



بنك الإمارات دبي الوطني
Emirates NBD

CIO OFFICE MORNING MARKET WRAP

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Asian shares started the quarter on a positive note, with the Japanese indices boosted by a weaker yen. The Nikkei rose as much as 1.9%, after losing 5% the previous day on the ruling's party leadership change. Australian shares slipped, while China and Hong Kong are closed for holiday. US futures inched higher, as traders looked toward employment data due later this week. US equities eked out gains yesterday despite a tad more hawkish stance in a speech delivered by Jerome Powell, while bonds sagged. Powell said US rates would be lowered "over time", and that the overall economy remains on a solid footing. The yield on the policy-sensitive 2-year note climbed to 3.65%, and swap traders adjusted bets on rate cuts accordingly, reining them in from the three quarter points previously discounted. The S&P 500 gained 0.4%, initially weighed down by declines in Amazon and Nvidia that eventually recovered, and the Nasdaq 100 rose 0.3%. Both the S&P 500 and the Nasdaq secured a fourth-consecutive quarter of gains. Sector leadership leaned slightly defensive, with energy and communication services topping broader market returns. Europe lost over 1% dragged down by negative sentiment in the auto sector. General Motors and Ford declined, following Stellantis lowering its full-year 2024 guidance. Stellantis is the latest in a series of European automakers to have lowered profit projections, including Volkswagen and Daimler hit by China competition. While gauging the outlook investors will have to weigh in growing tensions in the Middle East and a looming dockworkers' strike in critical US ports expected today. Chicago Governor Goolsbee expressed concern about a possible supply shock should the strike drag on. Meanwhile, Raphael Bostic of the Atlanta Fed said he was open to another half-point of easing at the November meeting in case of slower-than-expected job growth.

Business confidence indicators released yesterday in China confirmed the need for more stimulus. The manufacturing sector extended a contraction, while the services sector stagnated. Also, China's residential slump deepened in September according to some preliminary data, pointing to the urgency of more radical measures for the real estate sector. In the weekend three of China's tier-1 cities followed through on the authorities' earlier announcements by relaxing rules for home buying, while Beijing joined in yesterday. We know that the impressive rally in Chinese stocks that unfolded last week can be accounted for by the government's more supportive stance for the real estate and equity markets. The question now is whether there is still upside left in stocks. The last two decades have seen five big equity rallies, three of which driven by stimulus. Although the monetary and fiscal measures now in the pipeline are smaller in size, they come alongside CNY800bn in market support from the PBOC, with the potential for more. It seems only logical to think that a mega rally as in the past could only unfold if the authorities continue to deliver on the sense of urgency perceived by investors.

The Dallas Fed survey suggested business activity in the Texas region continued to contract in September. Production, new orders, and shipments all dropped to negative levels. This points to the ISM Manufacturing PMI, to be released today, ticking down slightly to hover round the 47 level. The JOLTS report, also due today and providing insights in the balance between supply and demand in the job market, should on the other hand show an improved pace of hiring. Investors will be focusing on the all-important ratio of job openings to unemployed workers.

Today's CPI release in Europe should continue to see inflation on a downward path both at the core and headline level. With the main activity indicators headed south this should set the stage for a 25bps cut by the ECB at the forthcoming meeting in October. The decline in Germany's inflation yesterday only reinforces that view.

Have a great day.

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