# Weekly Newsletter – August 5, 2024

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## US inflation and labor market conditions ease as the Fed adopts a more dovish tone; markets expect aggressive central bank rate cuts; geopolitical risks continue to hinder growth outlooks.

### Economic Update

**Economy:** US labor market weakens further; EZ growth picks up but Germany's economy sees fall.

**US:** In July, the US economy added 114k jobs (*c:* 175k; *p:* 179k), marking the lowest level in three months, below the average monthly gain of 215k over the prior 12 months, signaling the labor market is in fact cooling off.

Meanwhile, wage gains continued to outpace inflation — continuing a trend that has now taken hold for months.

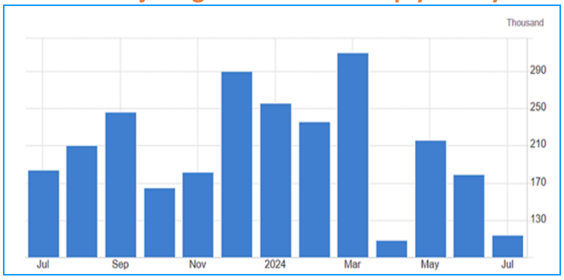
*Average hourly earnings* increased by 3.6% y-o-y, marking the least since May 2021, and below estimates of a 3.7% gain.

The *unemployment rate* rose to 4.3% (c: 4.1%; p: 4.1%), reaching the highest since October of 2021.

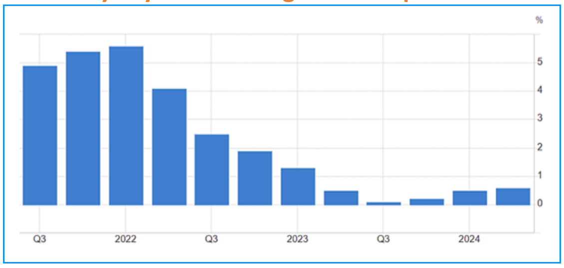
**Eurozone:** In Q2, *economic growth* exceeded expectations, growing at a rate of 0.3% q-o-q, matching the growth rate of Q1.

On a y-o-y basis, *GDP* expanded 0.6% (c: 0.5%; p: 0.5%), reaching the highest growth rate in five quarters.

US NFP jobs growth slows sharply in July.




EZ y-o-y GDP hits highest in 5 quarters.




### Market Update

**Equities:** Risk-off sentiment drives declines in equities after US jobs data.

**US:** The **S&P 500** was down (-2.1% w-o-w to 5,347), due to a weaker-than-expected jobs report that raised concerns about a slowing economy, as well as disappointing earnings from major tech firms dampened investor sentiment.

**Eurozone:** Equity markets declined (**Eurostoxx 50**, -4.6% w-o-w, to 4,639), as the largest company by market cap, ASML, slumped 11.2% to track the selloff in the global chip sector.

**EMs:** Equities fell (**MSCI EMs**, -1.0% w-o-w, to 1,061), as Chinese stocks gained (**Shanghai Comp.**, +0.5% w-o-w, to 2,905), after China's leaders pledged to step up support measures and stabilize market confidence at a recent Politburo meeting.

**Fixed Income:** US 10-year yield plummets; German bund yield falls further.

**Global fixed incomes** surged (**BAML Global**, +1.9% to 274.3), and **UST yields** plunged (-40bps, to 3.80%), reaching its lowest level since December 2023, after the sharp payroll miss added to concerns of a slowing economy – prompting markets to expect a 50bp rate cut in September.

In the EZ, the yield on the **German 10-year Bund** dropped (-24bps to 2.16%), after increased expectations of further rate cuts by the ECB.

**FX:** DXY weakens on Fed outlook; EUR strengthens after inflation ticks up.

The **DXY index** weakened across the board (-1.1% w-o-w, to 103.208), its lowest in over 4 months after a weak jobs report added to dovish expectations for the Fed.

The DXY was also pressured by the BoJ rate hike, driving the JPY to rally 5%.

The **EUR/USD** gained (+0.5% w-o-w, to 1.091), driven by general USD weakness.

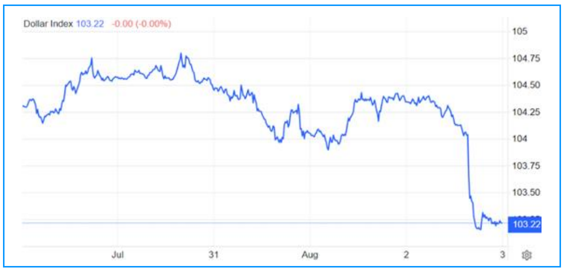
**Commodities:** Oil prices fall on demand concerns; Gold hit new record high.

**Oil** prices were lower (Brent, -5.3% w-o-w, to 76.8 USD/b), as global oil demand concerns outweighed supply risks.

**Gold** prices hit new record highs (+2.4% w-o-w, to 2,443 USD/Oz) driven by safe-haven demand, and increased expectations for an aggressive Fed rate cut.

US S&P 500 falls on dim economic outlook.


DXY falls to lowest in over 4 months.




Gold hits fresh record high.


### Week Ahead

It will be a relatively quiet week in the US, with only the ISM Services PMI and the trade balance report of significance. Additionally, the earnings season for big companies is slowly wrapping up, featuring results from Amgen, Caterpillar, Uber, Airbnb, Walt Disney, SoftBank, and Siemens. Over in China, the Services PMI, balance of trade, and producer and inflation figures will be closely monitored. Australia, and Mexico will announce their interest rate decisions while inflation rates will be reported in Turkey.

This report is prepared by: Burgan Bank Group – Economics & Macro Strategy Unit, Treasury Department