

10 June 2024

Weekly Economy and Market Watch



Key Highlights



MIXED YET HAWKISH JOBS DATA

The US nonfarm payroll data for May showed a mixed picture: The number of new jobs added was much higher than expected and the wages increased marginally, but the unemployment rate rose to 4%, the highest level since Jan 2022. The stock markets shrugged off this data, but the bond yields spiked in response. The recent data has indicated a slowdown in the labor market, but Friday's data adds to the uncertainty.



ECB TAKES THE LEAD

Following Bank of Canada, the European Central Bank became the second G7 central bank to cut rates. The ECB cut rates for the first time in almost 5 years despite inflation running above target and ticking up marginally in May. Clearly, the ECB is balancing its fight against inflation with economic growth. Eurozone economy has exited recession, but prospects remains weak. Eurozone retail sales and German factory orders unexpectedly fell sharply in April.



ANOTHER STRONG WEEK FOR EQUITIES

The S&P500 and Nasdaq indices both recorded new intraday highs during the week with large cap growth stocks leading the rally while value and small caps lagging. The coming week will see Nvidia trade post 10-to-1 split, which could boost demand for the stock. Apple, that has lagged in AI so far, is expected to showcase new AI capabilities in its annual WWDC conference 10 – 14 June. Across the Atlantic, the Euro Stoxx 600 index was boosted by ECB's first interest rate cut in 5 years.



ARE BONDS BOTTOMING OUT?

A recent plunge in Treasury yields (10-yr from 4.6% to 4.3% and 2-yr from 5% to 4.74%) may have suggested that the bond market have bottomed out after a two-year, unprecedented, downtrend in bond prices that began when the Fed started raising rates in early 2022. However, the stronger than expected US jobs data released on Friday changed the picture dramatically, with bond yields shooting up (bond prices lower), as the outlook for rate cut by Fed turned hawkish once again.



THE COMING WEEK

The Fed is likely to hold rates unchanged in the FOMC meeting ending on 12 June, but the market will be looking out for the updated Dot Plot. The Fed's March forecast of 3 rate cuts during this year may be revised down to 2 or even 1. Interestingly, May CPI inflation data will be released just a few hours before that and is expected to show further improvement even though Core CPI may remain flat.



REGIONAL BUSINESS ACTIVITY

The latest PMI data for May indicates that the non-oil business activity in Abu Dhabi was unchanged but declined in Dubai and Saudi Arabia. However, these readings are still in a strong expansionary zone. Rain had a greater impact on Dubai as compared with Abu Dhabi and that explains the slowdown in Dubai, which could be temporary. The Saudi index has been moderating from the beginning of this year.

1 Week YTD'24 2023

Mover of the Week

Nvidia	10.27%	144.11%	229.00%
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Global Equities

Magnificent 7	4.15%	30.07%	80.89%
Dow Jones Ind.	0.29%	2.94%	13.70%
S&P 500	1.32%	12.10%	24.23%
Nasdaq Comp.	2.50%	12.93%	43.42%
Euro stoxx 600	1.04%	9.30%	12.74%
FTSE 100	-0.36%	6.62%	3.78%
India Nifty50	3.37%	7.17%	20.03%
Nikkei 225	0.51%	15.60%	28.26%
Shanghai Comp.	-0.16%	4.17%	-1.93%

Regional Equities

Dubai DFM	0.11%	-1.91%	21.69%
Abu Dhabi ADX	1.07%	-6.48%	-6.20%
Saudi Tadawul	1.32%	12.10%	13.87%

Bonds

US IG Bond Index	0.44%	-1.21%	5.15%
GCC Bnd/Suk Index	0.50%	-1.02%	5.14%

Currencies

Dollar Index	0.20%	3.51%	-2.11%
Euro	-0.39%	-2.34%	3.30%
GBP	-0.05%	-0.31%	5.50%
JPY	0.33%	-10.10%	7.50%
CHF	0.79%	-6.36%	8.97%
AUD	-0.77%	-3.58%	0.23%
CNH	0.00%	-1.96%	-2.94%
INR	0.00%	-0.27%	-0.63%
SGD	0.04%	-2.38%	1.49%

Commodities

WTI Crude	-1.90%	5.42%	-10.73%
Brent Crude	-2.45%	3.35%	-10.32%
Nat Gas	12.79%	16.07%	-43.82%
Gold	-0.91%	11.86%	13.47%
Silver	-3.42%	22.71%	0.18%
Copper	-2.57%	15.24%	2.10%

Largest Companies Globally

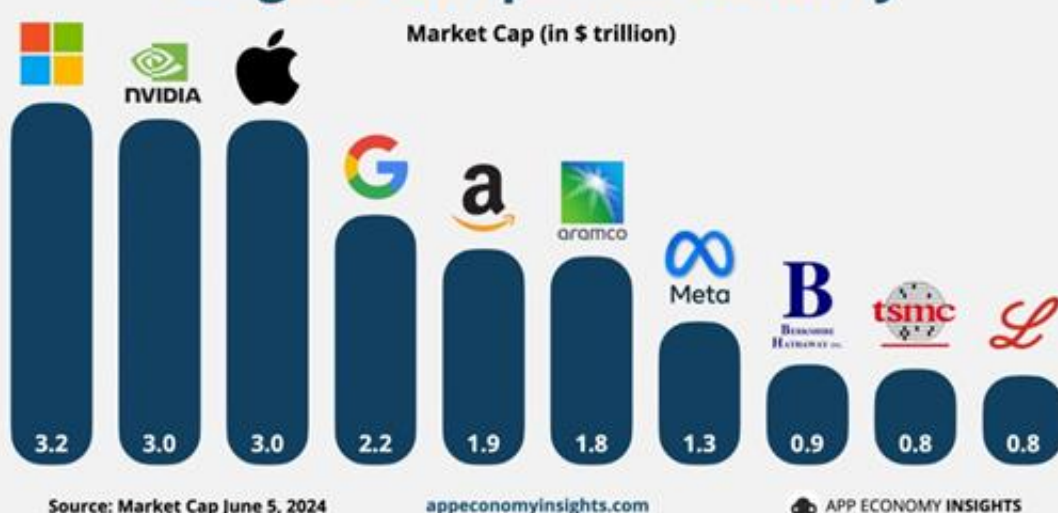


Chart of the Week

The AI chip producer Nvidia has become the third company to cross the \$3 trillion market cap, after Apple and Microsoft. It is now the second most valuable company on planet, after Microsoft. Nvidia has been the poster child for investor enthusiasm in AI, which accelerated with OpenAI's release of ChatGPT in late 2022. The stock is up over 140% this year and 200% over the last year while the Nasdaq index has gained a modest 14% and 29%, respectively. Nvidia GPUs, which originated for the gaming industry, today commands 85% market share in the data centers business and generate 75% gross margins for the company. Nvidia is a chip designing company; its chips are manufactured primarily by Taiwan Semiconductor Manufacturing Company (TSMC), which is ninth on the list of top companies (see chart).

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بنك دبي التجاري
Commercial Bank of Dubai

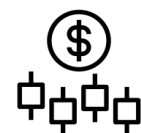


FX and Commodities



FX Chronicles

EUR/USD remains under heavy pressure, trading at its lowest in a week near 1.0800 as the US Dollar gains strength. The upbeat US jobs data, showing a rise of 272,000 in Nonfarm Payrolls for May, boosts the Dollar, weighing on EUR/USD. Similarly, GBP/USD is deep in negative territory below 1.2750, as the robust US labor market data drives the pair lower. USD/JPY climbs over half a percent, reflecting the strong US payrolls data and contrasting with Japan's falling real wages. Meanwhile, AUD/USD drops to near 0.6660. Following the US NFP report, the Fed is expected to reduce rates from September, while the RBA is seen holding rates steady through year-end. Will these trends persist as central banks adjust their policies?



The Golden Rules of FX hedging

Effectively managing FX exposure is crucial for international businesses. Key strategies include understanding and quantifying FX risks to grasp their impact. Use forward contracts to lock in future exchange rates, stabilizing cash flows and protecting against adverse movements. Diversify currency risks by dealing in multiple currencies and implement natural hedging by matching revenues with expenses. Utilize options to secure the right to exchange at specific rates, providing protection while allowing favorable movements. Regularly monitor and adjust hedging strategies based on market conditions, and consult our global market solutions teams for tailored advice. Following these golden rules can help businesses mitigate FX risk effectively.



The Falling Gold Leaves

Gold dipped below \$2,300 an ounce, falling the most in almost three years as surprise strength in a key US jobs report dashed hopes that the Federal Reserve will lower borrowing costs soon. Treasury yields and the dollar surged after the US government's May employment report showed job growth exceeded expectations and wages were hot. Analysts said bullion slumped as much as 3.7%, the most since August 2021, while silver tumbled 7%. Base metals also extended declines. A strong jobs report reversed much of the rate cut excitement that had built during the past week. Meanwhile, China's PBOC bought only 60,000 troy ounces in April, down from previous months, and imports slipped 30%. The falling leaves tell a story: Is gold set for further declines with strong US jobs data and reduced Chinese demand?



Willy Wonka Golden Age

Cocoa prices hit a peak of \$12,261 per ton in April due to supply issues in Ivory Coast and Ghana. Poor weather, crop disease these challenges are driving this volatility. Despite no shrinkflation currently—where product quantity decrease while prices remain the same—analysts note it's inconceivable that prices will remain unchanged over the next two years. Products with high cocoa content will likely see price increases, size reductions, or recipe changes. Cocoa futures are currently at \$9,933 per ton. With supply constraints and high demand, consumers should brace for higher prices and smaller portions. Enjoy these more affordable luxurious moments while they last, because soon, your favorite chocolate bar might cost more than your morning coffee.

CBD Tradr

CBD Tradr



Unlocking FX Margin Trading: Supertrend Indicator

An FX supertrend chart is a technical analysis tool used to identify the direction of a market trend and provide buy or sell signals. It combines price action and volatility to generate a dynamic trend line. The supertrend indicator is plotted on a price chart, and it shifts between green and red to indicate bullish (buy) and bearish (sell) trends, respectively. When the price closes above the supertrend line, it signals an uptrend, and the line turns green. Conversely, when the price closes below the supertrend line, it indicates a downtrend, and the line turns red. This chart helps traders make informed decisions by visually representing market momentum and potential reversals.

Supertrend Indicator



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