



بنك الإمارات دبي الوطني  
Emirates NBD

## CIO OFFICE MORNING MARKET WRAP

19 July 2024

Asian equities settled lower for a second day following weakness in US stocks. Japan, South Korea, and Australia dropped. China's economic plan unveiled at the Third Plenum gave investors few new reasons to buy, with traders now looking to the release of detailed guidelines in the coming weeks as the next catalyst. In the morning session US futures are drifting higher, the US dollar is rebounding, while gold is retreating from all-time highs. The decline in megacaps broadened on Thursday to extend to smaller firms, the healthcare and financial shares, in a sign investor's animal spirits got exhausted. Almost every group in the S&P 500 fell, with the major benchmark closing 0.8% down. The initial rotation into the more speculative corners of the market driven by increased conviction in rate cuts came to a halt. Megacaps ended mixed, with Nvidia up and Apple in negative territory. TSMC shares fell nearly 2% even after raising 2024 revenue projections. Netflix closed weaker on a cautious forecast though results were above consensus, while Broadcom closed higher on news it had discussed making an AI chip for OpenAI. The Russell 2000 slid about 2% after posting new highs for the year, while the Dow Jones Industrials halted a six-day rally. The Treasury 10yr yield rose four basis points to settle at 4.2%, while the dollar jumped from a four-month low.

China's Third Plenum largely repeated previous policy priorities, providing little reason for upside momentum in China and Hong Kong shares. The read-out, released late Thursday, indicated that Beijing will stay its course to pursue "high-quality development" as the "top mission" to build "a modern socialist country". This suggests the absolute pace of growth is not a priority, and the leadership is not preparing for major stimulus to boost demand or tackle the property slump. The reference to use advanced manufacturing to generate growth lays emphasis on productivity to overcome the current stagnation. And factory activity as the driver of the economy raises concerns about the possible rising of trade tensions, as a surge in Chinese exports is already prompting fresh tariffs from the US and the European Union. "Actively expanding domestic demand" was on the to-do list, but only as a short-term task, that linked to the determination to hit this year's economic goals suggests some form of policy easing will be on the way for the year. Investors will be looking forward to the more detailed report usually issued several days after the conclusion of the plenum. Specific policies are anyway more likely to come from the Politburo meeting later this month.

Following yesterday's ECB policy meeting, where rates were left unchanged, there is the impression that policymakers may be considering only one more rate cut for the year. Officials are less confident about further reductions given lingering inflationary pressures, so a September move is not a done deal. President Lagarde said that the outcome of the next meeting is still "wide open", and traders slightly pared bets on future cuts, with money markets pricing 44 basis points worth of easing, versus 47 previously. The yield on the 10-year German bond rose one basis point to 2.43%, while the euro trimmed its earlier losses.

The release of the Philadelphia Fed's manufacturing survey did little to add clarity to the outlook for the sector. The business-outlook survey pointed to expansion in July, after months of contraction, with many sub-indices reaching their highest levels since 2022. Yet, other releases gave opposite indications, clouding the view. If we to make an apple-to-apple comparison, aggregating components using a methodology similar to the US ISM Manufacturing PMI yields a value of the index rising to 56.3 in July, from 47.2 in June. Taking cues from the market and observing that the S&P 500 Industrial sector recorded new all-time highs in this week, we could think that the Philadelphia headline index is pointing the way.

Thank you.

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