefer healthcare, industrials, and communication services. Our strategic preference is for large cap non-cyclical growth with focus on quality. Our other high conviction ideas include clean energy themes (for medium to long-term); aerospace & defence, food security, energy security, and cybersecurity as plays on rising geopolitical tensions and deglobalization; and consumer services, airlines, and hotels, restaurants & leisure as plays on re-opening.
Technology Segments	Nasdaq-100 index fell c5% over the past week. HK tech index fell 7% as a team of Chinese regulatory officials arrived in HK to work with the US counterparts on audit inspections for ADRs. Within the technology sector, we prefer non-cyclical growth over cyclical growth (tech hardware, semiconductors etc.) over a 12-month horizon.
Commodities	
Precious Metals	Gold, silver and platinum prices fell sharply on broader USD strength. On year-to-date basis, while gold and platinum have neared a correction territory, silver is close to being in a bear market. We are overweight gold as a hedge against potential inflation, growth, and geopolitical risks.
Energy	Stronger USD and concerns of a global recession caused oil prices to fall sharply to an eight-month low. Overall, over the medium-term we believe that oil prices will remain sustained as the market balances into the new normal.
Industrial Metals	Copper and alluminum registered price falls on stronger USD and concerns about global growth. Another commodity super-cycle is difficult, yet demand for commodities linked to "green infrastructure" is likely to sustain.
Currencies	
EURUSD	EUR/USD fell to a fresh two-decade low of 0.97 on broader USD strength and weaker risk appetite. We expect ECB policy divergence to play a major role in the performance of the euro.
Critical levels	R2 0.9787 · R1 0.9707 · S1 0.9551 · S2 0.9475
GBPUSD	GBP/USD fell to a fresh 37-year low to below 1.10 level. Chancellor's new tax cuts and energy subsidies caused investors worry about UK's fiscal position. We expect GBP to weaken against USD and stay flat versus the EUR.
Critical levels	R2 1.1077 · R1 1.0811 · S1 1.0315 · S2 1.0085
USDJPY	Dovish BoJ policy caused further weakness in yen. But eventually the currency gained after Japan's intervention in the FX markets – the first since 1998. BoJ policy remains odd-one out and is likely to cause JPY weakness.
Critical levels	R2 144.84 · R1 144.51 · S1 143.56 · S2 142.94

Forthcoming important economic data/events

United States

Date & Time (GST)	Indicator	Period	Expected	Prior
09/26/22 16:30	Chicago Fed Nat Activity Index	Aug	0.23	0.27
09/27/22 16:30	Durable Goods Orders	Aug P	-0.30%	-0.10%
09/27/22 18:00	**Conf. Board Consumer Confidence**	**Sep**	**104.5**	**103.2**
09/27/22 18:00	Richmond Fed Manufact. Index	Sep	-11	-8
09/27/22 18:00	New Home Sales	Aug	500K	511K
09/28/22 15:00	**MBA Mortgage Applications**	**23- Sep**	**--**	**3.80%**
09/28/22 16:30	Wholesale Inventories MoM	Aug P	0.50%	0.60%
09/29/22 16:30	**Initial Jobless Claims**	**14- Sep**	**215K**	**213K**
09/29/22 16:30	**Continuing Claims**	**17- Sep**	**1,383K**	**1,379K**
09/29/22 16:30	GDP Annualized QoQ	2Q T	-0.60%	-0.60%
09/29/22 16:30	Personal Consumption	2Q T	1.50%	1.50%
09/30/22 16:30	**Personal Income**	**Aug**	**0.30%**	**0.20%**
09/30/22 16:30	**Personal Spending**	**Aug**	**0.20%**	**0.10%**
09/30/22 16:30	**PCE Deflator YoY**	**Aug**	**6.00%**	**6.30%**
09/30/22 16:30	**PCE Core Deflator YoY**	**Aug**	**4.70%**	**4.60%**
09/30/22 18:00	**U. of Mich. Sentiment**	**Sep F**	**59.5**	**59.5**
09/30/22 18:00	**U. of Mich. 1 Yr Inflation**	**Sep F**	**--**	**4.60%**
09/30/22 18:00	**U. of Mich. 5-10 Yr Inflation**	**Sep F**	**2.80%**	**2.80%**

Japan

Date & Time (GST)	Indicator	Period	Expected	Prior
09/27/22 10:00	Machine Tool Orders YoY	Aug F	--	10.70%
09/30/22 03:30	**Jobless Rate**	**Aug**	**2.50%**	**2.60%**
09/30/22 03:30	Job-To-Applicant Ratio	Aug	1.30	1.29
09/30/22 03:30	**Industrial Production MoM**	**Aug P**	**0.20%**	**0.80%**
09/30/22 03:50	**Retail Sales YoY**	**Aug**	**2.80%**	**2.40%**
09/30/22 09:00	Housing Starts YoY	Aug	-4.00%	-5.40%

Eurozone

Date & Time (GST)	Indicator	Period	Expected	Prior
09/26/22 12:00	**Germany IFO Expectations**	**Aug**	**79**	**80.3**
09/28/22 10:00	**Germany GfK Consumer Confidence**	**Sep**	**-39**	**-36.5**
09/28/22 10:45	France Consumer Confidence	Sep	80	82
09/29/22 13:00	Eurozone Economic Confidence	Sep P	96	97.6
09/29/22 13:00	Eurozone Consumer Confidence	Sep F	--	-28.8
09/29/22 16:00	**Germany CPI YoY**	**Sep P**	**9.50%**	**7.90%**
09/30/22 10:45	**France CPI YoY**	**Sep P**	**6.00%**	**5.90%**
09/30/22 10:45	France PPI YoY	Aug	--	27.20%
09/30/22 13:00	Eurozone HICP	Sep	9.70%	9.10%
09/30/22 13:00	Eurozone Unemployment Rate	Aug	6.60%	6.60%

United Kingdom

Date & Time (GST)	Indicator	Period	Expected	Prior
09/26/22 03:01	**Rightmove House Prices MoM**	**Sep**	**0.70%**	**-1.30%**
09/28/22 03:01	BRC Shop Price Index YoY	Sep	--	5.10%
09/28/22 10/03	**Nationwide House Px NSA YoY**	**Sep**	**9.90%**	**10.00%**
09/29/22 12:30	Net Consumer Credit	Aug	1.4b	1.4b
09/29/22 12:30	Mortgage Approvals	Aug	62.0K	63.8K
09/30/22 10:00	GDP QoQ	2Q F	-0.10%	-0.10%
09/30/22 10:00	**GDP YoY**	**2Q F**	**2.90%**	**2.90%**
09/30/22 10:00	Private Consumption QoQ	2Q F	-0.20%	-0.20%
09/30/22 10:00	Government Spending QoQ	2Q F	-2.90%	-2.90%
09/30/22 10:00	Exports QoQ	2Q F	2.40%	2.40%
09/30/22 10:00	Imports QoQ	2Q F	-1.50%	-1.50%

China and India

Date & Time (GST)	Indicator	Period	Expected	Prior
09/26/22 09/30	India BoP Current Account Balance	2Q	-$30.80b	-$13.40b
09/27/22 05:30	China Industrial Profits YTD YoY	Aug	--	--
09/30/22 08:30	**India RBI Repurchase Rate**	**30- Sep**	**5.90%**	**5.40%**
09/30/22 08:30	**India RBI Cash Reserve Ratio**	**30- Sep**	**4.50%**	**4.50%**
09/30/22 05:30	**China Manufacturing PMI**	**Sep**	**49.2**	**49.4**
09/30/22 05:30	**China Non-manufacturing PMI**	**Sep**	**52.3**	**52.6**
09/30/22 05:45	**China Caixin China PMI Mfg**	**Sep**	**49.4**	**49.5**
09/30/22	China BoP Current Account Balance	2Q F	--	$80.2b

Disclaimer

ADCB Asset Management Limited ("AAML"), is a member of ADCB Group, licensed by Financial Services Regulatory Authority in Abu Dhabi Global Markets under financial services permission number 170036.

This publication is intended for general information purposes only. It should not be construed as an offer, recommendation or solicitation to purchase or dispose of any securities or to enter in any transaction or adopt any hedging, trading or investment strategy. Neither this publication nor anything contained herein shall form the basis of any contract or commitment whatsoever. Distribution of this publication does not oblige ADCB Group to enter into any transaction.

The content of this publication should not be considered as legal, regulatory, credit, tax or accounting advice. Anyone proposing to rely on or use the information contained in the publication should independently verify and check the accuracy, completeness, reliability and suitability of the information and should obtain independent and specific advice from appropriate professionals or experts regarding information contained in this publication. Investment products are not available to US persons.

Information and opinions contained herein is are based on various sources, including but not limited to public information, annual reports and statistical data that AAML considers accurate and reliable. However, AAML makes no representation or warranty as to the accuracy or completeness of any statement made in or in connection with this publication and accepts no responsibility whatsoever for any loss or damage caused by any act or omission taken as a result of the information contained in this publication. This publication is intended for customers who are either retail or professional investors.

Charts, graphs and related data or information provided in this publication are intended to serve for illustrative purposes only. The information contained in this publication is prepared as of a particular date and time and will not reflect subsequent changes in the market or changes in any other factors relevant to their determination. All statements as to future matters are not guaranteed to be accurate. AAML expressly disclaims any obligation to update or revise any forward looking statement to reflect new information, events or circumstances after the date of this publication or to reflect the occurrence of unanticipated events.

ADCB Group does and may at any time solicit or provide commercial banking, investment banking, credit, advisory or other services to the companies covered in its publications. As a result, recipients of this publication should be aware that any or all of foregoing services may at time give rise to a conflict of interest that could affect the objectivity of this publication. Opinions expressed herein may differ from opinions expressed by other businesses or affiliates of ADCB Group.

Past performance does not guarantee future results. Investment products are not bank deposits and are not guaranteed by ADCB Group. They are subject to investment risk, including possible of loss of principal amount invested. This publication may not be reproduced or circulated without ADCB Group written authority. The manner of circulation and distribution may be restricted by law or regulation in certain jurisdictions. Persons who come into possession of this document are required to inform themselves of, and to observe such restrictions. Any unauthorized use, duplication, or disclosure of this document is prohibited by law and may result in prosecution.