

1 July 2024

Global Markets Research

Daily Market Highlights

1 July: Lower close for US equities, bonds and the USD

No surprises from US core PCE prices; personal income and spending remained sturdy

GBP strengthened ahead of UK election; upward revision in UK's 1Q GDP due to consumers spending

China's manufacturing PMI still contractionary; slower growth in services

- Wall Street ended the last trading day of June on a less than bullish note, as both the equity and bond markets, as well as DXY all closed in red. In the equity markets, the 3 major indices lost 0.1-0.7% d/d, although the tech-laden Nasdaq remained traded near its all-time high. Much of the weaknesses were in the communication services and consumer discretionary stocks, the latter after Nike shares tumbled 20.0% d/d after reporting an unexpected sales decline and issued a gloomy outlook. The S&P 500 traded higher following the release of PCE-price inflation, but subsequently lost its lustre throughout the day.
- Similarly, Stoxx Eur 600 also closed 0.2% d/d lower, with French stocks underperforming again ahead of its elections, while sentiment towards consumer stocks was knocked by negative news from Nike, as well as L'Oreal. Asian markets mostly climbed after the string of positive economic data from Japan.
- The long-end UST underperformed in a bear steepener, sending yields up 4bps to 4.75% for the 2Y, and the 10Y yields gaining 11bps to 4.40%. With the exception of the Swedish sovereign bonds, 10Y European bond yields were higher 1-5bps.
- DXY traded within 105.75-106.13 before settling in the middle at 105.87, just below the flatline. The Dollar weakened against all its G10 peers save the CHF, NOK and JPY, the latter weakening to a fresh 38Y low of 161.26 before closing at 160.88 (-0.1% d/d). EUR and GBP traded in tight ranges and closed just 0.1% d/d stronger ahead of their general elections. Similarly, the greenback weakened against all the regional currencies save for the MYR, which closed flat at 4.7175.
- Crude oil prices closed little change (-0.2 to 0% d/d) and remained stuck in a narrow range amidst increasing US supplies, while the rising conflict in the Middle East put a floor to prices.

No surprises from US PCE inflation; disinflation will face headwinds from sticky services spending and stronger wage growth

- May's soft inflation and still sturdy spending data will be a welcome news for the Fed. While we expect some additional improvements on the inflation front, the pace may likely be slow as sticky core-services spending and higher wage growth create tailwinds for inflation in 2H. There is also no change in our expectations that the Fed will most likely deliver one cut in policy rates by the end of 2024.
- Matching expectations, both headline and core PCE inflation eased to its lowest this year to 2.6% y/y in May (Apr: 2.7% y/y and 2.8% y/y), largely due to decline in gasoline prices and from the drag in durable goods prices. Accompanying data also showed that personal income and spending growth

Key Market Metrics

	Level	d/d (%)
Equities		
Dow Jones	39,118.86	-0.12
S&P 500	5,460.48	-0.41
NASDAQ	17,732.60	-0.71
Stoxx Eur 600	511.42	-0.23
FTSE 100	8,164.12	-0.19
Nikkei 225	39,583.08	0.61
CSI 300	3,461.66	0.22
Hang Seng	17,718.61	0.01
Straits Times	3,332.80	-0.32
KLCI 30	1,590.09	0.32
FX		
Dollar Index	105.87	-0.04
EUR/USD	1.0713	0.08
GBP/USD	1.2645	0.05
USD/JPY	160.88	0.07
AUD/USD	0.6670	0.35
USD/CNH	7.2993	-0.06
USD/MYR	4.7175	0.00
USD/SGD	1.3560	-0.18
Commodities		
WTI (\$/bbl)	81.54	-0.24
Brent (\$/bbl)	86.41	0.02
Gold (\$/oz)	2,339.60	0.13
Copper (\$\$/MT)	9,599.00	0.88
Aluminum(\$/MT)	2,524.50	1.28
CPO (RM/tonne)	3,947.50	-0.10

Source: Bloomberg, HLBB Global Markets Research

* Dated as of 27 June

accelerated to +0.5% m/m and +0.2% m/m for the month (Apr: +0.3% m/m and +0.1% m/m), with the former driven by a strong 0.7% m/m growth in salaries and wages (Apr: +0.2% m/m), and the latter due to services spending in health care, housing and air transportation.

- Consumer sentiment also largely held steady. The University of Michigan Sentiment index was revised upwards 2.6ppts to 68.2 in June, a slight moderation from May's 69.1 but was about 36% above the trough seen in June 2022. While consumers are confident that inflation will continue to moderate, many are worried about the effect of high prices and weakening incomes on their personal finances. Year-ahead inflation expectations fell to 3.0% (May: 3.3%), while long-run inflation expectations remained stable at 3.0% for the third consecutive month.
- Regional performances were also positive. Services growth moderated slightly in Kansas City for the month of June (2 vs 11), while expectations for the next six months grew at a steady pace. The m/m indices were mixed, with declines recorded for the transportation and healthcare sectors. On the other hand, the Chicago Business Barometer jumped more than expected by 47.4 in June (May: 35.4), its first monthly gain in 7 months and its highest reading since November 2023.

1Y ECB's inflation expectations moderated to is lowest since 2021

- Matching expectations, May's median expectations for inflation over the next 12 months edged down to its lowest since September 2021 at 2.8% (Apr: 2.9%), while median expectations for 3 years ahead eased to 2.3% unexpectedly (Apr: 2.4%). These reinforced hopes that the disinflation trend will persist, and allowing the central bank to lower its policy rates further in 2H.

Upward revision in UK's 1Q GDP due to consumers

- The UK economy grew at a faster pace than initially estimated in 1Q (+0.7% q/q vs -0.3% q/q), following two consecutive quarters of negative growth. On the demand side, the upward revision reflects faster consumer spending (+0.2ppts to +0.4% q/q vs -0.1% q/q), driven by recreation and culture, housing as well as food and non-alcoholic drink, while on the supply side, services output increased for the first time since 1Q of 2023 at +0.8% q/q (4Q: -0.1% q/q), largely in line with the stronger consumer spending recorded during the quarter and with 10 out of 14 subsectors recording growths. This data will be a boost to Prime Minister Rishi Sunak's argument that the economy has turned the corner just before the election this week, but may also make BOE more concerned about lingering inflationary pressure and potentially delaying its first rate cut later this year.

Slower lending growth in Australia

- Two negative prints from Australia. Private sector credit unexpectedly slowed to +0.4% m/m in May, easing from 0.5% m/m in April, a sign that households may be restraining their discretionary expenditure as the elevated inflation and interest rates weigh on real incomes. Housing and business credit eased to 0.4% m/m each (Apr: +0.5% m/m and +0.6% m/m), while personal credit fell 0.1% m/m (Apr: +0.2% m/m). Meanwhile, the final Judo Bank Manufacturing PMI was revised downwards 0.3ppts to 47.2 in June (May: 49.7). While this is the lowest reading in 3 months, the index has largely fluctuated between 45 and 50 since October 2023, indicating a sustained but not worsening contraction amidst ongoing cost-of-living pressures.

Japan's business sentiment rose for the first time in 6 months

- Business sentiment amongst large manufacturers improved modestly for the first time in 6 months, with the Tankan Large Manufacturing index unexpectedly rising to 13 in 2Q from 11 the previous quarter. The latest data reflected resilience in the sector and included a strong capital investment projected for FY 2024 at +18.4% y/y (FY23: +11.1%).

Steady but contractionary China's manufacturing PMI; services and construction sector weakened

- Matching expectations, the official manufacturing PMI was unchanged at 49.5 in June, while the non-manufacturing PMI unexpectedly fell to 50.5 (May: 51.1). The former marks the second month of contraction, while the retreat for non-manufacturing was due to both construction (52.3 vs 54.4) and services activities (50.2 vs 50.5). As it is, June's PMIs showed that the economic recovery continues to struggle, as weak confidence continued to hurt demand. Despite the steady headline reading on manufacturing, details also showed that both supply and forward-looking demand side indicators remained soft. We are also concerned over the sharp slowdown in the construction, suggesting that government-backed infrastructure spending, a key support to the recovery, continues to lose steam.

Vietnam's 2Q GDP grew a strong 6.9% y/y driven by trade and FDI

- Vietnam's economy grew 6.9% y/y in 2Q, it's quickest since 3Q of 2022, faster than all estimates and an uptick from 1Q's +5.7% y/y. This brings 1H growth to 6.4% y/y, with the economy largely buoyed by robust exports and foreign direct investment. Rising inflation, nonetheless, remains a challenge. CPI for June was elevated at 4.3% y/y (May: 4.4% y/y) and neared the government's inflation target ceiling of 4.5% for the year, partially due to temporary factors like higher pork prices due to the African swine fever outbreaks but also driven by higher medical costs, imported inflation and the government's decision to raise base salaries for state employees and pensions for retirees. As such, amidst stronger growth and inflationary pressures, we believe that there's more than an even chance that the central bank will most likely keep policy rates unchanged for the whole of 2024.

House View and Forecasts

FX	This Week	2Q-24	3Q-24	4Q-24	1Q-25
DXY	104-107	105.43	105.56	103.45	101.38
EUR/USD	1.05-1.09	1.06	1.05	1.06	1.06
GBP/USD	1.25-1.28	1.24	1.22	1.23	1.24
USD/JPY	157-163	152	149	146	143
AUD/USD	0.65-0.68	0.65	0.65	0.65	0.66
USD/MYR	4.69-4.74	4.73	4.68	4.64	4.57
USD/SGD	1.34-1.37	1.35	1.35	1.34	1.33

Rates, %	Current	2Q-24	3Q-24	4Q-24	1Q-25
Fed	5.25-5.50	5.25-5.50	5.25-5.50	5.00-5.25	4.50-4.75
ECB	4.25	4.25	3.75	3.50	3.50
BOE	5.25	5.25	4.75	4.50	4.50
BOJ	0 - 0.10	0 - 0.10	0 - 0.10	0 - 0.10	0 - 0.10
RBA	4.35	4.35	4.35	4.10	4.10
BNM	3.00	3.00	3.00	3.00	3.00

Source: HLBB Global Markets Research

Up Next

Date	Events	Prior
1-July	JN Jibun Bank Japan PMI Mfg (Jun F)	50.1
	MA S&P Global Malaysia PMI Mfg (Jun)	50.2
	VN S&P Global Vietnam PMI Mfg (Jun)	50.3
	AU Melbourne Institute Inflation YoY (Jun)	3.10%
	AU Retail Sales MoM (May)	0.10%
	CH Caixin China PMI Mfg (Jun)	51.7
	UK Nationwide House Px NSA YoY (Jun)	1.30%
	EC HCOB Eurozone Manufacturing PMI (Jun F)	45.6
	UK Mortgage Approvals (May)	61.1k
	UK S&P Global UK Manufacturing PMI (Jun F)	51.4
	US S&P Global US Manufacturing PMI (Jun F)	51.7
	US ISM Manufacturing (Jun)	48.7
	2-July	AU RBA Minutes of June Policy Meeting
HK Retail Sales Value YoY (May)		-14.70%
EC CPI Core YoY (Jun P)		2.90%
EC Unemployment Rate (May)		6.40%
SI Purchasing Managers Index (Jun)		50.6
US JOLTS Job Openings (May)		8059k

Source: Bloomberg

Hong Leong Bank Berhad

Fixed Income & Economic Research, Global
Markets
Level 8, Hong Leong Tower
6, Jalan Damanlela
Bukit Damansara
50490 Kuala Lumpur
Tel: 603-2081 1221
Fax: 603-2081 8936

HLMarkets@hlbb.hongleong.com.my

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