



Key Highlights



FEARS OF RECESSION

Disappointing US nonfarm payroll data that showed fewer new jobs and higher unemployment rate, has suddenly stoked fears of recession. Earlier, data showed Americans filing for unemployment benefits rose to a one-year high and ISM manufacturing activity shrunk further to eight-month low. The futures market is pricing in over 120 bps of rate cuts by year end, with 93% probability of a 50bps cut in the upcoming September FOMC meeting.



RESILIENT US CONSUMER IS CRACKING

The resilient US consumer that kept the economy humming despite historically high rates now seems to be weakening at the seams. Fed data shows that consumers below the top 20-percentile income bracket have run out of excess savings. This is becoming evident from the Q2 results of consumers companies like McDonald's, Pepsi, P&G, Nestle, Mondelez (Cadbury, Oreo), Delta Air Lines and Whirlpool, which have all shown fall in sales.



STOCKS SINK, BONDS FLY

Investors were already rattled by the sell-off in blue-chip tech stocks and were coping with the elections uncertainties when they had to face a new challenge that they fear most, a recession. The weaker than expected jobs data has raised fears that the Fed rate cuts may come too late to help the economy. Stocks have been battered worldwide with Nasdaq entering correction territory, down 10% from recent peak while S&P500 down 5.7%. Bond yields have dropped to one-year lows as investors rush to safety.



EARNINGS UP, BUT MISS HIGH EXPECTATIONS

Amazon plunged 8.8% after missing revenue estimates and issuing weak guidance. Microsoft slid 4% after Azure cloud segment missed forecast. Shares of Intel had their worst day in 50 years crashing 31.4% after big earnings miss. Meta was a standout with stock rising 5% after Zuckerberg stated that AI investments are driving growth. Apple ended the week higher after the company beat revenue and earnings estimates. Interestingly, Q2 US earnings growth at 11.5%, so far, is the highest since Q4, 2021.



THINGS MAY NOT BE THAT BAD

Rising above the noise the situation may not be as bad as it seems. The US economy is still adding jobs; at 4.3% unemployment is still at historic lows and has risen only because of the increase in labor force (immigration), not drop in employment. Tech giants have reported strong earnings, but the expectations were very high. AI is not a fad; investments are going to deliver tremendous income growth going forward.



DUBAI TOURISM AT NEW HEIGHTS

Dubai has retained its position as a global tourist hot spot, attracting record number of international guests in H1 2024. The number of tourist in H1 2024 reached 9.31 million, 8.9% higher y-o-y and 11.4% higher than the pre-Covid H1 2019 figure. Western Europeans made up 20% of the visitors followed by South Asians 17%. The share of GCC tourists has dropped to 14% from a pre-Covid level of over 20%.

1 Week YTD'24 2023

Mover of the Week

Intel	-31.48%	-57.25%	90.20%
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Global Equities

Magnificent 7	-2.55%	29.53%	80.89%
Dow Jones Ind.	-2.10%	5.43%	13.70%
S&P 500	-2.06%	12.09%	24.23%
Nasdaq Comp.	-3.06%	9.60%	43.42%
Euro stoxx 600	-2.92%	3.94%	12.74%
FTSE 100	-1.34%	5.71%	3.78%
India Nifty50	-0.47%	13.74%	20.03%
Nikkei 225	-4.67%	7.31%	28.26%
Shanghai Comp.	-0.73%	-1.36%	-1.93%

Regional Equities

Dubai DFM	-1.01%	4.37%	21.69%
Abu Dhabi ADX	-0.27%	-2.98%	-6.20%
Saudi Tadawul	-2.06%	12.09%	13.87%

Bonds

US IG Bond Index	2.43%	3.21%	5.15%
GCC Bnd/Suk Index	1.97%	2.47%	5.14%

Currencies

Dollar Index	-1.06%	1.85%	-2.11%
Euro	0.43%	-1.37%	3.30%
GBP	-0.66%	0.20%	5.50%
JPY	4.73%	-4.09%	7.50%
CHF	2.70%	-2.41%	8.97%
AUD	-0.73%	-4.67%	0.23%
CNH	1.30%	-0.63%	-2.94%
INR	-0.07%	-0.68%	-0.63%
SGD	1.17%	-0.56%	1.49%

Commodities

WTI Crude	-4.72%	2.61%	-10.73%
Brent Crude	-5.32%	-0.30%	-10.32%
Nat Gas	-1.94%	-21.76%	-43.82%
Gold	1.73%	17.61%	13.47%
Silver	1.39%	18.27%	0.18%
Copper	-0.04%	5.46%	2.10%

Beginning of a rate cutting cycle!

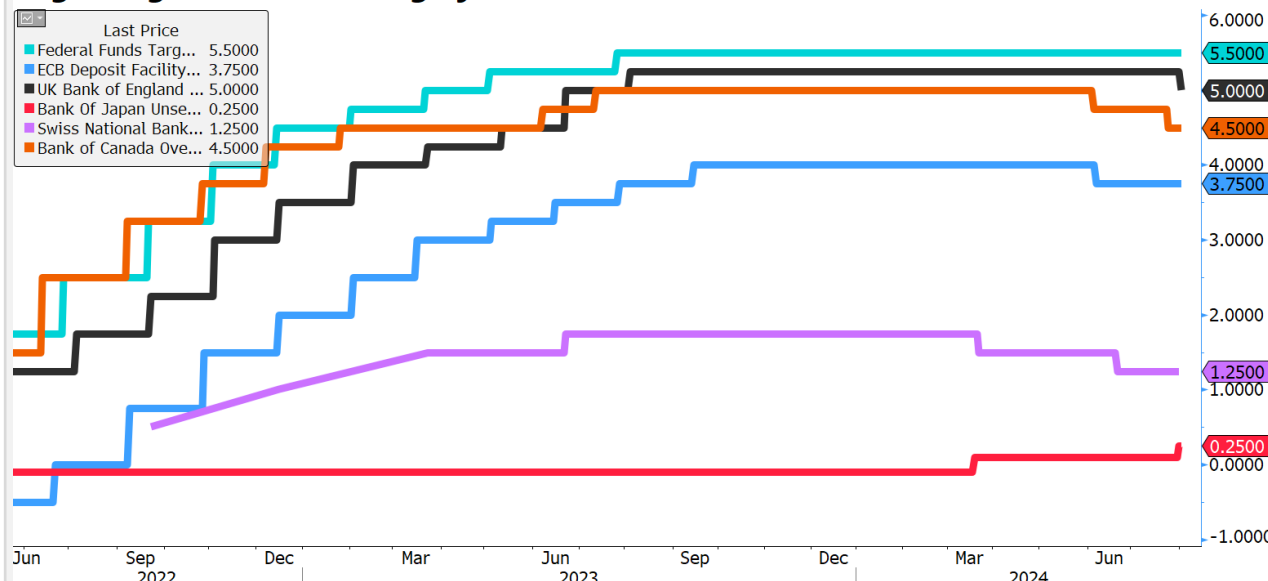


Chart of the Week

With inflation having eased considerably from the peak in 2022, major central banks have started easing rates. Swiss National Bank was the first to pivot and has cut twice. Bank of Canada was next and has also cut twice. The European Central Bank has cut once to support economic growth, even though inflation is above target. The Bank of England has cut last week despite services inflation remaining very high in a bid to support the consumers. The Federal Reserve remains on hold, at rates higher than others, but is expected to ease in Sept. At the other end of the spectrum, the Bank of Japan has now raised interest rates twice, from -0.1% to +0.25% as inflation runs above target, even though domestic consumption remains weak.

05 August 2024

Weekly Economy and Market Watch

بنك دبي التجاري
Commercial Bank of Dubai



FX and Commodities



FX Chronicles

The aftermath of disappointing US jobs data saw significant impacts on various currencies. The EUR/USD climbed above 1.0900 in Friday's session, buoyed by poor US Nonfarm Payroll (NFP) data, with only 114K jobs added in July versus the expected 175K. The US Dollar weakened due to concerns of an economic slowdown, with the unemployment rate rising to 4.3%. GBP/USD held gains around 1.2800, while USD/CAD edged lower near 1.3860. The AUD/USD saw minor recovery, surpassing 0.6500, and USD/JPY dropped to a five-month low of 146.41. Gold peaked near \$2,480 before retreating to \$2,430, and silver stabilized at \$28.49. Given these dynamics, how might upcoming economic data further impact currency and commodity markets? Don't worry, CBD Global Market Solutions will back up your ambitions by providing the latest updates



Copper : Up or Down!

Copper remained relatively unchanged in London at USD 9055 following weak US jobs data for July. Futures briefly rose by 1% before stabilizing, as a weaker US dollar boosted commodity purchases for buyers using other currencies. Concerns are rising that the Federal Reserve has delayed rate cuts, even as Chair Jerome Powell hinted at easing next month if inflation continues to decrease. US employment figures showed significant slowing, with the highest unemployment rate in nearly three years, suggesting a potential downturn. Investors are also watching for further Chinese economic stimulus as the country's economy struggles. Zambia reported a 6.2% increase in copper production in the first half of the year, reaching 346,747 tons. Copper prices have dropped sharply by 20% from May highs, reflecting broader economic uncertainties, including China's property issues. Long-term prospects remain positive, driven by the green energy transition and AI boom.



Window Forwards

Window forwards are a flexible hedging instrument that allow companies to lock in exchange rates within a specific timeframe, providing better timing flexibility compared to standard forward contracts. These contracts enable firms to manage currency risk by securing a favorable exchange rate within a given window, reducing exposure to adverse currency movements. For example, a UAE-based company planning to buy goods in Europe expects the EUR to become more expensive. By entering a window forward contract today at a rate of 4.0, the company can lock in this rate for a future payment. If the rate rises to 4.2, they can still convert at 4.0, saving costs and ensuring stable cash flows. This strategy aids financial planning and enhances financial stability, making window forwards crucial for UAE businesses dealing with exchange rate fluctuations.



Corn & Ethanol : What's The Relation ?

Corn prices have fallen below \$4 a bushel due to favorable US crop conditions, significantly impacting ethanol production. The United States, the largest producer of both corn and ethanol, benefits from cooler temperatures and increased rainfall in the Midwest, enhancing yield potential. Corn fields have received the best ratings in four years, with farmers holding substantial leftover grain from last year's harvest, adding downward pressure on prices. Lower corn prices are beneficial for ethanol producers, as they reduce production costs and potentially boost output. This relationship is crucial for the fuel industry, as ethanol is a key component in gasoline. Consequently, stable and lower corn prices can lead to increased ethanol production, supporting both the agricultural and energy sectors. This dynamic illustrates how agricultural success directly influences energy production, highlighting the intertwined nature of these critical industries and their impact on the broader economy.

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Understanding Relative Strength Index (RSI)

The Relative Strength Index (RSI) is a momentum oscillator that measures the speed and change of price movements. It ranges from 0 to 100 and is typically used to identify overbought or oversold conditions in a market. An RSI above 70 indicates that a security might be overbought, suggesting a potential sell opportunity. Conversely, an RSI below 30 suggests that a security might be oversold, indicating a potential buy opportunity. By analyzing RSI, traders can make more informed decisions about entry and exit points in the market, enhancing their trading strategies.



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

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