

Key Highlights



FOMC MINUTES DAMPEN SPIRITS

Minutes of the April 30 - May 1 FOMC meeting showed that many members were concerned about the lack of progress in tackling US inflation, with some members even suggesting rates should rise. They felt it would not be appropriate to reduce the interest rates until they have more conclusive data available. Higher-for-longer rates are not in the best interest of the investors, and hence equities and bonds fell (bond yields rose) in response.



WHY IS THE FED SO HAWKISH

Inflation (CPI) in the US rose to 9.1% in mid-2022 while eurozone and UK inflations peaked at 10.6% and 11.1% resp. later. After aggressive rate hikes, the US inflation fell much faster, but today, it is stuck around 3.4% for almost 9 months while it has dropped to 2.4% and 2.3%, very close to target, in eurozone and the UK resp. As a result, the European Central Bank and Bank of England are close to cutting rates while the Fed may stay on a wait-and-watch mode.



NVIDIA'S BLOWOUT RESULTS

The AI chip maker Nvidia announced blockbuster results that launched the stock beyond the \$1000 mark, taking its valuation to \$2.5 trillion. Quarterly revenues rose 262% y-o-y to \$26.04 billion while net profit zoomed seven times to \$14.88 billion; with gross profit margin at whopping 75% and market share of 85% in the AI data centers business. It also announced 10-to-1 stock split making it more accessible to retail investors. Nvidia alone has contributed to 25% of the gains in S&P 500 index this year.



NVIDIA TRUMPS OVER MACRO

Equities were caught in a tug-of-war between hawkish FOMC minutes and strong US PMI data on one end and blockbuster Nvidia results on the other. Eventually, Nvidia prevailed as investors digested the broader implications of the AI boom – that it is not a new trend but a new industrial revolution. Nasdaq closed at a new all-time high while the old-economy Dow Jones index closed lower. First Solar, that provides non-silicon-based power to energy-guzzling data centers shot up 40% on week.



BONDS STUMBLE ON RISING YIELDS

Bond prices had picked up (and yields dropped) after dovish comments by the Fed Chair on May 1 and also due to an in-line inflation report mid-month. However, the market was again gripped by the fear of higher-for-longer rates (discussed above). The 2-yr Treasury yield is almost back to 5% and 10-yr yield has risen by over 15 bps. Investment grade bond index and the GCC bond and sukuk index are in the red this year.



UAE ECONOMY IN A SWEET SPOT

According to government's preliminary estimates, the UAE economy grew by 3.6% in 2023 taking the GDP to \$456 billion. The non-oil activity rose 6.2% driven by financial services (14.3% y-o-y growth), logistics and real estate. The oil sector contracted 3.1% due to OPEC+ cuts. Earlier, the IMF raised 2024 GDP growth estimates to 4% from the earlier estimate of 3.5% on strong activity across sectors.

1 Week YTD'24 2023

Mover of the Week

First Solar	40.06%	60.63%	18.08%
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Global Equities

Magnificent 7	2.91%	25.70%	80.89%
Dow Jones Ind.	-2.33%	3.66%	13.70%
S&P 500	0.03%	11.21%	24.23%
Nasdaq Comp.	1.41%	11.78%	43.42%
Euro stoxx 600	-0.45%	8.68%	12.74%
FTSE 100	-1.22%	7.56%	3.78%
India Nifty50	2.19%	5.64%	20.03%
Nikkei 225	-0.36%	15.49%	28.26%
Shanghai Comp.	-2.08%	4.97%	-1.93%

Regional Equities

Dubai DFM	-1.37%	-1.16%	21.69%
Abu Dhabi ADX	-2.30%	-7.77%	-6.20%
Saudi Tadawul	0.03%	11.21%	13.87%

Bonds

US IG Bond Index	-0.28%	-1.68%	5.15%
GCC Bnd/Suk Index	-0.27%	-1.09%	5.14%

Currencies

Dollar Index	0.27%	3.35%	-2.11%
Euro	-0.20%	-1.96%	3.30%
GBP	0.26%	-0.23%	5.50%
JPY	-0.82%	-10.25%	7.50%
CHF	-0.69%	-8.21%	8.97%
AUD	-0.85%	-3.01%	0.23%
CNH	-0.40%	-1.93%	-2.94%
INR	0.27%	0.19%	-0.63%
SGD	-0.35%	-2.29%	1.49%

Commodities

WTI Crude	-2.92%	8.47%	-10.73%
Brent Crude	-2.21%	6.59%	-10.32%
Nat Gas	-4.04%	0.24%	-43.82%
Gold	-3.06%	12.95%	13.47%
Silver	-1.88%	26.39%	0.18%
Copper	-5.51%	22.82%	2.10%

US and European equity returns were much more similar before 2009

Indices rebased in local currencies



FINANCIAL TIMES

Source: LSEG

Chart of the Week

Performance of the European and the US markets was quite similar for almost two decades from 1990 till the Great Financial Crisis. However, since the US bull run started in 2009, the two markets have diverged significantly.

Between 2009 and 2023, the outperformance of the US market resulted in cumulative S&P 500 index gains that are more than 5 times those of Euro Stoxx 50 index. Two main reasons, apart from many others, for US exceptionalism in equities are: i) Fueled by generous Quantitative Easing in 2009 the US economy bounced back quickly while the European crisis kept deepening resulting in a full-blown sovereign debt crisis in 2011 and fiscal austerity. ii) US technology companies took a global lead and their stock prices rocketed higher while their weightage in the S&P 500 index kept rising – now stands at 40%.

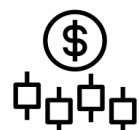


FX and Commodities



FX Chronicles

EUR/USD rose towards 1.0850, aided by an improved risk mood that weakened the US Dollar, recovering part of its weekly losses. Similarly, GBP/USD stabilized above 1.2700 after hitting a low below 1.2680 due to disappointing UK Retail Sales data. The USD struggled amid a positive risk sentiment, allowing GBP/USD to hold its ground. The Japanese Yen weakened as CPI fell to 2.5% YoY in April, maintaining pressure on the Bank of Japan to tighten policy. The US Dollar couldn't sustain gains despite deepened uncertainty over Fed rate cuts. Gold fell nearly 4% in two days, reaching a two-week low below \$2,330. Although it corrected to \$2,340 on Friday, it posted its worst weekly loss in five and a half months amid fading hopes for US rate cuts.



Outright and Flexi -Forward

A normal outright forward contract locks in an exchange rate for a currency pair on a specific future date, providing certainty but no flexibility if your needs change. In contrast, a flexi forward contract offers multiple settlement dates, giving you the flexibility to choose when to execute the contract within a predetermined period. This flexibility can be crucial for businesses with variable cash flow needs, allowing them to better manage currency risk without being tied to a single date. At CBD, we understand the complexities of managing foreign exchange risks. Just reach out to our Global Market Solutions team, and we've got you covered with tailored solutions to fit your unique needs.



Corn

Corn prices surged on the Chicago Mercantile Exchange despite a reported decline in US agricultural sales. The United States Department of Agriculture (USDA) released its weekly export sales report, indicating lower-than-expected sales for corn, soybeans, and wheat for the 2023/2024 marketing year, ending May 16th. According to the Brock report, corn exports for the same period rose by 29.7% compared to the previous year. However, soybean exports saw a 15.7% decrease. This discrepancy suggests a nuanced market response to various factors such as demand, global supply chains, and geopolitical influences. In conclusion, despite the fluctuating sales figures, corn futures for July delivery rose by 0.7% to \$4.64 per bushel. Given the complex dynamics of global agricultural markets, how might these trends will impact the future of US agricultural exports and Corn prices?



Rare Earth Elements

Rare earth elements (REEs) are crucial for advanced technologies like EV batteries, wind turbines, and electronics. Major producers include China, the U.S., and Australia. Their prices are driven by supply chain constraints, geopolitical tensions, and rising demand from green technologies. If you want to get involved, check out these stocks and ETFs: Albemarle (ALB) a leader in lithium for EV batteries, with strong fundamentals and supply agreements despite a 19% drop in stock price in 2024. MP Materials (MP) producing rare earth magnets for EV motors, benefiting from government grants and VanEck Vectors Rare Earth/Strategic Metals ETF (REMX), an ETF of 27 global stocks in REE mining and recycling. Keep an eye on them as they offer diverse opportunities in the growing REE market.

CBD Tradr

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Unlocking FX Margin Trading: Grasping Support and Resistance

In FX margin trading, mastering support and resistance is crucial. Support represents levels where buying interest halts decline, while resistance signifies points where selling pressure caps upward movement. Identifying these levels aids traders in strategic entry, exit points, and risk management. By analyzing historical price levels and confirming with indicators, traders enhance their ability to navigate markets effectively. Understanding support and resistance empowers FX margin traders to make informed decisions, capitalize on opportunities, and mitigate risks in the dynamic foreign exchange market.



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