



INSPIRING WHAT'S NEXT

CIO OFFICE MORNING MARKET WRAP

27 June 2024

The current narrative is all about Fed rates being “higher for longer”, supporting the dollar, steepening the curve and so far not harming US stocks too much. In addition, the current week is a long wait before tomorrow’s presidential debate and core PCE inflation release. Long-dated US Treasury yields were volatile against this backdrop, especially in a day of Federal auction, which met reasonable demand. Still, the 5 and 10-year yields both added +11 basis points to respectively 4.34% and 4.33%, a clear steepening as shorter maturities didn’t move much. Most segments of the fixed income asset class were thus in negative territory, with global REITS following. Global equity indices, expressed in dollar, were marginally positive in aggregate, with another day of rebound for the Nasdaq, outperforming with a +0.5% gain. Finally, but importantly, the dollar continued to rise, adding another +0.3% against trade-weighted counterparts, with a strong contribution from the yen which approached 161. Gold logically didn’t fare well, down -0.9% and now dethroned by DM stocks from their top spot in the 2024 hierarchy of returns (+12% vs +11.4%). The price of Brent crude however added 20 cents to \$85.3.

In terms of economic data, both US mortgage applications and new home sales were soft, and a bit below forecast. This morning, May retail sales in Japan were stronger than expected, providing hope that the recent wage increases in the country may finally translate into consumption. Chinese industrial profits grew in May but the +3.4% year on year pace is slower than the +4.3% from April. In other news, the Fed announced that all 31 Wall Street large banks passed their annual stress test, which opens the way for dividends and share buy backs. In the political world, rumors of a potential resignation from Macron resurfaced depending on the elections’ outcome. In the corporate world, it’s Micron which is in trouble with a disappointing forecast issued after the bell. The stocks lost -8% after hours and the news impacts future contracts as well.

This combines with a strong dollar to weigh on emerging markets as we write this morning. Stocks are down in every single major country, from -2% in Hong-Kong and -1% in Tokyo to -0.5% in Korea and -0.1% in India. Future contracts on Western equity markets are also in the red. Top bankers in China are not having a great day, as they woke up with the announcement of a pay cap at \$400,000 per year, with some of them allegedly asked to renounce some of their previous compensation. The Japanese yen is slightly stronger, at 160.4 for a dollar versus 160.8 yesterday as a top official stated his concern for rapid and one-sided moves. Of course, intervening on the currency before tomorrow’s key US inflation release would make no sense but authorities will most probably step up later to counter the free fall, especially after the good retail sales number. The Japanese 10-y government bond yield gains 5 basis points to 1.08% which is the highest level in a decade. The traditional “carry trade”, borrowing in yen and investing in USD while rolling a short-term FX hedge is much less relevant than it once was, with the prohibitive cost of FX hedging. There is no notable move in US Treasury yields and major commodities.

The Central Bank of Turkey will meet today, and the consensus view is for no change in interest rates – the 1-week repo is currently at 50% annualized, while core inflation is close to 75% in the country. Sweden’s Riksbank will also meet – they had cut in May but will probably stay on hold this time and not commit to much, which we believe is the general trend for Western central banks. Today will provide interesting data: money supply and consumer confidence for the eurozone will be followed by the third estimate of US Q1 GDP, personal consumption, personal income and PCE deflator. Usually, this dataset doesn’t materially differ from the second one, but it’s not impossible to see some upside adjustment to the first quarter’s tepid 1.3% QoQ annualized GDP growth. We will end the day with the weekly jobless claims, before durable goods orders. Again, the key potential market moving events are tomorrow: the CNN Biden/Trump debate from 5AM Dubai time, and the May core PCE at 4.30PM Dubai time.

Have a great day.

Chief Investment Office
Wealth Management,
Emirates NBD.

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