



CIO OFFICE MORNING MARKET WRAP

3rd June 2025

Rising trade tensions shaped markets this Monday with the dollar weakening -0.6% and gold rising +2.8%. Expressed in US dollars, stocks gained +0.5% in developed markets, with a late session rebound in the US, but fell -0.3% in emerging regions. US Treasury yields were stable while oil prices rose +1.1% to \$64.6 for the Brent.

The first week of any month is about PMIs and for May the manufacturing indicators are tepid at best. While Japan and the Eurozone are stable at 49.4, the UK improves to 46.4, still a very low level. In the US, both the S&P Global manufacturing PMI and the corresponding ISM came in short of expectations at respectively 52 and 48.5, lower than in April while the consensus was for an improvement. The same measure from Caixin for China, just released this morning, unexpectedly fell from 50.4 to 48.3, way below the median forecast and a material absolute drop. Bottom-line, these leading indicators for manufacturing activity points to a modest but broad slowdown. India is the exception at 57.6, but it is still lower than April's 58.3.

On the trade front, some US officials are calling for a direct talk between President Trump and President Xi following the mutual accusations of violating the Geneva agreement. US Secretary of Commerce Howard Lutnick is optimistic about a trade deal with India, while the EU warned about retaliatory measures following the US's intention to double tariffs on steel and aluminum. It looks like the EU is choosing a relatively firm posture for its negotiations, probably following China's example. This may be risky.

On the geopolitical front, talks between Russia and Ukraine in Istanbul concluded without material progress towards peace. This is not surprising a day after the massive drone attack from Ukraine on air bases deep in Russian territory. The meeting lasted only one hour, and it is unclear whether the two parties actually talked, as the statements mention an exchange of documents through their Turkish host and preparations for another prisoner exchange.

Markets this morning:

Asian markets are pretty well oriented as we write this morning. Stocks are flat in Korea, but gain +0.3% in Japan, +0.5% in mainland China and +1% in Hong-Kong, now up +17% year-to-date. US Treasury yields are stable in Tokyo trading at 3.93% for the 2-year, 4% for the 5-year and 4.43% for the 10-year. Gold gives back a bit of yesterday's gains, down -0.5% to \$3,362 and the price of Brent crude is nearing \$65.

Upcoming key events/data:

Today we will look at Saudi Arabia's whole economy PMI for May. The Eurozone will release their May CPI inflation report, expected to show a drop to 2% for the headline and 2.4% for the core, ahead of the ECB meeting this Thursday. The unemployment rate for April in the common area will also come in, expected to be stable at 6.2%. Finally, we will look at the JOLTS job openings report in the US for April, also expected to be stable at 7.1mn. Tomorrow will kick off the releases of PMI services as well as the UAE whole economy PMI.

Have a great day

Chief Investment Office
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