



Key Highlights



RISK FRIENDLY ECONOMIC DATA

Reports on inflation and retail sales suggest that US consumer spending could be moderating as we move into Q2. The US CPI report for April was mostly in line with expectations. The stickiest service sector inflation slowed, printing the slowest gain since December 2023. After very strong retail sales in Feb and Mar, advance reading for April was flat, while core retail sales, which strip out autos and gas, fell.



HAWKISH AND NOT SO HAWKISH FEDSPEAK

Several US Federal Reserve officials spoke during the week, all suggesting that borrowing costs should be kept high for longer as they await more evidence inflation is easing. Fed Chair Jerome Powell also spoke during the week, expressing satisfaction with the progress on inflation and reiterating that the next move would be a rate cut. However, he failed to give any clues about the timing of the first rate cut.



WHAT ARE THE SWAPS TELLING US

Data on overnight index swaps (OIS) contracts is actively collated by Bloomberg to provide probabilities of future rate actions by central banks. The current data for the US suggests two 25bps rate cuts in September and December. Data for the eurozone implies a 96% probability of rate cut in June and a total of 70bps of cuts by ECB this year. The same for the UK suggests 61% probability of rate cut in June and another cut by year-end. ECB, Fed and BOE have their rate-setting meeting on 6, 12 and 20 June resp.



EQUITIES MAKING NEW HIGHS

With CPI printing in-line with expectations, Fed Chair Jerome Powell reiterated that the next move for interest rates is down and overall positive earnings reports, investor sentiments continue to be decidedly positive. The blue-chip Dow Jones Index of top 30 companies touched an all-time high of 40,000 while S&P 500 and Nasdaq notched new record closings during the week. Across the Atlantic, UK's FTSE100 and Germany's DAX40 Indices also touched new all-time highs during the week.



US TREASURIES REMAIN MOST ATTRACTIVE

Investors often get worried about US Treasury bonds, given the high level of national debt and the rising budget deficit. However, US Treasuries remain the most attractive government debt. AA+ rated 10-yr US Treasury bonds offer ~4.40% p.a. whereas A+ rated 10-yr Chinese government paper, with higher debt and struggling economy, offers just 2.2% p.a. Most surprising: BB+ rated 10-yr Vietnam government bonds offer mere 2.8% p.a.!



UAE BUSINESS ACTIVITY HIT BY RAIN

Latest non-oil private sector business activity data showed the adverse impact of the heavy rainfall experienced in the UAE in April. The S&P Global UAE Purchasing Managers' Index (PMI) remains in the expansion zone at 55.3 but fell from March's 56.9 and to its lowest level in eight months. There was a sharp drop in new orders, probably due to temporary disruptions in business. Dubai PMI recorded a steeper fall from 58 to 55.1.

1 Week YTD'24 2023

Mover of the Week

Silver	9.15%	28.80%	0.18%
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Global Equities

Magnificent 7	2.17%	22.14%	80.89%
Dow Jones Ind.	1.24%	6.14%	13.70%
S&P 500	1.54%	11.18%	24.23%
Nasdaq Comp.	2.12%	10.22%	43.42%
Euro stoxx 600	0.42%	9.18%	12.74%
FTSE 100	-0.16%	8.88%	3.78%
India Nifty50	1.80%	3.55%	20.03%
Nikkei 225	1.46%	15.91%	28.26%
Shanghai Comp.	0.32%	7.19%	-1.93%

Regional Equities

Dubai DFM	-2.51%	0.21%	21.69%
Abu Dhabi ADX	-0.54%	-5.60%	-6.20%
Saudi Tadawul	1.54%	11.18%	13.87%

Bonds

US IG Bond Index	0.57%	-1.40%	5.15%
GCC Bnd/Suk Index	0.94%	-0.82%	5.14%

Currencies

Dollar Index	-0.81%	3.07%	-2.11%
Euro	0.86%	-1.76%	3.30%
GBP	1.32%	-0.49%	5.50%
JPY	0.13%	-9.50%	7.50%
CHF	-0.21%	-7.58%	8.97%
AUD	1.20%	-2.18%	0.23%
CNH	0.01%	-1.53%	-2.94%
INR	0.31%	-0.08%	-0.63%
SGD	0.65%	-1.95%	1.49%

Commodities

WTI Crude	2.30%	11.74%	-10.73%
Brent Crude	1.44%	9.01%	-10.32%
Nat Gas	16.61%	4.46%	-43.82%
Gold	1.67%	16.51%	13.47%
Silver	9.15%	28.80%	0.18%
Copper	7.74%	29.98%	2.10%

HISTORIC OUT-PERFORMANCE OF EQUITIES



Source: Shiller, R., U.S. Stock Price Data, Annual, with consumption, both short and long rates, and present value calculations. Bloomberg Finance L.P., Julius Baer.
T-Note = US Treasury note. Past performance and performance forecasts are not reliable indicators of future results. The return may increase or decrease as a result of currency fluctuations.

Julius Bär

Chart of the Week

Selecting an asset class to invest in can be a daunting task. This becomes even more difficult if you are planning for the long term, thinking about your retirement and beyond. Clearly, the best strategy is to pick assets that consistently grow above the rate of inflation.

The only asset class that can do this over the long term is equities, which are shares in listed companies. Looking back at US asset prices, we can see that S&P 500 outperformed bonds and gold by a wide margin. \$1 invested in equities in 1925 is worth \$716 post inflation adjustment whereas the same invested in gold and Treasury bonds would be worth only \$5.6 or \$4.4, respectively, after adjusting for inflation. As a result, the only solution to build wealth over time is by participating in the productive capital: equities.

20 May 2024

Weekly Economy and Market Watch

بنك دبي التجاري
Commercial Bank of Dubai

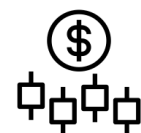


FX and Commodities



FX Chronicles

EUR/USD remains subdued, trading around 1.0850, after a modest dip, reflecting market caution amidst a lack of significant macroeconomic data. Meanwhile, GBP/USD sees a slight uptick from a daily low under 1.2650, challenged by a resilient US Dollar post-April inflation figures. USD/JPY rebounds to 156.00, fueled by Dollar strength, as the Federal Reserve maintains a cautious stance despite positive inflation data. Japan's weak GDP amplifies concerns over the Bank of Japan's limited policy flexibility. In commodities, gold surges to over \$2,400, supported by a cautious market sentiment despite steady US yields around 4.4%. As Fed officials weigh in on policy and market dynamics evolve, how these factors will shape the chronicle in the coming sessions? Stay tuned!



KO and KI

KO (Knock-Out) and KI (Knock-In) FX options are specialized derivatives for managing currency risk. In a KO option, breaching a predefined barrier renders it worthless. Conversely, a KI option activates only when the exchange rate hits a predetermined barrier. These options offer tailored risk management solutions but require careful consideration. For instance, an investor purchasing a KO option with a barrier set below the current exchange rate risks losing the premium if the rate falls below that level. At CBD, we provide comprehensive FX solutions and make sure that we back your ambition by understanding your requirements. For more information, contact the CBD Global Market Solutions team.



Nickel Warfare

Nickel prices surged to a near nine-month high following political unrest in New Caledonia, a key producer of the mineral. Futures for nickel, vital in electric vehicle batteries and steelmaking, rose by almost 7% on the London Metal Exchange to \$21,150 per ton, before settling 5% higher. This spike coincided with an International Energy Agency report forecasting strong demand for nickel and other minerals crucial for cleaner energy. The violence in New Caledonia, disrupting production by French miner Eramet SA, triggered the largest intraday gain in nickel prices since April. Amidst faltering consumption and increased Indonesian supply, nickel prices had already rebounded above \$20,000 a ton. With disruptions mounting, will nickel prices continue their upward trajectory, or will stability return to the market?



Green future

Ever wondered what fuels the green energy revolution? It became notable that those commodities fueling this revolution are reshaping global economies. Lithium, cobalt, and nickel drive EV batteries, led by Australia, the Democratic Republic of Congo, and Indonesia. Chile dominates copper for renewable wiring. Silver and silicon, essential for solar panels, are majorly sourced from Mexico and China. China also leads rare earth elements for wind turbines. South Africa and Russia produce platinum and palladium for hydrogen cells. Amidst increasing demand, technological advancements, and supply uncertainties, prices fluctuate. Understanding these dynamics is vital as we navigate towards a sustainable future. Moreover, as humanity embark this green journey, what do you think will happen to the demand and will this journey take us to a greener future?

CBD Tradr

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FX Margin Trading best practices

Last week, we mentioned chart patterns as one of the various methods to analyze the market. Charts used in margin trading are essential for understanding price movements and making informed decisions. Some common types include:

Line Charts: Display closing prices over time, providing a simple visual representation of trends.

Candlestick Charts: Show open, high, low, and close prices within a timeframe, offering insights into market sentiment.

Bar Charts: Depict open, high, low, and close prices with vertical bars, facilitating analysis of price movements.

Heikin-Ashi Charts: Similar to candlestick charts but smoother, aiding in trend identification.

Renko Charts: Represent price movements with bricks or blocks, filtering out noise for clearer trend analysis.

Traders combine these charts with technical indicators to analyze trends, identify support/resistance levels, and make profitable trades. Mastering chart analysis is crucial for successful margin trading.

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