INVESTMENT STRATEGY
WEEKLY VIEW

For inquiries related to this article, please contact:
Christofer.Langner@bankfab.com

بنك أبوظبي الأول
FAB
First Abu Dhabi Bank

CENTRAL BANKS ARE NOT SPOOKED BY THE WAR IN EUROPE

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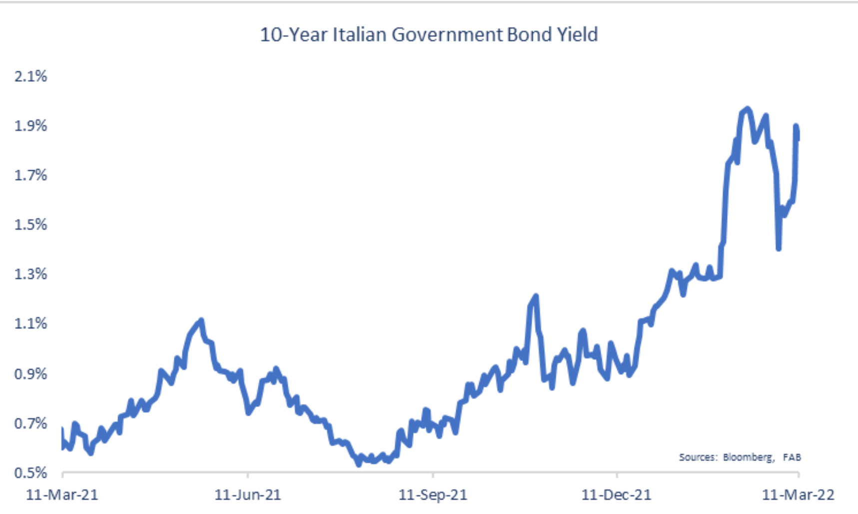
- The ECB last week said it would slow bond buying in May and could end it in the third quarter
- This week, the Fed is expected to hike rates by 25 basis points
- Commodity prices hovering near eight-year highs are likely to fuel more inflation this year
- Energy and food-importing emerging nations could suffer more currency devaluations

The contemporary framework of most central banks has them with a sole mandate to fight inflation using the blunt tool of tweaking short-term interest rates. The key problem is that higher rates work well to temper demand, but they are no solution for supply-induced inflation, such as the one emerging as a result of cutting off Russian exports to the world.

Still, inflation has accelerated so much that the world's key central banks are tightening monetary policy even as the same supply issues fueling prices choke the economy. Some of the current inflation is because of heady demand, yes, and can be fought with rate hikes. The question, though, is whether central banks will overdo it and create recessions.

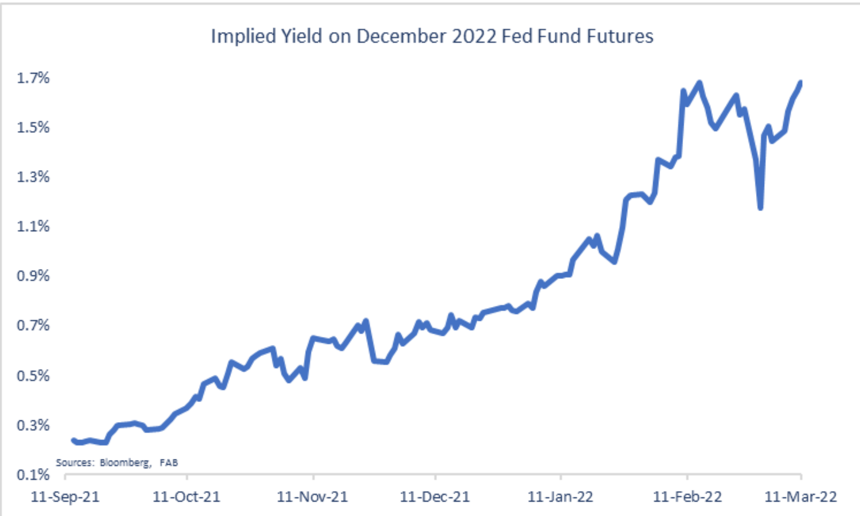
PERIPHERAL EUROPEAN BONDS ARE BACK TO PRICING IMPENDING ECB RATE HIKES



- The yield on the 10-year Italian government bond rose 22 basis points on Thursday, when the ECB said it would accelerate the end of its bond-buying program.
- ECB governors, however, have said that the impending end of its bond-buying program does not infer rate hikes are coming soon.
- Still, markets are now pricing the first ECB rate hike as soon as July.
- The trouble, however, is that the food and energy supply shocks could push Europe into recession this year.

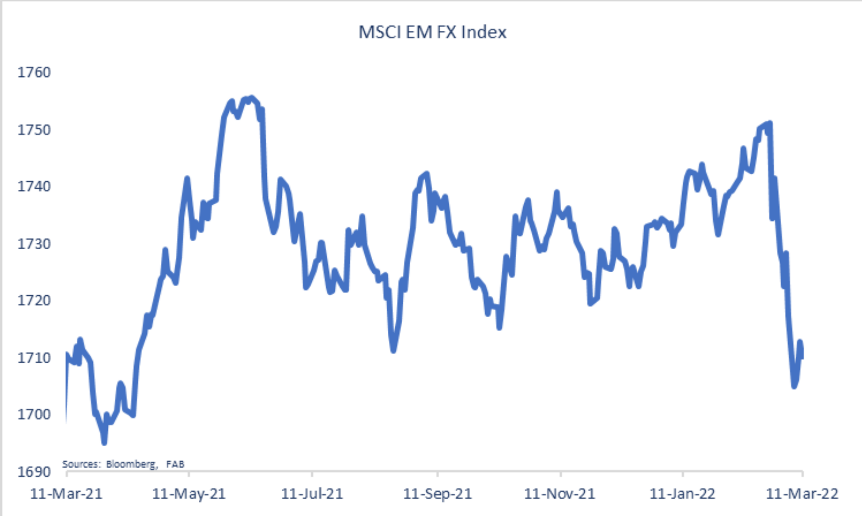
MARKETS ARE AGAIN FORECASTING SIX FED RATE HIKES BY DECEMBER OF THIS YEAR

- The Fed is expected to hike rates by 25 basis points this Wednesday as broad inflation in the US hit 7.9% year-on-year in February.
- Quickly rising commodity prices suggest inflation could continue to rise into the end of the year.
- The quarterly summary of economic projections will also be released this week, and will offer a glimpse of what trajectory the Fed sees for interest rates, inflation and employment.
- Guidance about the Fed's balance sheet will be key for markets.

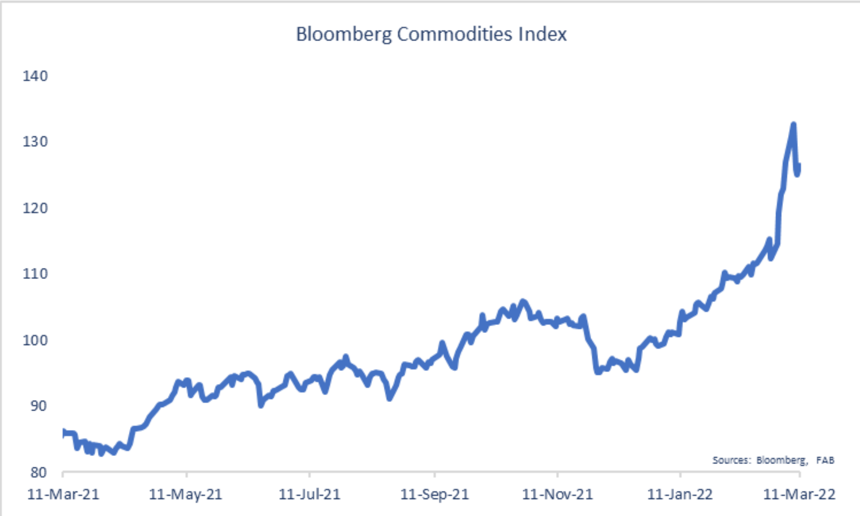


RISING US RATES AND COMMODITY INFLATION ARE SUPPORTING THE US DOLLAR

- The US dollar index has approached 100.00 amid a liquidity squeeze and as investors seek safety.
- The Fed's stance on its balance sheet could support a breach of 100.00 or set back the US dollar.
- Emerging market currencies are particularly sensitive to rising US rates and its effect on the greenback.
- Currencies of commodity-exporting EM countries that have started to hike rates last year (such as Brazil) however, are bucking the trend and have been rising.



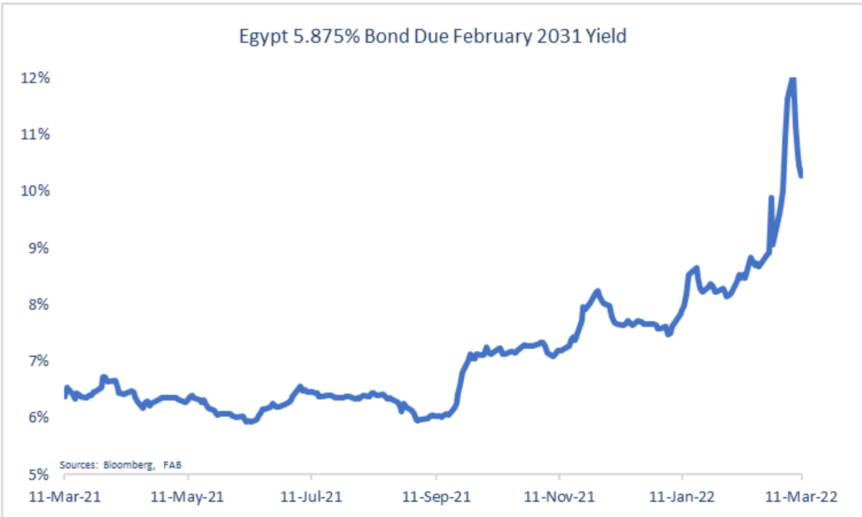
COMMODITIES CONTINUE TO SOAR, IMPACTING INFLATION AND ENERGY IMPORTERS



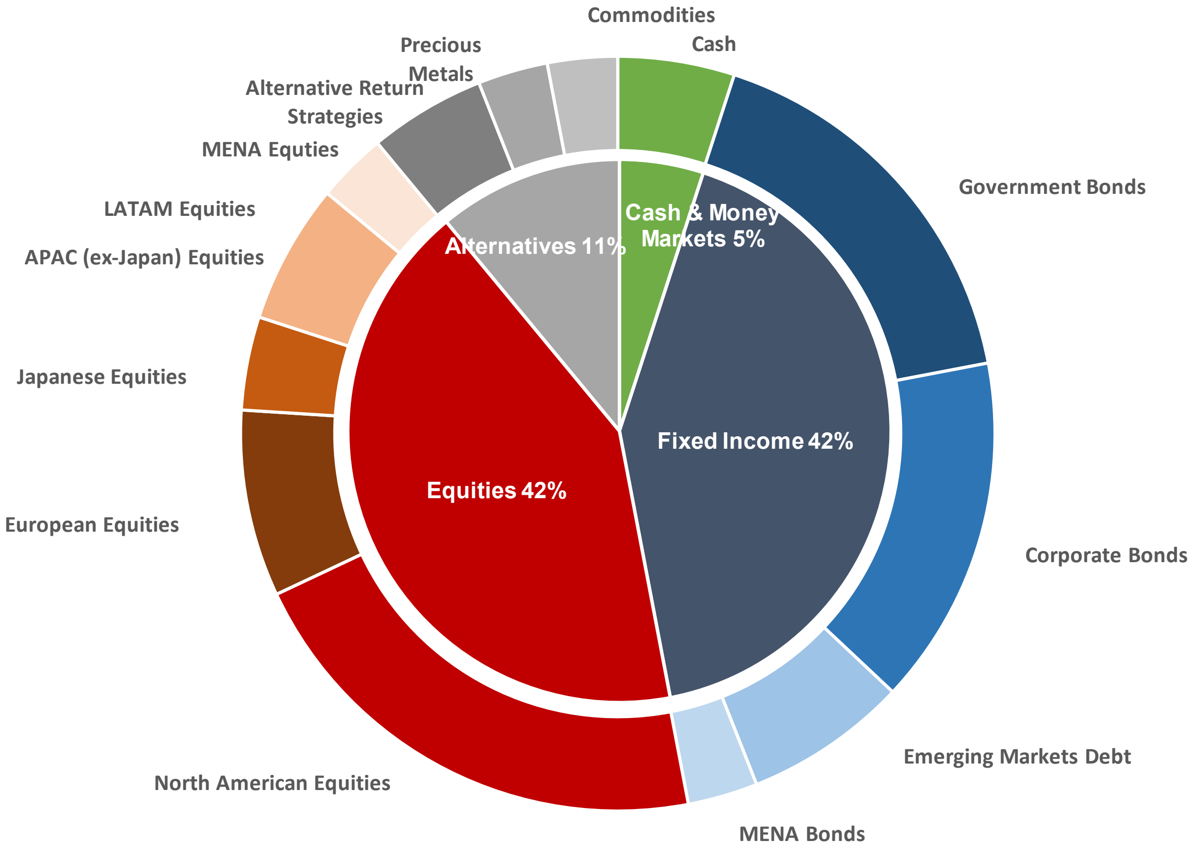
- Inflation in the developed world could approach double digits in the coming months if energy costs remain high.
- Currencies of importers of food or energy, such as Egypt, India and Turkey, are under pressure as their current account balances worsen.
- While unleashing additional supply could cap the rise in energy prices, food costs are likely to remain elevated for the next couple of years.
- The high raw material prices are also hitting economic activity in industrial economies such as Europe's.

MARKETS ARE PRICING A POTENTIAL DEVALUATION AND DOWNGRADE OF EGYPT

- The yield on the 10-year dollar-denominated government bond of Egypt touched 12.5% last week.
- The cost of subsidizing bread has risen with wheat prices at a record high, which impacts the fiscal and current account balances.
- Markets are pricing a higher chance of a devaluation of the Egyptian pound and a potential credit rating downgrade this year.
- Egypt's central bank is expected to hike rates next week as core inflation rose to 7.2% in February.



Asset Class	Positioning	Detail
Cash	Underweight	Putting cash to work in risk assets.
Fixed Income	Overweight	Keeping a slight overweight focused on EM dollar debt.
Equities	Overweight	Slightly overweight in Asia ex-Japan and US markets.
Alternatives	Underweight	However, reducing the underweight in hedge funds.



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