24 June 2024

Weekly Economy and Market Watch

بـنـك دبـي التجـــاري
Commercial Bank of Dubai

Key Highlights

THE FED'S HAWKISH DOT PLOT

As expected, the Fed left interest rates unchanged on 12 June FOMC. But, the Dot Plot, Fed's own projection of rates, now indicates only 25 bps of cut in 2024 compared to 75 bps cuts projected in the previous release of March. The market did not react negatively to this hawkish turn, and stocks and bonds rose. The market still expects two rate cuts this year given the weakness in inflation, decline in consumer spending and slowdown of labor market.

DATA TURNS FOR THE BETTER

US CPI inflation was flat in May compared with April, the first time in two years that it did not climb. More comforting was the easing of core inflation helped by the services sector.
Retail sales barely rose in May and the previous months were revised lower, pointing to financial stress building up for US consumers.
The same was reflected in the unexpected drop in the Univ of Michigan consumer sentiment survey for the month of May.

EQUITIES STRONG BUT VOLATILITY IN TECH

S&P 500 index hit a new all time intraday high of 5500 but the week also saw some signs of profit-taking in the technology sector after a long strings of gains. Market leader Nvidia saw its stock gap up to all-time highs on Friday only to reverse course and close lower by 3.5%, representing a roughly 7% intraday swing. The quarterly "triple witching" expiration – simultaneous expiration of stock options, stock index futures, and stock index options may have something to do with the heightened volatility.

RELIEF FOR FIXED INCOME

The bond market is bouncing back from its unprecedented two-year downturn as major central banks are at the beginning of a rate cutting cycle. The yields on 10-yr and 2-yr US treasuries have declined considerably in the last month. Swiss National Bank surprised with the second rate cut while ECB has cut once and is expected to cut once more this year. Bank of England may also cut twice this year. In the US, the question is no longer when the first cut will happen, but how much rates can drop.

THE COMING WEEK

Equity investors would be concerned whether Friday's reversal in the tech sector was a one-off related to a highly levered triple-witching expiration, or a harbinger of a larger pullback to come. The most important economic release would be the US Personal Consumption Expenditure (PCE) on 28 Jun, which is the Fed's preferred measure of underlying inflation and a key input for its rate decision in July.

UAE MOVES UP IN COMPETITIVENESS

The UAE climbed three places to 7th place in the World Competitiveness Ranking, issued by International Institute for Management Development (IMD) scoring high on infrastructure, tax regime, and a business-friendly environment. The UAE is the only GCC country ranked in the top this year, with Singapore in the first place. Qatar and Saudi Arabia are ranked 11th and 16th respectively.

	1 Week	YTD'24	2023
Mover of the Week			
Nvidia	-2.35%	155.58%	229.00%
Global Equities			
Magnificent 7	-0.16%	34.87%	80.89%
Dow Jones Ind.	1.30%	3.88%	13.70%
S&P 500	0.57%	14.57%	24.23%
Nasdaq Comp.	0.63%	17.08%	43.42%
Euro stoxx 600	0.79%	7.54%	12.74%
FTSE 100	1.12%	6.52%	3.78%
India Nifty50	0.44%	8.14%	20.03%
Nikkei 225	-0.56%	15.34%	28.26%
Shanghai Comp.	-1.30%	1.88%	-1.93%
Regional Equities			
Dubai DFM	0.83%	-1.17%	21.69%
Abu Dhabi ADX	0.93%	-5.90%	-6.20%
Saudi Tadawul	0.57%	14.57%	13.87%
Bonds			
US IG Bond Index	-0.15%	-0.07%	5.15%
GCC Bnd/Suk Index	-0.13%	0.01%	5.14%
Currencies			
Dollar Index	0.57%	4.40%	-2.11%
Euro	-0.08%	-3.36%	3.30%
GBP	-0.38%	-0.97%	5.50%
JPY	-1.35%	-11.69%	7.50%
CHF	-0.41%	-6.16%	8.97%
AUD	0.38%	-2.82%	0.23%
CNH	-0.24%	-2.31%	-2.94%
INR	-0.03%	-0.36%	-0.63%
SGD	-0.13%	-2.65%	1.49%
Commodities			
WTI Crude	2.68%	12.67%	-10.73%
Brent Crude	3.17%	10.64%	-10.32%
Nat Gas	-8.58%	7.60%	-43.82%
Gold	-0.18%	12.49%	13.47%
Silver	0.94%	23.68%	0.18%
Copper	-0.88%	14.18%	2.10%

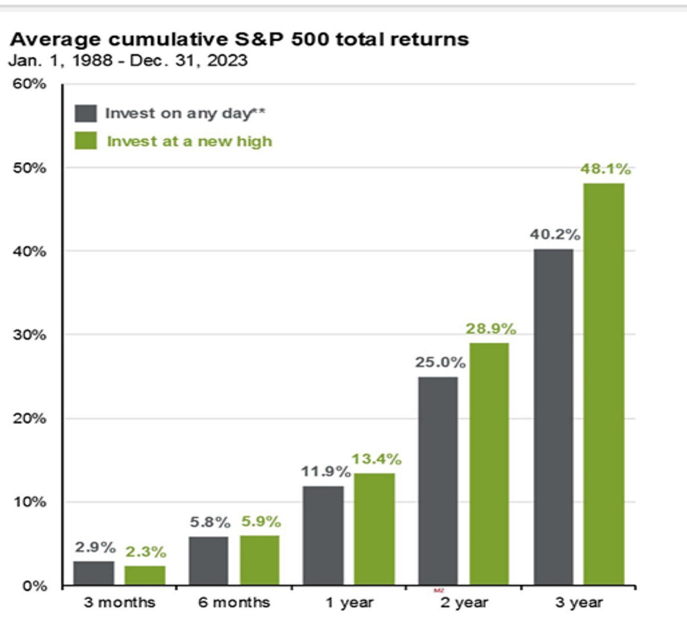


Chart of the Week

Buying at record highs: Some investors may think that it is better to wait for a market downturn or correction before investing, rather than buying when the market reaches new highs. However, historical data suggests that investing at market highs can be a good strategy, as markets tend to keep their momentum and reach higher levels.
In the chart here, the bars on the left (grey color) represent returns in S&P 500 price index over different time periods, if investments were made on any day randomly. The bars on the right (in green) represent investing on the day the market makes a new record high.
Since 1950, there were many times when an investor who stayed out of the market near record highs would have missed the opportunity to enter at a lower price. The chart here shows that from 1988 the returns from buying on any random day are similar to returns when buying at a record high. In fact, if investments are held for longer durations, the returns when buying at market peaks get even better.

Treasury, Asset Management and Global Markets, Commercial Bank of Dubai

Deepak Mehra, Chief Economist

24 June 2024

Weekly Economy and Market Watch

بـنـك دبـي الـتجــــاري
Commercial Bank of Dubai

FX and Commodities

FX Chronicles

The EUR/USD trades below 1.0700, impacted by strong US data bolstering the Dollar. S&P Global's report of robust US private sector expansion in June supports this trend. GBP/USD dips to its lowest since mid-May, under pressure from the USD's resilience fueled by better-than-expected US Manufacturing and Services PMI figures. The AUD/USD falls to near 0.6650 as investors anticipate a September rate cut by the Fed, with attention on upcoming US PMI data. USD/JPY surges past 159 due to hawkish Fedspeak and a weakening Yen, risking intervention. Gold trades below $2,340, pressured by rising US Treasury yields post-positive US PMI data. Do you think we have a clearer picture on the direction of our chronicles?

Seagull Options

An FX seagull option is a complex hedging strategy used to manage foreign exchange risk. It involves three options: buying a put, selling a call, and selling another put at a lower strike price. This strategy is beneficial for those looking to hedge against moderate currency movements while reducing the cost of protection. For example, a company expecting EUR/USD volatility might use a seagull option to hedge against potential declines while still benefiting from favorable moves. The seagull option is ideal when there is moderate confidence in currency stability but some uncertainty about market direction. People use seagull options to gain flexible and cost-effective hedging in volatile markets. To know more, please contact CBD Global Market Solutions.

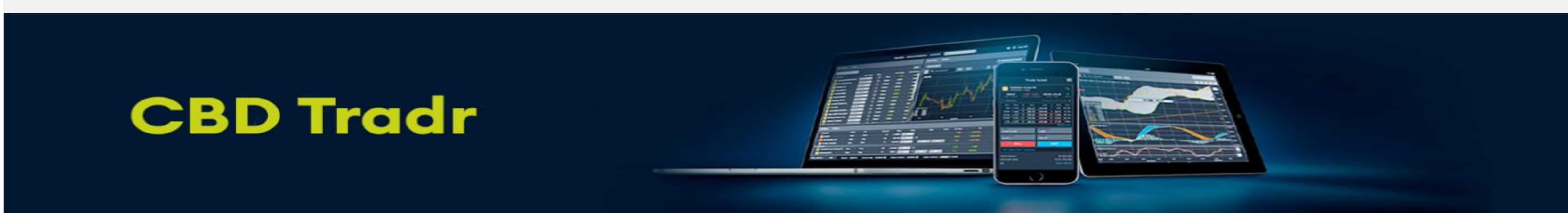
Oil! Where next ?

U.S. crude oil marked its second consecutive weekly gain, climbing nearly 4.0% despite a slight Friday dip of 1%. This rally, fueled by soaring gasoline demand and inventory drawdowns, sets the stage for potential volatility. Summer travel has driven U.S. gasoline consumption to a post-pandemic high of 9.4 million barrels per day, aligning with predictions of 71 million Americans traveling during the July 4th holiday. Global oil demand has increased by 1.4 million barrels per day this month. Crude inventories fell by 2.5 million barrels, surpassing expectations, while gasoline and distillate stocks also saw significant declines. A stronger dollar has pressured oil prices by making it more expensive for holders of other currencies. Geopolitical tensions, such as a Ukrainian drone strike on a Russian oil terminal, add to the uncertainty. Did you know that our Global Market Solutions can hedge your exposure on oil? Get in touch !

SSDs

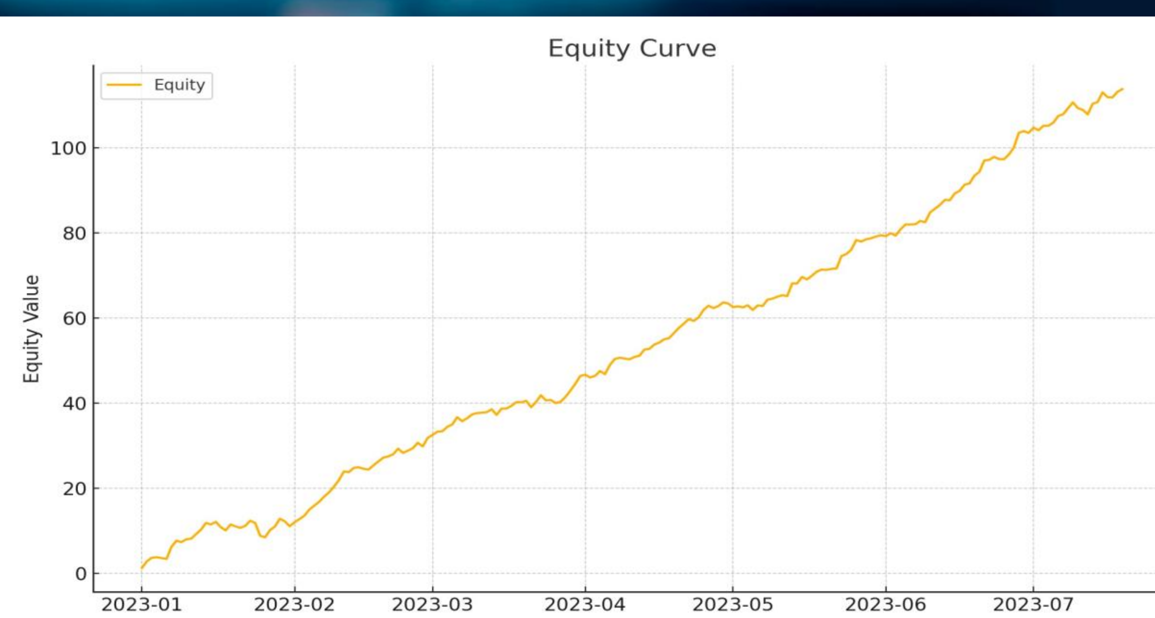
Solid-state batteries (SSDs) are emerging as a revolutionary alternative to traditional lithium-ion batteries, offering greater energy density, safety, and longevity. Leading producers include the United States, Japan, and South Korea. Unlike lithium-ion batteries, which use liquid electrolytes, SSDs employ solid electrolytes, reducing the risk of leaks and fires. While lithium batteries dominate today's market due to lower costs and established infrastructure, SSDs promise superior performance and safety, potentially transforming industries from electric vehicles to consumer electronics. Their economic impact is poised to be substantial as production scales and costs decrease. Companies like QuantumScape and Toyota are pioneering advancements, with ETFs like the Global X Lithium & Battery Tech ETF (LIT) investing in these innovations. Could solid-state batteries be the key to the future of sustainable energy?

CBD Tradr



Understanding the Equity Curve in Trading

An equity curve represents the growth of a trader's account over time, showcasing profits and losses. It's a vital tool for assessing a trading strategy's performance and risk. A smooth, upward-sloping curve indicates consistent profitability, while a jagged or downward trend may signal high volatility or ineffective strategies. Traders use equity curves to identify periods of drawdown, evaluate risk management, and adjust strategies for better outcomes. Analyzing the equity curve helps in maintaining discipline and making informed decisions. By monitoring this curve, traders can enhance their approach to achieve steadier growth and improved trading results



For more details on FX Tradr , please contact us on the below information. Telephone: 04 – 2121829 / 04 – 2121897

Treasury, Asset Management and Global Markets, Commercial Bank of Dubai
Abdalla Dheyab – Head of SME & PBS