



بنك الإمارات دبي الوطني
Emirates NBD

CIO OFFICE MORNING MARKET WRAP

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A surprise 90-day pause of the top layer of US reciprocal tariffs for all countries except China was announced after the close of European markets, and triggered a massive relief rally in risk assets. US stocks were on fire: the S&P500 gained +9.5% and the Nasdaq +12%, bringing their YTD loss to respectively -7% and -11% “only”. US Treasury yields however continued to rise, this time in a bear flattening pattern: +20bps for the 2-year to 3.9%, +10 for the 5-year to 4% and +1 for the 10-year at 4.3%. The price of Brent crude oil gained almost 5% to \$65.5, and gold made a new all-time highs at \$3,083. The dollar was stable against trade-weighted counterparts.

So for now, the global trade war has morphed into a US-China conflict, as the rate of US tariffs on their imports was also increased to 125% - with the President adding that he “can’t imagine further increases”. Still, let’s keep in mind that 1. It’s just a pause, and 2. The pause applies to the incremental higher tariffs (for countries which did not retaliate), but that the 10% baseline is still in place since last Saturday as well as other specific items (Mexico, metals...). 10% is a serious level by itself. The risk of an “instant global recession” from the seismic shock of the initial “Liberation Day” rates is much lower, but we are still dealing with a drag on global activity, an all-out trade-war between the world’s two largest economies, and a ton of uncertainty ahead. The coming months will show what the US administration wants in exchange for making the pause permanent – the Master of the Art of the Deal now has a serious leverage. Could it be a common approach to China, or other more specific political goals? From various reports, it appears that President Trump reacted to the pressure from bond markets, not from stock markets. To that extent, the heat hasn’t gone away yet with no relief on Treasuries, probably hit by a combination of defiance, sales from China, technical factors and, even more worrying, liquidation of collateral from investors and counterparts caught on the wrong side of these crazy, untradable 5-standard deviation daily moves. It’s not just a “risk-off” move that would have also affected gold.

We will hold our tactical asset allocation meeting today. We are very happy to have taken the decision to postpone if by a few days, waiting for more developments and to avoid emotional reactions. Still, tactical decisions have become increasingly difficult – if not outright futile- in such an environment. We urge our clients to stay away from the temptations of short-term trading, to avoid leverage on anything exposed to volatility (don’t tie your hands...), and to make sure that their core asset allocation is in line with their profile and aspirations.

Markets this morning:

Asian stocks are obviously joining the relief party as we write this morning: +8% in Japan, +5% in Korea, +3% in Hong-Kong and +1% in onshore China. India is closed today. US Treasury yields are down between -4 and -6 basis points across the curve in Tokyo trading. The dollar continues to trend lower, the price of Brent crude oil gives back \$0.8 to \$64.7 but gold is on fire (again) at \$3,127. China’s inflation numbers were just released (in absolute indifference) and they were not good: -0.1% YoY for the CPI and -2.5% for PPI, this is deflation and another reason for the authorities to go big on stimulus, which will without a doubt be announced in the imminent future.

Upcoming key events/data:

For what it matters – probably not much compared to the “Winds of Change”, US CPI for March will be released today at 4.30PM Dubai time: the median forecast is for headline to drop from 2.8% to 2.5% year-over-year and the core from 3.1% to 3% also YoY. Tariffs of course started in April, and there will be a lag to see them translate into actual numbers. We will also look at the weekly jobless claims. A few corporate earnings are expected, including Tesco in particular, before tomorrow’s real start of the Q1 season with US megabanks. Please take this opportunity to check your asset allocation and risk exposure in a hopefully slightly less emotional way today, and focus on its relevance with regards to your profile, goals, and risk appetite. Have a great day.

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