



CIO OFFICE MORNING MARKET WRAP

6 September 2024

Your CIO Office writes the daily notes on a weekly rotation – an early morning discipline for the “writer of the week”, with usually a feeling of satisfaction and serenity when Friday comes. Not this time: a defining moment for market action will happen in ~10 hours, when the US monthly non-farm payroll change is released at 4.30PM Dubai time, with obvious potential implications for Fed expectations and all asset classes. Yesterday was thus relatively quiet on global markets. Stocks were slightly lower in developed markets and marginally higher in emerging regions, while US Treasury yields didn’t reiterate their strong “bull flattening” of the previous day (when JOLTS job openings hit the tape, highlighting the current focus on US labor). The dollar continued to gently weaken, especially against the yen, gold benefitted, gaining 0.8% to approach its all-time high at \$2,516, while oil prices found an equilibrium around \$72.7 for the Brent as growth concerns were balanced by the OPEC+ postponing its supply hike by two months.

The day was however rich in terms of economic data. First, we had a few reassuring news from Europe, with solid Eurozone consumer spending in July and a positive surprise in German industrial orders, and from Japan, with firming wage gains boding well for a continued recovery in consumption. In the US, leading indicators for services (yes, plural, there are two) were a bit conflicting, but in no way negative. The S&P Global Service PMI was very strong at 55.7, a buoyant level and an improvement against July’s 55.2. Meanwhile, the most followed and US calculated ISM Services was more tepid at 51.5, which, still, was 0.1 above July and the median consensus forecast. Having said that, both are supportive of a soft-landing rather than a sharp deterioration. With regards to the job market, the ADP estimate of private non-farm payrolls, which is again an alternative to today’s much more followed measure, was disappointing at only 99k job creations. We usually do not pay too much attention to this measure, and also note that the weekly jobless claims actually fell from 232k to 227k, which doesn’t suggest massive firings. Bottom-line, nothing in yesterday’s data supports an incremental anxiety on US growth. The read-across for tonight’s NFP number could be as follows. First, as there are no other flashing red recession signals, it shouldn’t be disastrous (50-75k), which would propel bonds and crash stocks. It may however still impact Fed expectations: they should cement a 50bps cut expectations in September in case the number is close to 100k, while 25bps would sound reasonable if 150k or more jobs have been added. The other tail risk would be an acceleration, with a jaw-dropping number of 200k or more. This would be good news for the economy, but not necessarily for markets, with a big question mark on future Fed action, pressure on bonds and probably by sympathy on equity multiples – a low probability, high volatility event.

Asian markets are mixed ahead of today’s big rendezvous as we write this morning. Stocks are hesitant or slightly down everywhere, from -0.6% in Korea to flat in China and Hong-Kong, while Japan is down -0.2% in Japan with the yen at 143.2 for a dollar. US Treasury yields are stable in Tokyo trading: 3.74% for the 2-year, 3.53% for the 5-year and 3.72% for the 10-year. There is no significant move in major currencies and commodities.

Today, we will trump the wait for the NFP by looking at German industrial production for July and at the Eurozone’s final Q2 GDP estimate (expected at +0.6% YoY). The job report is, again, at 4.30PM Dubai time and apart from the NFP change (job creations, detailed above), we will look at the unemployment rate which is expected to soften from 4.3% to 4.2%. On the latter, a negative surprise (a rise in the unemployment rate) would be the most impactful in terms of rate cuts expectations. A speech from Dr Waller, who is part of the Fed’s board of governors, is expected at 5PM which is an interesting timing especially if we have a rocking NFP number. Whatever happens (or doesn’t) later today, we invest for the medium term and volatility is the source of tactical opportunities. Through several radical changes in market directions and Fed expectations, our three profiles are up 6%, 9% and 11% so far in 2024: a robust portfolio construction can deal with turbulences. Stay invested, diversified, and have a great end to the week.

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