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Market Weekly Insights

21st October 2024

Global Outlook

S&P 500	$5,864.67	+0.40%
DJIA	$43,275.91	+0.09%
NASDAQ	$18,489.55	+0.63%
Russell 2000	$2,276.09	-0.21%
FTSE 100	$8,358.25	-0.32%
Nikkei 225	$38,820.26	-0.41%
WTI Crude	$69.43	+0.30%
10-yr Treasury	4.09%	

South Korea's Central Bank Cuts Interest Rates for First Time in Four Years

Amid cooling inflation and slowing economic growth, South Korea's central bank delivered its first rate cut in over four years, lowering the benchmark rate from 3.50% to 3.25%. This decision aligns with a global shift toward monetary easing to reinforce economic stability following the U.S. Federal Reserve's decision to cut rates at their September meeting.

The rate cut comes as inflation reached a 43-month low of 1.6%, well below the central bank's 2% target, providing ample space for policymakers to act. Export growth, a key driver of the South Korean economy, has shown signs of weakening, with shipments slowing to 7.5% in September, down from 12% the previous month.

Bank Of Korea Governor Rhee Chang-yong indicated that while the cut was not unanimous, gradual easing could continue, with rates possibly reaching 2.5%-2.75% by the end of 2025. The central bank remains cautious to avoid financial instability, such as surges in mortgage lending and home prices. However, the bank has committed no further action to close out 2024, with most board members voicing their support to hold rates steady until the new year, as their economy remains healthy due to strong demand in key sectors.

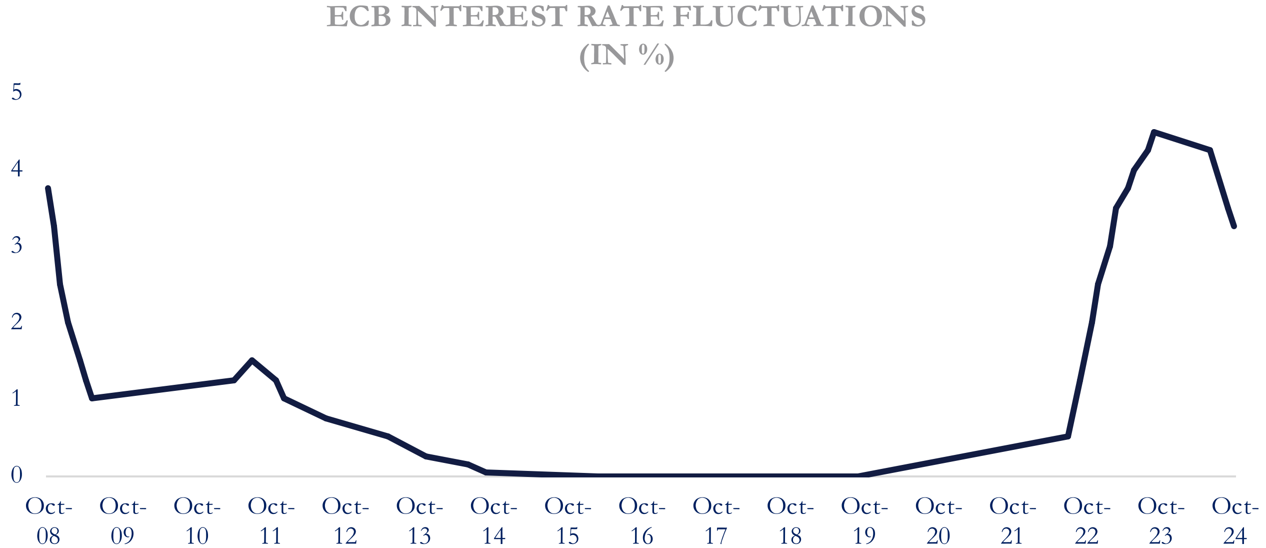
European Central Bank Lowers Interest Rates to 3.25%

The European Central Bank cut its key interest rate by 25 basis points to 3.25% on Thursday, citing weaker inflation and growing concerns over the Eurozone's economic outlook. The move marks the second rate reduction in just five weeks as the ECB attempts to balance slowing inflation with the need to stimulate growth.

Inflation in the Eurozone fell to 1.7% in September, dipping below the ECB's 2% target for the first time in over three years. The central bank's decision comes amid declining industrial activity, reduced consumer spending, and rising external challenges, which have raised fears of a potential recession. ECB President Christine Lagarde explained that the bank chose a more cautious rate cut to avoid the risk of deeper economic contraction. "We aim to ease monetary conditions gradually, ensuring we stabilize inflation while fostering growth," Lagarde said. Economists expect more rate cuts ahead, with many predicting further easing at the ECB's final meeting in December.

Sources: Wall Street Journal, Financial Times

The central bank's measured approach reflects concerns about inflation undershooting its target and the fragile state of the Eurozone's economy. Thursday's decision underscores the ECB's focus on averting a prolonged economic downturn as it carefully navigates the complex landscape of slowing growth and waning inflation pressures.



America This Week

U.S. Pursues Congo Cobalt to Diversity Supply Chains

The Biden administration has been working to secure U.S. access to critical minerals, particularly cobalt, a key component in electric vehicle batteries and military applications. Recent talks to acquire Chemaf, a major Congolese cobalt producer, highlight the push to diversify supply chains away from China, which dominates the cobalt market. Chemaf's operations in the Democratic Republic of Congo, where nearly 75% of the world's cobalt is produced, offer significant potential output but also come with challenges like substantial debt and complex local business conditions.

The administration has pledged billions in infrastructure investments across Africa to facilitate mineral access. These initiatives aim to strengthen mineral supply chains while boosting regional economic growth, potentially making investment more attractive for U.S. companies by addressing logistical bottlenecks.

However, economic hurdles persist, including low cobalt prices and substantial debts, which complicate potential deals. Further, U.S. investors have called for financial backing, legal safeguards, and protections against sudden tax hikes to mitigate investment risks. The administration's efforts to diversify away from Chinese mineral control and develop sustainable supply chains could help secure critical minerals for U.S. industries while fostering economic stability in resource-rich regions like Congo.

Hurricane Milton's Ripple Effect on Key Sectors

Hurricane Milton, a Category 3 storm that weakened to Category 1, caused billions of dollars of severe destruction in Florida, triggering tornadoes and power outages for nearly 3 million residents. The storm's impact is expected to reduce Q4 U.S. GDP growth by 0.2 to 0.4 percentage points and Florida's state product by 3 to 4 points. About 2.8% of the U.S. Gross Domestic Product lies in the path of Hurricane Milton.

Sources: Wall Street Journal, New York Times

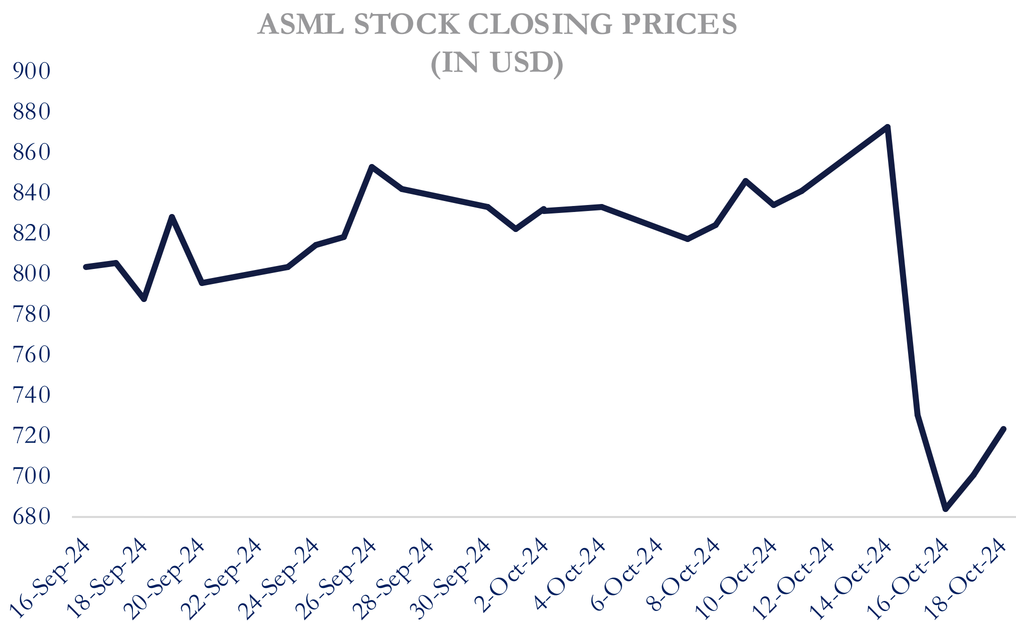
Key sectors, including tourism, construction, retail, and energy, will face disruptions, with the Gulf's oil operations potentially slowing. Labor market data will likely be distorted, complicating the Federal Reserve's decision-making as it balances storm-related anomalies with broader economic trends. The Fed is still expected to cut interest rates by 0.25% in November, but weaker labor indicators may prompt further cuts. High shelter costs remain a concern, impacting voter sentiment.

Semiconductor and AI Stocks Fall After ASML Sales Forecast Cut, Potential US AI chip Export Cap

Semiconductor stocks in the United States and Asia fell after chip equipment maker ASML cut its annual sales forecast over weak non-AI chip demand. A report said the Biden administration was considering capping sales of advanced artificial intelligence processors to some countries.

AI chip giant Nvidia's stock dropped 4.5%, wiping out about $158 billion from its market cap. Other chip manufacturers like AMD, Intel, ARM, Broadcom, and Micro fell between 3.2% and 5%, which caused a ripple effect on NASDAQ. ASML closed 16% lower after the company published reports of weak bookings, a lowering of the forecast for 2025, and a slowing chip demand recovery outside the AI sector.

On Monday, there were reports that U.S. officials are considering implementing an export cap for AI chips to specific countries—mostly in the Persian Gulf region—citing national security concerns. The White House is increasingly concerned that the Middle East conflicts might serve as a channel for China to acquire advanced American chips that are prohibited from being directly shipped to the Asian country.



Macro Highlights

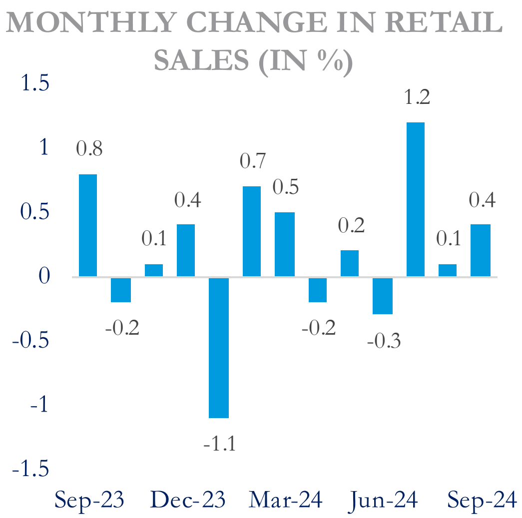
Retail Sales Rose 0.4% in September

Retail sales rose by a seasonally adjusted 0.4% in September, up from August's 0.1% increase and surpassing the 0.3% forecast by Dow Jones. Excluding autos, sales grew by 0.5%. The figures reflect steady consumer spending despite broader economic uncertainties.

Sources: New York Times, Investing.com, CNBC

Meanwhile, initial unemployment claims fell by 19,000 to a seasonally adjusted 241,000, beating expectations of 260,000. The drop suggests that the labor market remains resilient, even after signs of cooling during the summer months.

Sales growth was strongest among miscellaneous store retailers, up 4.5%, followed by gains of 1.5% at clothing stores and 1% at bars and restaurants. Retail sales grew by 1.7% yearly, though still lagging the Consumer Price Index's 2.4% gain over the same period. The data follows the Federal Reserve's recent rate cut by 50 basis points, part of ongoing efforts to engineer a "soft landing" and bring inflation closer to the Fed's 2% target. Despite solid payroll growth in September, some concerns linger that the labor market may weaken in the coming months.



Dollar Hits Two-Month Highs on Fed Rate Cut Expectations

The U.S. dollar continued its climb this past week, reaching over two-month highs as expectations of future Federal Reserve interest rate cuts strengthened. A brief dip in the dollar due to reduced tensions in the Middle East, which temporarily eased inflationary pressures, was quickly reversed as optimism about U.S. economic resilience took hold.

Analysts are now nearly certain of a 25-basis point Fed rate cut in November, down from earlier predictions of a 50-basis point cut. This shift aligns with steady U.S. economic growth and controlled inflation.

Geopolitical uncertainty surrounding the upcoming U.S. elections and former President Trump's rise in betting markets also bolstered the dollar's strength. In contrast, the yen regained some ground against the dollar amid Japan's central bank actions, while both the pound and euro struggled, with the euro hitting its lowest point since August.

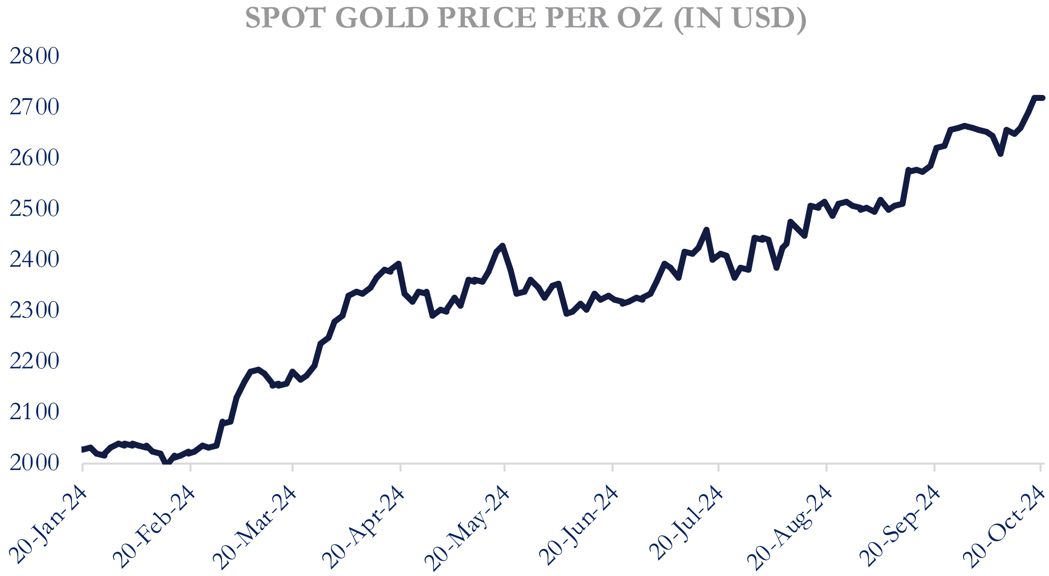
Gold Surges Past $2,700 Amid Geopolitical Tensions and Economic Uncertainty

Gold has surged past the $2,700 per ounce mark for the first time, driven by escalating geopolitical tensions in the Middle East and global economic uncertainty. The conflict between Israel and Hezbollah and expectations of looser monetary policies have fueled a rush to safe-haven assets like gold. Gold has gained over 30% this year, marking its strongest annual rise since 1979.

Traders are also eyeing potential interest rate cuts from the European Central Bank and the Federal Reserve, further boosting gold's appeal, as the metal tends to thrive in a low-rate environment. Geopolitical instability and the upcoming U.S. presidential election adding to market volatility remain key drivers for continued price increases. Analysts, including Max Layton from Citi, predict gold could hit $3,000 per ounce within the next 6-12 months, especially with the Federal Reserve expected to lower rates as soon as November.

Other precious metals, including silver, platinum, and palladium, have also seen significant gains, benefiting from similar safe-haven demand and expectations of monetary easing.

Sources: CNBC, Reuters



Industry News

Goldman Sachs Posts $3 Billion Q3 Profit, Surpassing Expectations

Investment banking revenue grew by 20% to $1.87 billion, driven by debt and equity underwriting. Goldman, along with peers like JPMorgan Chase, Morgan Stanley, Bank of America, and Citigroup, saw a resurgence in dealmaking and trading activities. JPMorgan's investment banking revenue rose 31%, while Citigroup's grew 44%, signaling pent-up client demand.

Goldman Sachs reported a $3 billion profit for Q3, benefiting from lower interest rates, a stable economy, and a strategic refocus on its core businesses—dealmaking, trading, and wealth management. This jump surpassed Wall Street expectations, with $13 billion in revenue—over $1 billion more than projected, despite a challenging M&A environment and stronger-than-expected trading activity in September, aided by the Federal Reserve's interest rate cut.

However, Goldman faces challenges from its exit from consumer lending, with a $415 million pretax loss this quarter. The bank is also winding down partnerships with GM and potentially Apple, which could lead to further losses. Despite this, CEO David Solomon remains optimistic, noting renewed client interest and expectations for more robust economic conditions ahead.

AWS Invests $500 Million in Nuclear Power to Meet Energy Demand

Amazon Web Services (AWS) is investing over $500 million in nuclear energy to support its cloud computing and generative AI services. AWS announced two new nuclear projects, partnering with Dominion Energy in Virginia and Energy Northwest in Washington State to develop small modular reactors (SMRs). This advanced atomic reactor produces no carbon emissions and can be built faster and closer to the grid than traditional reactors.

AWS and Dominion Energy plan to construct an SMR near the North Anna nuclear station in Virginia. The SMR is expected to generate at least 300 megawatts to support the region's infrastructure. AWS also partnered with Energy Northwest to fund and develop four SMRs in Washington State, with an option to expand to 12 reactors. These reactors will supply power to the grid, benefiting Amazon and public utilities. Additionally, AWS's Climate Pledge Fund led a $500 million financing round for X-energy, a developer of SMR technology, reinforcing its commitment to sustainability.

Sources: Reuters, Wall Street Journal, NBC

GM Invests $625 Million in Nevada Lithium Project to Boost EV Supply Chain

General Motors (GM) has committed $625 million to a joint venture with Lithium Americas Corp., targeting the Thacker Pass lithium project in Nevada. This collaboration aims to secure a domestic lithium supply, a key element in electric vehicle (EV) batteries, supporting GM's goal to profitably scale its EV business and meet federal requirements for production incentives. The investment replaces a previous equity plan, giving GM a 38% stake in Thacker Pass, and includes $330 million in cash, $100 million linked to project milestones, and a $195 million credit facility.

The partnership highlights the automaker's effort to build a resilient U.S. supply chain for critical EV materials amid tightening global markets and rising demand. Domestic lithium production could mitigate cost volatility, lower import dependency, and align with U.S. initiatives promoting localized mineral sourcing.

Lithium Americas saw its stock surge by 23% following the announcement, reflecting market optimism in strengthening the domestic supply chain for EV components. However, the project faces some opposition due to environmental and local community concerns. Nevertheless, this investment illustrates GM's commitment to securing crucial raw materials and advancing U.S. EV manufacturing capabilities amidst a larger shift from American auto manufacturers to secure vital resources for a transition to electric vehicles.

U.S. Industrial Real Estate Faces 10-Year High in Vacancy as Leasing Activity Slows

According to a Savills report, the U.S. industrial real estate market is experiencing a marked shift, with vacancy rates hitting a 10-year high of 7.4% in the third quarter. This represents a 350-basis point increase from two years ago, signaling a cooldown in the once-thriving sector. Net absorption has dropped to 30 million square feet, the lowest since 2016, reflecting a significant slowdown in leasing activity.

Developers have responded to the pandemic-driven demand surge by adding substantial warehouse space, leading to a plateau in rental growth. Nationally, rents have remained flat, with some areas seeing slight declines. A key factor contributing to the elevated vacancy rate is the increase in sublease space, which reached a record 198.7 million square feet, up 45% year-over-year.

Regionally, markets such as Northern New Jersey and Chicago are seeing notable rises in vacancy, while Los Angeles and Inland Empire have experienced negative absorption for multiple quarters. While industrial leasing may rebound post-election, sublease space growth is slowing, and manufacturing remains strong, particularly in clean energy projects. However, job announcements in manufacturing have decelerated this year.

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Sources: NBC, CNBC, Yahoo Finance