



بنك الإمارات دبي الوطني
Emirates NBD

CIO OFFICE MORNING MARKET WRAP

4 October 2024

Asian stocks and bonds traded in tight ranges ahead of today’s all-important US jobs report, meanwhile oil volatility subsided after prices spiked on heightened regional tensions. Equities in Japan, South Korea and Hong Kong edged higher, with mainland China still shut for a holiday. Futures contracts for the S&P 500 and the Nasdaq were little changed. As the Middle Eastern conflict escalates traders become wary of adding to risk. And the market signals it in somewhat subtle ways. The degree of participation in the rally falters somewhat, some liquidity measures roll over, and the US dollar starts to appreciate. For now, it is nothing more than hesitation. We will see if this grows into extended downward momentum. Unsurprisingly, with geopolitical risks taking center stage, investors shrugged off a positive ISM services reading. And the survey could tip the balance in favour of a more measured policy easing approach should today’s jobs report surprise to the upside. The US benchmarks slipped on Thursday, as the S&P 500 fell 0.2%, the Nasdaq 100 was unchanged, whereas the Dow Industrials lost 0.4%. Energy stocks settled almost at a three-month high to gain 1.6%, IT and communication services eked out gains, while the rest closed in the red. Risk-off sentiment took hold and crude oil accelerated higher following comments from the Washington administration that were deemed to be unfavourable for the growing tensions in the region. Brent crude climbed above \$77 a barrel, while West Texas passed \$73. The US dollar rallied supported by rising yields. Traders reassessed how aggressive the Fed’s easing cycle could be following a string of positive economic surprises in September. The pound fell to a three-week low after the Bank of England signalled potential for faster interest rate cuts. Treasury yields were lifted higher by the better-than-expected non-manufacturing survey print.

The ISM services index rose beyond expectations yesterday, to print in the higher end of its historical range and adding to evidence that the US economy remains quite resilient. Indeed, in September service providers expanded at the fastest pace since February last year, amidst rising orders and stronger business activity. The headline index advanced to 54.9, and new orders jumped by 6.4 points. A pickup in demand also helped fuel higher prices paid, that reached levels last seen in January. Overall, a healthy services sector is tied to solid consumer trends, in turn tracing back to a strong labor market. Taken together, both the ADP National Employment report released yesterday and services activity point to a constructive jobs report today.

The impressive rally that saw Chinese equities jump 30% from the September lows is showing signs of stalling. But there may be more to come, if stimulus expectations mentioned by a leading economist in China prove to be correct. According to his estimates the country has room to ramp up fiscal support to as much as \$1.4tn in special debt. Confidence could be lifted by raising government spending in public projects. And using public debt properly “won’t overburden the government”. This conviction was echoed by a macro strategist who said that “if it is not enough, there will be more until it is enough”. This would be in contrast with the shock and awe approach advocated by the litany of analysts who remain skeptical unless they see massive interventions. It looks more likely there will be intermediate steps, as and when judged appropriate, in keeping with a long-term view, typical of the Chinese approach.

Gold has been one of the best asset classes, up 29% year-to-date. There is a plethora of factors one can pick from to continue to buy gold. Investors that go by public narratives will point out that the current geopolitical risks offer a good reason to buy. Readers who revere the Fed and central banks in general will say that the start of an easing cycle is a positive catalyst. Whoever follows the current de-dollarisation attempts led by China and Russia can rightly point to the growing demand for gold of the BRICS+ central banks. We say that the most relevant factor supporting the yellow metal is the unchecked debt levels of the Western countries that debase their currencies. And, yes, geopolitics matter, but only for the very short term.

Have a great day.

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