بنك الإمارات دبي الوطني
Emirates NBD

CIO OFFICE MORNING MARKET WRAP

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Stocks traded mixed on Monday as President Trump announced he reached a trade deal with the European Union. The agreement was achieved on Sunday, ahead of the busiest week for corporate earnings, a Fed and BOJ meeting, the jobs report for July, and the Aug. 1 tariffs deadline set by Trump. Also, US and Chinese officials yesterday started two days of talks in Sweden to extend their trade truce and discuss tariffs related to fentanyl trafficking amongst other things. The S&P 500 closed little changed, while the Nasdaq (+0.3%) scored marginal gains. The energy sector(+1.2%) topped returns, whereas real estate (-1.8%) and materials (-1.4%) led losses. The dollar rose (1%), and big time against the euro (+1.3%) despite a deluge of prognostications to the contrary in the aftermath of the announcement of the deal with the euro area. The faster progression in trade deals we saw in the last couple of weeks achieved notable results for the United States in the shorter term, with a shift from a trade-embargo approach to workable tariffs that provide substantial tariff income for the country, and the lifting of trade uncertainty not only for investors, but also for the Fed that now knows the tariff rates with the largest trading partners. In the longer run, trading partners will be enticed to spur internal demand and try to lighten up the weight of the US yoke.

The trade agreement with Europe was a market-moving event, that raised different public reactions and under the surface is not all that it seems to be. Our judgement is the deal is not great in absolute terms for Europe, though in relative terms 15% tariffs on most goods including autos is much less than the 30% rate threatened in Trump's letter. That the EU will drop any tariffs on US imports speaks to their lack of bargaining power, despite a lot of previous public posturing on possible retaliatory measures on their side. We have strong doubts about the very large numbers related to energy and military supply imports, as well as on the announced direct investments in the United States, the latter not legally binding unless enshrined in a treaty. The EU's strategy has been to overpromise and underdeliver, starting from under Trump 1.0, and they would have a hard time direct the private sector to make those investments, unlike China. And some energy imports, especially LNG, as well as military equipment purchases have always been in the cards. Overall, Trump may come back for more and tariffs are deflationary for the EU, representing a negative hit to its GDP alongside the latest strengthening of the euro. The ECB in the end may be on a set course for more work to be done despite its much-touted data dependency. German Chancellor Merz, who initially cheered the deal, said on Monday that "The German economy will suffer significant damage from these tariffs".

Considering the above it is not by chance that yesterday the euro suffered its steepest decline against the dollar since May, nor that the dollar strengthened across the board.
The deal will hurt the European economy and bring back to the fore interest rate differentials with the EU and other trading partners as a FX driver. In the aftermath of Liberation Day there was a run from the dollar and flows, rather than rates differentials, mattered for the dollar, now this logic is likely to be reversed in favour of the dollar till relative rates levels have been more fully discounted by markets.

Markets this morning:
Asian stocks slipped following a flat session on Wall Street, with the MSCI Asia Pacific falling 0.8% led by shares in Hong Kong. US and Europe's futures contracts were headed marginally higher while the dollar steadied after climbing the most since May in the prior session, and the euro was little changed. Crude oil held its gain after President Donald Trump pushed for Russia to reach a truce with Ukraine or face more economic penalties. Yields traded in a holding pattern after two auctions, at 2 and 5-year tenors, saw no hiccups yesterday. Investor's focus will be shifting today to the US JOLTS survey, providing a screenshot of the labor supply-demand balance for the month of June, and tomorrow to the all-important FOMC meeting to get guidance about the direction of rates and the US economy.

Upcoming key events/data:
The JOLTS report today is expected to convey the picture of a cooling labor market, with jobs openings declining while at the same time the labor force would be shrinking due to more discouraged workers. On the other hand, the Conference Board consumer confidence survey should show some improvement in July, after respondents in the University of Michigan survey saw less chance of losing their jobs. On the earnings front, today Procter & Gamble, UPS, Visa, and Boeing will be reporting.

Have a great day.

Chief Investment Office
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