

2 July 2024

Global Markets Research
Daily Market Highlights

2 July: All eyes on the RBA minutes for rates outlook

US markets started July on a mixed note; equities rallied, sell-off in Treasuries, DXY held steady

US manufacturing ISM fell; Caixin China Manufacturing PMI rose to its highest since May 2021

EUR strengthened after first round of elections and hawkish speak from President Lagarde

- US markets started July on a mixed note, with the equity markets rallying, Treasuries selling off and the DXY largely holding steady. In the equity markets, the tech-heavy Nasdaq climbed 0.8% d/d to another record, the S&P 500 added 0.3% d/d, while the Dow Jones Industrial Average ticked 0.1% d/d higher. Building on its 1H enthusiasm over AI, the technology and information communication sector again led the rally in stocks, while some spillovers from the positive sentiment in the European markets after France's first round election also added to support. Market's next leg up, if any, could nonetheless be a bumpier ride given the upcoming quarterly earnings seasons amidst a softer economic and labour backdrop.
- European markets reacted positively to the sharp upswing in votes for the National Rally party, sending Stoxx Eur 600 and France's CAC 40 up 0.3% d/d and 1.1% d/d respectively. Asian markets closed mixed amidst mixed prints from China's PMIs to Japan's business confidence.
- Meanwhile, the weaker ISM-manufacturing reading was overlooked in the Treasuries and forex markets. UST yields surged led by the long-end in a bear steepener. The 2Y yield closed just above the flatline at 4.76%, while the 10Y climbed 7bps to 4.45%. 10Y European bond yields also closed up between 3-11bps.
- DXY closed just above the flatline at 105.90, with the Dollar closing mixed in tune to +/-0.4% d/d against its G10 peers. EUR strengthened 0.3% d/d against USD as results from the first round of the elections eased investors' concerns and after a hawkish note from ECB President Christine Lagarde. She commented that the central bank has yet to see sufficient evidence that inflation threats have passed, feeding expectations that the ECB will maintain status quo this month. Regional currencies mostly weakened against the Dollar save for the IDR and MYR (+0.1% d/d to 4.7137).
- Crude oil prices rallied 0.2-2.3% d/d, supported by twin factors of mounting geopolitical risks in Europe and the Middle East, and as Hurricane Beryl intensified in the Caribbean, potentially disrupting US oil operations in the Gulf of Mexico.

Slightly less positive S&P manufacturing PMIs for the majors; improvement for the regionals

- The S&P Global US Manufacturing PMI remained at its 3-month high of 51.6 in June, although revised slightly lower by 0.1ppts (May: 51.3). Although the PMI has now been in positive territory in for 5 months in 2024, manufacturers are reportedly struggling to gain growth momentum, hit by a double whammy of tempered spending power and demand switching from goods to services post-pandemic. These headwinds are expected to persist, with heightened policy uncertainty due to the presidential election and extra headwind to confidence

Key Market Metrics

	Level	d/d (%)
Equities		
Dow Jones	39,169.52	0.13
S&P 500	5,475.09	0.27
NASDAQ	17,879.30	0.83
Stoxx Eur 600	513.04	0.32
FTSE 100	8,166.76	0.03
Nikkei 225	39,631.06	0.12
CSI 300	3,478.18	0.48
Hang Seng	17,718.61	0.01
Straits Times	3,338.57	0.17
KLCI 30	1,598.20	0.51
FX		
Dollar Index	105.90	0.03
EUR/USD	1.0740	0.25
GBP/USD	1.2650	0.04
USD/JPY	161.46	0.36
AUD/USD	0.6660	-0.15
USD/CNH	7.3052	0.08
USD/MYR	4.7137	-0.08
USD/SGD	1.3576	0.12
Commodities		
WTI (\$/bbl)	83.38	2.26
Brent (\$/bbl)	86.60	0.22
Gold (\$/oz)	2,338.90	-0.03
Copper (\$\$/MT)	9,630.00	0.32
Aluminum(\$/MT)	2,515.50	-0.36
CPO (RM/tonne)	3,995.50	1.22

Source: Bloomberg, HLBB Global Markets Research

* Dated as of 28 June

in the sector, and this is reflected by the slide in business sentiment to its 19-month low.

- Although the HCOB Eurozone Manufacturing PMI was revised up 0.2ppts to 45.8 in June (May: 47.3), it has fallen for the fourth time in the past 5 months. With forward-looking new orders falling at an accelerated pace, this signals any significant recovery will likely be pushed back until at least the end of the summer. On a positive note, an increasing number of companies were able to pass on some of the increase in input costs to their clients, suggesting some pricing power amongst sellers and a sign that conditions are starting to improve.
- The S&P Global UK Manufacturing PMI stood at 50.9 in June, down slightly from May's 22-month high of 51.2 and below its flash estimate of 51.4. The expansion was broad-based and is at its strongest spell for over two years. June saw robust output and new order growth supported by the domestic markets but on a negative note, manufacturers' optimism was reportedly not sufficient to lessen their focus on cost minimisation and cash flow protection, potentially signalling job losses ahead.
- The final Jibun Bank Japan Manufacturing PMI remains expansionary, although revised down 0.1ppts to 50.0 in June (May: 50.4). The headline was supported by sustained job creation, the clearing of backlogs and stock-building efforts as well as the strongest business sentiment YTD, but demand conditions remained subdued suggesting a still fragile recovery.
- The Caixin China Manufacturing PMI unexpectedly rose to 51.8 in June (May: 51.7), its highest since May 2021 and is in contrast to the official's contractionary trend. S&P reported growing domestic and external demand, manufacturers ramping up purchases, easing contraction in employment for China but optimism fell by a notable margin, suggesting that business confidence needs to be strengthened to cement a solid recovery for the sector.
- Malaysia's manufacturing sector remained largely stable in June at 49.9 (May: 50.2), an improvement overall on a q/q basis and one to be supported by a recovery in export growth in 2H. Business confidence, nonetheless, slipped to a 10-month low, suggesting a recovery that may be tepid and potentially weighed down by concerns over subsidy rationalisation measures.
- The S&P Global Vietnam Manufacturing PMI rose sharply to 54.7 in June (May: 50.3), the joint-strongest since November 2018, April 2021 and May 2022 respectively as new orders rose at one of the fastest rates on record. This prompted firms to ramp up production, purchasing activity and increase staffing levels for the first time in three months. The uptick is not surprising given the strong exports data, driven by strong demand for smartphones, electronics and garments, which has largely supported the economy in 1H.

US ISM in the contraction zone for the third month

- The Manufacturing ISM unexpectedly fell to 48.5 in June from 48.7 in May, suggesting that manufacturing activity continued to struggle to regain momentum amidst elevated borrowing costs, subdued demand and as companies were unwilling to invest in capital and inventory due to current monetary policy and other conditions. Subdued demand was reflected in new orders (49.3 vs 45.4), new export orders and backlog of orders all in contraction territory, putting a constrain on employment (49.3 vs 51.1) as well as on prices (52.1 vs 57.0).

Subdued housing activity in the UK

- The second consecutive drop in mortgage approvals continued to show how

elevated mortgage rates are weighing on affordability. While housing activity has remained fairly subdued so far, it is nonetheless expected to pick up in the later half of the year in anticipation of a drop in interest rates and higher real disposable incomes. Mortgage approvals fell more than expected to 60.0k in May (Apr: 60.8k) while separate data from Nationwide showed that home prices slowed to +0.2% m/m in June from +0.4% m/m previously. The latter, is nonetheless, above street forecasts for a contraction.

Australia's inflation gauge picked up slightly

- Melbourne Institute's inflation gauge picked up slightly to 3.2% y/y in June (May: 3.1% y/y), heightening inflation concerns as well as tighter rate pressures. As it is, recent information continues to point to a broadly moderating trend for prices, although more slowly than expected due to services and as such, the Reserve Bank of Australia will most likely keep its cash rate target unchanged at 4.35% in their next meeting.

Japan's consumer confidence relatively steady after May's dip

- Matching expectations, consumer confidence largely held steady and inched up 0.2ppts to 36.4 in June as upticks in consumer perceptions on income and willingness to buy durable goods were offset by retreats in employment and livelihood sub-indices. The slight increase in June's confidence comes after sharp deterioration previously, suggesting that sentiment and spending remains dampened by upside risks to prices.

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
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
3-July	US JOLTS Job Openings (May)	8059k
	AU Judo Bank Australia PMI Services (Jun F)	51
	JN Jibun Bank Japan PMI Services (Jun F)	49.8
	SI S&P Global Singapore PMI (Jun)	54.2
	AU Private Sector Houses MoM (May)	-1.60%
	CH Caixin China PMI Services (Jun)	54

EC HCOB Eurozone Services PMI (Jun F)	52.6
UK S&P Global UK Services PMI (Jun F)	51.2
EC PPI YoY (May)	-5.70%
US MBA Mortgage Applications	-0.80%
US ADP Employment Change (Jun)	152k
US Trade Balance (May)	-\$74.6b
US Initial Jobless Claims	233k
US S&P Global US Services PMI (Jun F)	55.1
US Factory Orders (May)	0.70%
US ISM Services Index (Jun)	53.8

Source: Bloomberg

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