6 May 2024

Weekly Economy and Market Watch

بنك دبي التجاري
Commercial Bank of Dubai

Key Highlights

PLEASANT SURPISE FROM POWELL

The FOMC concluded on 1st May holding rates steady, as anticipated. The real action was in the press conference where Chair Powell sounded less hawkish than expected. He was optimistic about inflation and ruled out a rate hike – which was one of the top fears. The committee also reduced the extent of Quantitative Tightening, which is good for liquidity. Overall, the markets were pleasantly surprised by the outcome.

SIGNS OF LABOR MARKET SOFTENING

Last week's data showed that the labor market is finally cooling down: nonfarm payrolls and wage growth came below expectations while unemployment was higher than anticipated. Earlier in the week, the March JOLTS report also showed the easing of the jobs market. Softening labor market will have a direct impact in reducing overall inflation levels and hence is taken positively by the markets.

STOCK MARKETS MARCH AHEAD

Stocks continued to march higher supported by a dovish Fed, signs of inflation cooling and strong corporate results. Strong forward guidance and a record $110 billion stock buyback program announced by Apple gave a bid up to the technology sectors. This despite a fall in iPhone sales. Warren Buffet's Berkshire Hathaway was another bright spot while it announced it is sitting on $189 billion of cash – highest ever by any company in history – as it cannot find attractive acquisitions right now.

EARNINGS REMAIN A BRIGHT SPOT

The Q1 earnings season so far has been one of the bright spots for the markets giving it legs, despite some ups and downs of the economic data. Of the 80% of the S&P 500 index companies that have reported results for Q1 2024, 77% have beaten earnings estimates, which is in line with the 5-year average and above the 10-year average of 74%. 56 of the S&P500 index companies, including Nvidia, AirBnB, Uber and Walt Disney, are scheduled to report results in the coming week.

BULLISH SET UP FOR THE WEEK AHEAD

We will get several high-profile earnings reports in the week ahead, but the calendar is light in terms of economic data. Given the dovish shift in sentiments, a light economic calendar is bullish for equity investors. The renewed Goldilocks outlook due to continued economic strength and signs of falling inflation is likely to remain unchallenged. However, with a total of 8 Fed speaker events in this week, some excitement for the markets cannot be ruled out.

INVESTORS WELCOME FALL IN YIELDS

Bond yields dropped (and bond prices rose) late last week, driven by a less hawkish Fed and softening inflation pressures. After hitting a fresh five-month high of 5.046% on Tuesday, yields on 2-year Treasuries are down to 4.804%. Yields on the 10-year are down to a three-week low of 4.512%. The move lower is welcome news for bond investors who would feel more comfortable to increase duration and lock in attractive yields on long term bonds.

	1 Week	YTD'24	2023
Mover of the Week			
Tesla	7.67%	-27.08%	129.98%
Global Equities			
Magnificent 7	2.52%	18.92%	80.89%
Dow Jones Ind.	1.14%	2.62%	13.70%
S&P 500	0.55%	7.50%	24.23%
Nasdaq Comp.	0.97%	6.33%	43.42%
Euro stoxx 600	-0.48%	5.54%	12.74%
FTSE 100	0.90%	6.21%	3.78%
India Nifty50	-0.42%	3.43%	20.03%
Nikkei 225	-0.58%	14.26%	28.26%
Shanghai Comp.	2.80%	5.05%	-1.93%
Regional Equities			
Dubai DFM	-0.13%	2.04%	21.69%
Abu Dhabi ADX	-0.05%	-5.64%	-6.20%
Saudi Tadawul	0.55%	7.50%	13.87%
Bonds			
US IG Bond Index	1.17%	-2.06%	5.15%
GCC Bnd/Suk Index	0.95%	-2.31%	5.14%
Currencies			
Dollar Index	-0.86%	3.65%	-2.11%
Euro	0.64%	-2.72%	3.30%
GBP	0.44%	-1.72%	5.50%
JPY	3.12%	-7.88%	7.50%
CHF	0.91%	-7.34%	8.97%
AUD	1.22%	-3.28%	0.23%
CNH	1.00%	-1.01%	-2.94%
INR	-0.02%	-0.22%	-0.63%
SGD	0.91%	-2.28%	1.49%
Commodities			
WTI Crude	-6.85%	9.02%	-10.73%
Brent Crude	-7.31%	7.68%	-10.32%
Nat Gas	32.71%	-14.80%	-43.82%
Gold	-1.47%	11.26%	13.47%
Silver	-2.72%	10.49%	0.18%
Copper	0.21%	17.56%	2.10%

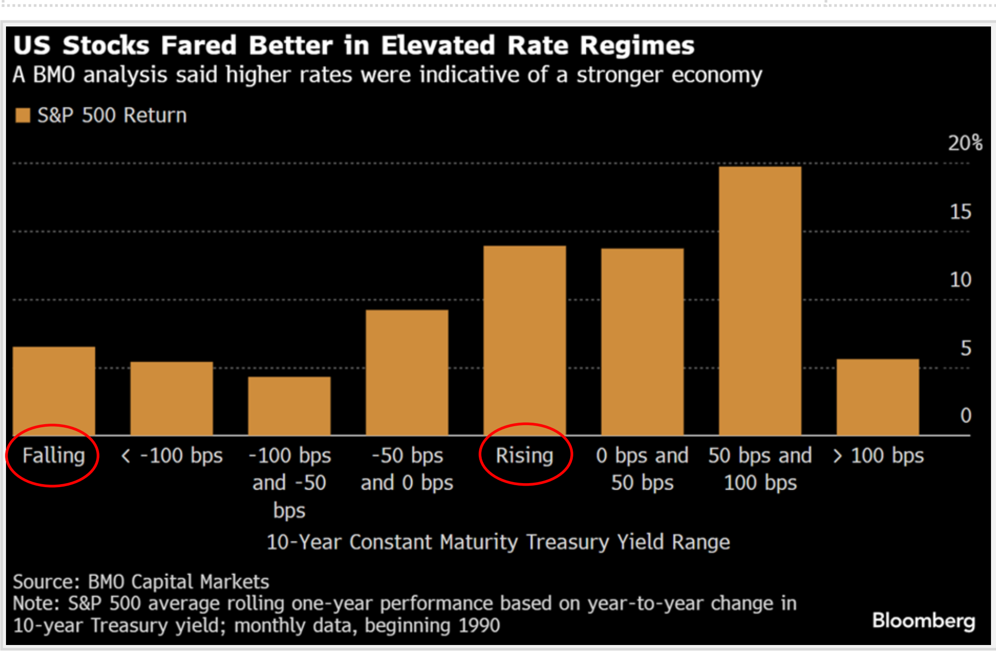

Chart of the Week

Investors have been confounded by the strength in the US equities lately despite high interest rates and Treasury yields. The big question is whether the equity markets will be pulled down as the outlook for interest rates becomes firmly higher-for-longer. The answer may lie in what happened in the 1990s. During the decade of 90s interest rates hovered around the same level as the current levels for many years. Despite high rates, S&P 500 index appreciated from 360 to 1460 – quadrupling during this period.

Stocks tend to rally when the economy can support higher rates. Higher rates are an outcome of strength while falling rates are an outcome of slowing economy. The chart here shows that S&P 500 index averaged 14% returns in years when rates were rising versus only 6% returns in years when the rates were falling. According to this chart, investors should not be too concerned as long as the US economy remains resilient or has a brief period of slowdown. Stagflation or prolonged slowdown should be the real worry for investors.

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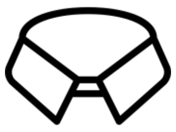
Currencies

FX CHRONICLES

The yen's surge to 150 range, driven by a sluggish US jobs report, signals potential Fed rate cuts, prompting speculation of Japanese intervention. This robust rally, marking its best performance since November 2022, contrasts sharply with its recent slump to 160. Japan likely intervened twice this week, supported by data showing decreases in Fed cash accounts, hinting at funding sources for interventions. Meanwhile, the yen's 3% appreciation against the dollar and the Fed's dovish stance led the US Dollar Index below 105.00. However, EUR/USD maintains positivity above 1.0750 despite retracing from its multi-week high. Moreover , GBP/USD struggles to preserve its bullish momentum below 1.2550, as the disappointing US jobs report triggered a USD selloff, propelling the pair to multi-week highs slightly above 1.2600.



Have you heard of FX collar options?

FX collar options are financial derivatives used to hedge against currency risk. They involve purchasing a call option to protect against currency appreciation and selling a put option to hedge against currency depreciation. This creates a "collar" or range within which the exchange rate is fixed, providing protection against unfavorable currency movements while still allowing for potential gains within the established range. They are typically used by companies or investors with exposure to foreign currencies. For example, a US-based company exporting goods to Europe may use an FX collar option to protect against a strengthening Euro while still benefiting from favorable exchange rates within a certain range.

Commodities

Golden Goose Chase

Gold prices fell after rising on news of a weak US job market. Traders sold gold to profit and pondered potential Federal Reserve actions on interest rates. April's job report showed only 175,000 new jobs, the smallest in six months, and a surprise increase in unemployment to 3.9% with slowing wage growth. Speculation arose that the Fed might cut rates. Consequently, Treasury yields, and the dollar dropped, briefly lifting gold by 0.7% before declining. Despite this, gold is up 12% this year due to central bank and Asian demand amid geopolitical tensions. However, uncertainty surrounds Fed policy and the S&P 500's resilience above 5,000, adding pressure on gold prices. Given this are investors on wild goose chase to figure out what's next on Gold prices amidst these changes?

Cocoa Coaster

Cocoa futures endured significant volatility last week, set for their most substantial weekly decline since 1959. Despite a 3.5% surge in New York on Friday, attributed to a weakening US dollar, Cocoa futures dropped over 30% from their recent peak on April 19. This change is a big turnaround for cocoa, which used to be valued more than copper because of problems with West African harvests. On the other hand, the recent rains in West Africa may offer some relief from supply concerns. However, recent rains in West Africa might help ease worries about supply. Concurrently, Hershey Co. posted robust sales amidst cocoa price hikes, highlighting the market's response to scarcity. Additionally, the Ivory Coast and Ghana increased farm-gate prices for cocoa producers, aiming to incentivize growers to release hoarded beans, thus temporarily easing tight supplies.

CBD Tradr

FX Margin Trading best practices

In FX margin trading, adhering to best practices is crucial for success. Start by researching and analyzing market conditions before entering trades. Implement clear risk management strategies, like setting stop-loss orders and managing leverage carefully, to protect capital. Diversify your portfolio across different currency pairs to spread risk. Stay informed about macroeconomic events and news affecting currency markets. Regularly review and adjust trading strategies based on market conditions and performance. Lastly, maintain discipline and avoid emotional decision-making to stay focused and objective. Following these best practices can help traders navigate the complexities of FX margin trading and improve their chances of success.

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

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