

# Fixed Income Monthly

Research | 22 July 2024

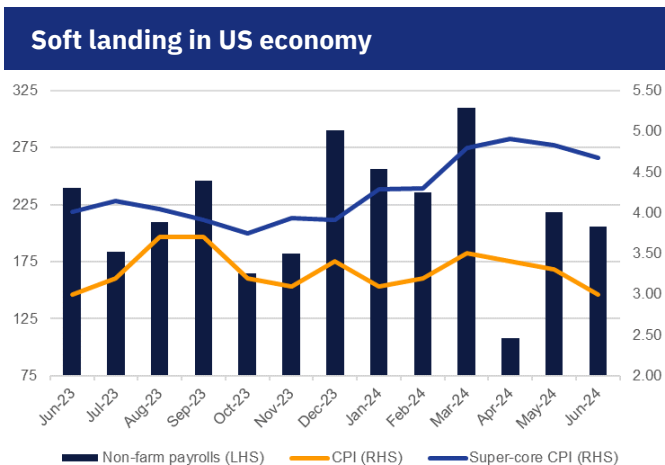
- **Data from the US remains supportive of the Federal Reserve cutting rates at a slow and steady pace, starting later this year**
- **Market focus will shift increasingly to politics as the US presidential election looms**
- **Regional bonds are on track for another positive month**

The Federal Reserve will hold a meeting of the Federal Open Market Committee on July 30-31 and we expect that it will hold its policy stance unchanged. Economic data increasingly appears to back up a soft landing for the US economy and supports a gradual pace of rate cuts, starting in September this year.

Inflation in the US continued to ease in June as the headline CPI index fell to 3.0% y/y, down from 3.3% a month earlier and lower than markets had been expecting. On a monthly basis, the CPI index declined by 0.1%, down from flat a month earlier. Core inflation was also slower than expected at 3.3%, down marginally from 3.4% recorded for May. Super-core inflation, which strips out energy, housing and food, eased to 4.7% in June from 4.8% a month earlier.

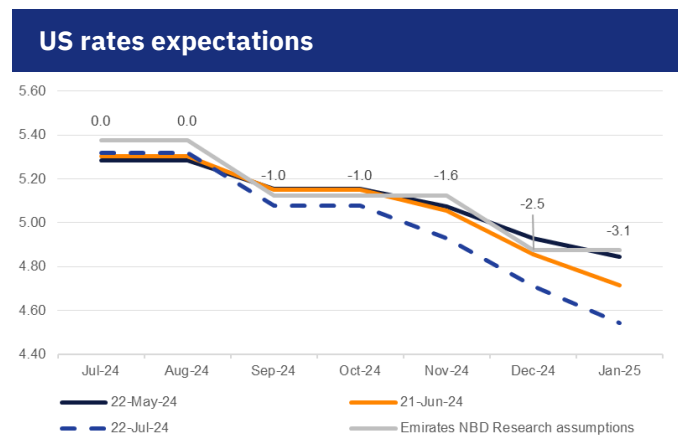
headline jobs number was slightly ahead of market expectations of 190k jobs to be added. Looking at a breakdown of growth in the labour market, government employment was up by 70k in June while health care also was a major contributor to growth, with 49k jobs added. There were declines, however, in retail trade and professional and business services.

Average hourly earnings also eased in June, falling to 3.9% y/y from 4.1% a month earlier. On a monthly basis, wage growth cooled to 0.3%. Data from the establishment survey showed a modest increase in the unemployment rate to 4.1%, still low by historic standards but an inexorable rise from the exceptionally low levels of 3.4% hit in early 2023. More encouraging, though, was a modest uptick in the participation rate to 62.6%, a rise of 0.1ppt compared with a drop of 0.2ppt a month earlier.



Source: Bloomberg, Emirates NBD Research.

The June non-farm payrolls report showed more evidence of a cooling US labour market. A total of 206k jobs were added last month while estimates for the May and April prints were substantially revised lower. The Fixed Income Monthly | Research



Source: Bloomberg, Emirates NBD Research.

Fed speakers have begun to shift their focus to the labour part of their dual mandate with Fed chair Jerome Powell noting risks around the labour market in his commentary

to the US Congress mid-way through July. Chair Powell said that “labor market conditions have now cooled considerably” and highlighted the two-sided risks the Fed is dealing with on inflation and jobs.

### Moving beyond fundamentals

Market focus will increasingly shift away from economics and on to the US election. President Joe Biden’s decision to withdraw from the presidential race adds new risks to the election as the Democratic party will need to align behind a candidate, with vice-president Kamala Harris receiving early endorsements. Former president Donald Trump has already secured the Republican nomination and received a bump in support following an assassination attempt earlier in July. Both the Democratic and Republican party programmes seem to support policies that add upside risks to inflation: either in the form of tax cuts in a Republican administration, higher government spending in the Democrats or expanded tariffs under both.

Markets are currently pricing in slightly more than two 25bps cuts by the end of 2024 and at least one cut for Q1 next year. However, there may be an element of recency bias in rate expectations as the last two cutting cycles—during the Global Financial Crisis and Covid pandemic—were both prompted by emergency economic conditions and were thus relatively rapid and sharp. The next cutting cycle may resemble that during the late 1980s-early 90s or the early 2000s when there were relatively shallow recessions and the peak to trough rate cycle took between three to four years. This Fed is also starting from a lower starting point so may not choose to cut by a large degree to leave room for monetary policy to have an impact should an emergency adjustment be required.

### Previous rate cutting cycles

Start	End	Peak	Trough	Chg in bps	Duration in months
May-81	Dec-82	20.00	8.50	1150	19
Aug-84	Aug-86	11.75	5.88	587	24
Feb-89	Sep-92	9.75	3.00	675	44
May-00	Jun-03	6.50	1.00	550	38
Jun-06	Dec-08	5.25	0.25	500	31
Dec-18	Mar-20	2.50	0.25	225	15

Source: Bloomberg, Emirates NBD Research

Elsewhere the ECB elected to keep the deposit facility rate unchanged at 3.75% when it met on July 18. The committee highlighted that there was no pre-committed path for interest rates and that each rate decision would be data dependent. The ECB next meets in September, with Christine Lagarde suggesting that the outcome of that meeting remained “wide open”. Markets are currently pricing in an 80% chance of a rate cut in September.

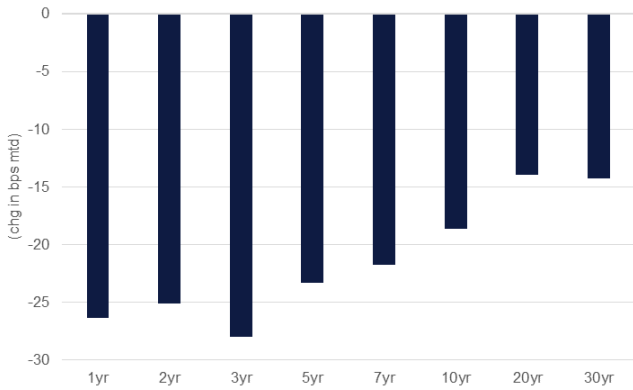
### Bond markets extend gains in July

Global bond markets were on track for another positive monthly return in July, helped by a substantial drop in US Treasury yields. Markets have begun to price in a “Trump trade” following the presidential debate at the end of June and an assassination attempt on the former president mid-way through July.

Yields on the front end of the curve have come off sharply while the longer end has also nudged lower, but by nowhere to the same degree. The bear steepening in the UST curve—the 2s10s spread has moved from -43bps at the end of June to less than -30bps now—is predicated on the idea that a Trump administration would adopt policies that could risk inflation reigniting and thus prevent the Fed from cutting rates rapidly.

There has been some unwinding of the “Trump trade” in the final weeks of July as markets look to the withdrawal of US president Joe Biden from the election and more uncertainty who will stand as the Democratic candidate. A global IT outage in mid-July also has impacted the near-term trajectory for Treasuries with yields ticking up slightly as markets struggled for pricing and trading.

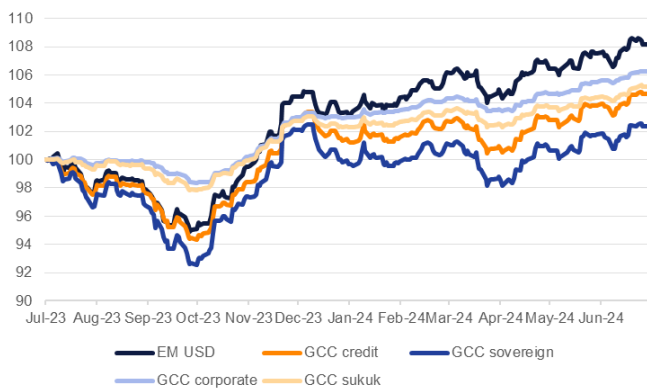
### Trump trade takes hold of Treasuries



Source: Bloomberg, Emirates NBD Research.

Regional credit has also had a positive month though gains in GCC bonds continue to lag those across the wider emerging market USD-denominated space. Overall GCC credit has rallied about 0.9% month-to-date, shy of the near 1% gain for broader EM bonds.

### GCC credit 1yr performance



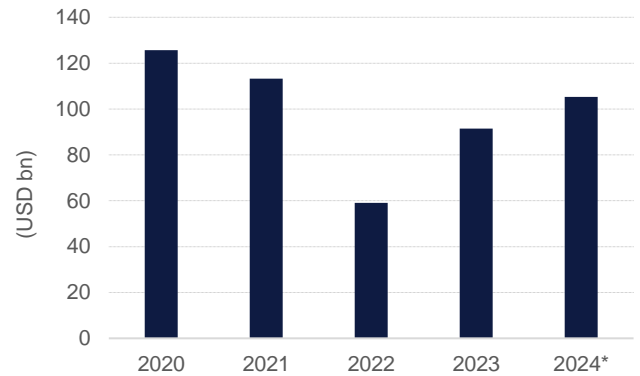
Source: Bloomberg, Emirates NBD Research.

Major issuances from the GCC this month have included:

- Saudi Aramco
  - 10yr T+105 USD 2bn
  - 30yr T+145 USD 2bn
  - 40yr T+155 USD 2bn
- MASDAR
  - 5yr 4.875% USD 500m green
  - 10yr 5.25% USD 500m green
- Sharjah (sov)
  - 6.5yr MS+190 EUR 500m sustainable
- FAB

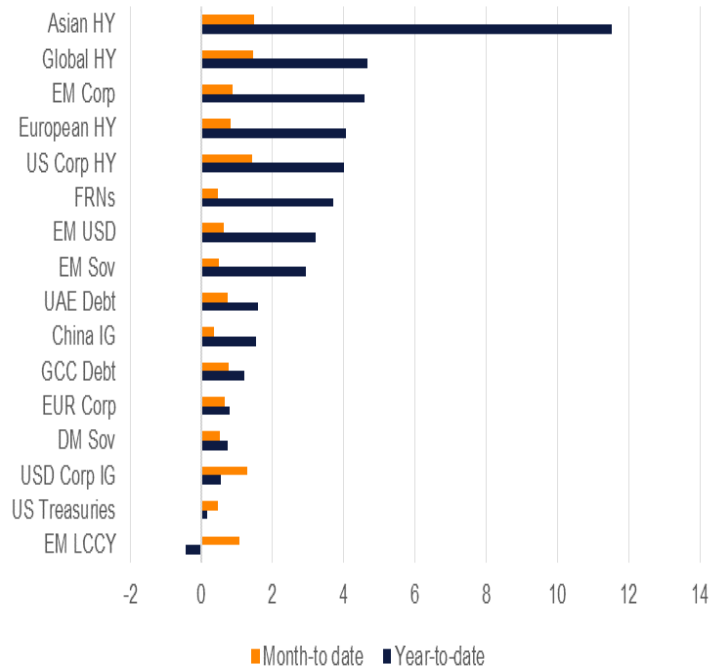
- 5yr SOFR+105 USD 800m green Formosa
- RAK Bank
  - 5yr T+135 USD 600m social

### GCC total issuance year-to-date



Source: Bloomberg, Emirates NBD Research.

### Selected FI index performance



Source: Bloomberg, Emirates NBD Research.

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