



بنك الإمارات دبي الوطني
Emirates NBD

CIO OFFICE MORNING MARKET WRAP

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Last week was extremely volatile, between geopolitical escalation and an avalanche of data. Almost all asset classes had negative weekly returns, with two exceptions: money markets, as always, as well as stocks from emerging regions, due to a +11.5% gain in the MSCI China - despite the country’s onshore markets being closed from Tuesday. Stocks from developed markets fell -0.7% with the US being once again the positive exception. US government bond yields surged following a massive positive surprise on September’s NFP report that triggered a sharp revision of market expectations for Fed cuts. Over the course of the week, 12-month Treasury yields gained 21 basis points to 4.17%, the 2-year jumped 41 basis points to 3.92%, while the 5 and 10-year added respectively 31 and 21 basis points to 3.8% and 3.97%, almost on our year-end fair value. The dollar materially strengthened, up 2% against trade-weighted counterpart, also helped by a 4% drop in the yen as a reaction to prudent messages from Japanese policymakers. Finally, the geopolitical context pushed Brent prices +9% higher to \$78.1, and GCC stock markets -3.7% lower. Gold was no shelter, down -0.2% to \$2,650, torn between rising rates and rising tensions.

Let’s start with data. PMIs for September confirmed a picture of US resilience within a global slowdown. Manufacturing activities are weak everywhere while services remain the global expansion engine. Using the S&P measures, the composite indices which combines both sectors are respectively at 52 for the world, 54 for the US, 49.6 for Europe, 52 for Japan and just 50.3 for China, which justifies the stimulus bazooka from 10 days ago. The same measure also slows in India but at the very enviable level of 58.3, while the UAE whole economy PMI is at a solid 53.8, with KSA between them at 56.3. Bottom-line, global PMIs were not a surprise, confirming the idea of an orderly and so far very soft landing.

News from the US labor market was by contrast a shock to markets. It started with an unexpected rebound in job openings, followed by a huge positive surprise from Friday’s monthly payroll report. 254k jobs were added in September, while the median forecast was for 150k, and August’s 142k was revised to 159k. Hourly earnings grew more than expected, reaching 4% year-over-year. The US unemployment rate fell from 4.2% to 4.1%, actually very close to 4%. This is great news from a fundamental point of view. But it obviously questions the next steps from the Fed. Sure, they prioritize employment over inflation now. But employment is fine, to the point that wages may be rising again. The same future markets that, one week ago, were confidently pricing-in more than 75 basis point of additional easing in 2024 immediately adjusted to a more reasonable 50 basis points, now in line with the Fed’s dot-plot. Bets for a November jumbo cut are now off, and futures now imply one 25 cut at each meeting in November and December. Is this adjustment enough? It’s important to keep in mind that the Fed’s dot-plot was updated together with their economic scenario, which indicated an unemployment rate of 4.4% at the end of the year, and a slow but unchallenged disinflation. No doubt, this week’s CPI inflation reports will matter. In any case, the US political context complicates the equation even more, especially as the presidential elections happen just days before the Fed meeting. Volatility is here to stay.

This is the transition for a word on geopolitics. The Hamas-Israel war is escalating into a broader conflict, which global superpowers cannot treat as “business as usual” anymore. As we continuously highlighted since our 2024 Outlook, geopolitical questions are intertwined with domestic political events, which are about to crystalize with the US elections. According to Israel’s rhetoric, the government seems to be willing to hit all their enemies now, wherever they are, as the country is anyway already in a war setup. Still, engaging in a direct conflict with Iran requires support from the US, directly. This happens at a time when the cost of external military actions is a concern for US voters, even more so as the federal response to the ravages of recent hurricanes on the American ground is criticized and compared to the cost of support to Ukraine in particular, especially by Republicans. On the other side, there is no absolute unanimity within the Democratic electoral base with regards to support to Israel. At a time when polls and prediction indicators are extremely tight, every vote matters. Finally, Russia is not silent. President Putin has announced an imminent revision to the country’s nuclear doctrine, lowering the threshold for the use of such weapons. He also formally demanded that Israel withdraws from Lebanon and evacuated Russian citizens. China so far has carefully avoided a direct involvement and has a clear focus on their domestic economy. Still, the week-long holiday is about to end. From now one and for the short-term, there are two possible scenarios. First, and hopefully most likely, the US convinces Israel to only issue a proportionate response to Iran’s last move instead of going into an all-out war now. The second option is much more dangerous. In any case, the geopolitical picture will become clearer once the winner of the US election is known. The worst-case situation would be not to have a clear and accepted result in early November, with serious risks of both domestic and international chaos.

As we write this morning, Asian markets are reacting positively to Friday’s US job report and to the dollar strength. Stocks are up +1.8% in Japan, +1% in Korea and +0.6% in Hong-Kong, while China mainland markets are still closed for the golden week. Treasury yields are stable, while Brent crude oil is slightly down to \$77.7 and gold prices hover around \$2,645.

The week ahead will kick off the Q3 corporate earnings season. With regards to top-down data, we will look at the latest FOMC minutes on Wednesday, while the focus will be on US CPI inflation on Thursday. The world will also have a close look at China’s mainland markets’ reopening tomorrow.

Have a great week.

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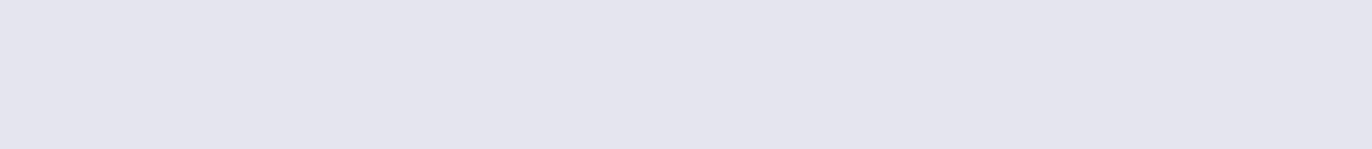
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