HongLeong Bank

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## Global Markets Research

## Daily Market Highlights

# 4 July: Softer US data spurred rate cut bets despite hawkish FOMC minutes

### FOMC: Need greater confidence of disinflation before cutting rates; current policy stance is restrictive

### Weaker than expected US job indicators and ISM services sent Treasury yields and DXY lower

### Upward revisions to S&P services PMIs for the majors, but no change to broadly moderating trend

- The S&P 500 rose to new highs, adding 0.5% d/d in a shortened trading session, as gains came after fresh job data reinforced investors' expectations that the labour market is gradually coiling and that the Fed can begin cutting rates starting in September. As it is, futures are pencilling a 70% probability of a slightly less than 1 full rate cut during that meeting and 73% probability of close to 2 rate cuts by end-2024. Nasdaq also ended the day 0.9% d/d higher as Tesla rallied another 6.5% d/d, but the Dow lost 0.1% d/d. Trading volume was nonetheless, slightly muted with the NYSE closing early and will be shut on Thursday for Independence Day.
- After a negative performance last week, Stoxx Eur 600 closed 0.8% d/d higher on Wednesday, but sentiment remains on edge ahead of two major elections. Most sectors traded in the green led by mining stocks. Asian markets also mostly rose, with sentiment supported by Fed Chair Jerome Powell's comments at the ECB Forum that there was progress on reining in inflation, and is expected to advance today echoing US gains and the futures.
- Led by the long-end, Treasury yields fell 4-8 across the curve after the weak labour and ISM-Services readings. The 2Y yield fell 4bps to 4.71% while the 10Y slid 7bps to 4.36%. Yields to the 10Y French and other European bonds also dropped 2-8bps ahead of the elections.
- Most G10 and regional currencies strengthened against the Dollar as the weaker than expected slew of economic data reinforced expectations that the Fed will start cutting rates later in the year. The DXY slumped 0.4% d/d to 105.40, with market gyrations also impacted by speculation about President Biden run for re-election. MYR closed just above the flatline at 4.7195, and so is CNH at 7.3032. SGD meanwhile, strengthened 0.2% d/d to 1.3538.
- Crude oil prices rallied 1.3% d/d after the Energy Information Administration reported that US oil stockpiles shrank by the most in a year by 12.2m barrels, further supported by risk-on mood and geopolitical risks.

#### Upward revisions to S&P Services PMIs for the majors

- US services sector companies reported a solid end to 2Q, with the S&P Global US Services PMI revised up 0.2ppts to 55.3 in June (May: 54.8), its fastest expansion for over 2 years. Both new orders and hiring have also accelerated, and with additional, albeit muted, support coming from the manufacturing sector and optimism over interest rate cuts, forward momentum suggests that the sector may be gathering pace. There is, nonetheless, some nervousness in the run up to the election, but business confidence remains elevated by recent standards and will be supportive of businesses.
- The final HCOB Eurozone Services PMI was revised 0.2ppt up to 52.8 in June (May: 53.2), but signals a slightly weaker growth m/m and over the quarter. Export orders were a drag on sales, although marginals, implying that new

**Key Market Metrics**

| | Level | d/d (%) |
|---|---|---|
| **Equities** | | |
| Dow Jones | 39,308.00 | -0.06 |
| S&P 500 | 5,537.02 | 0.51 |
| NASDAQ | 18,188.30 | 0.88 |
| Stoxx Eur 600 | 514.67 | 0.74 |
| FTSE 100 | 8,171.12 | 0.61 |
| Nikkei 225 | 40,580.76 | 1.26 |
| CSI 300 | 3,463.41 | -0.24 |
| Hang Seng | 17,978.57 | 1.18 |
| Straits Times | 3,415.51 | 1.41 |
| KLCI 30 | 1,615.32 | 1.09 |
| **FX** | | |
| Dollar Index | 105.40 | -0.30 |
| EUR/USD | 1.0786 | 0.38 |
| GBP/USD | 1.2742 | 0.45 |
| USD/JPY | 161.69 | 0.15 |
| AUD/USD | 0.6705 | 0.57 |
| USD/CNH | 7.3032 | -0.05 |
| USD/MYR | 4.7195 | -0.04 |
| USD/SGD | 1.3538 | -0.16 |
| **Commodities** | | |
| WTI ($/bbl) | 83.88 | 1.29 |
| Brent ($/bbl) | 87.34 | 1.28 |
| Gold ($/oz) | 2,369.40 | 1.54 |
| Copper ($$/MT) | 9,868.00 | 2.02 |
| Aluminum($/MT) | 2,548.00 | 1.01 |
| CPO (RM/tonne) | 4,096.50 | 1.41 |

*Source: Bloomberg, HLBB Global Markets Research*
** Dated as of 2 July*

business growth was exclusively domestic driven. Employment was the softest in 5 months, but still stronger than historical average. Encouragingly, the recovery in the service sector was also mostly broad-based amongst the top economies and will be supported by tourism during the summer season.

- Evidence of a pre-general election jittery was evident in the UK services sector, with the PMI slowing to a 7-month low of 52.1 in June (May: 52.9), as prospect of a change in government led to the adoption of a "wait-and-see" approach.
- Despite a 0.4ppts upwards revision to 49.4 in June, the Jibun Bank Japan Services PMI was down sharply from 53.8 in May suggesting that the recent upturn in the sector ended abruptly. Looking beyond the headline figure, the picture is nonetheless, less concerning. Although the new business index fell steeply, overseas demand rose, boosted by the weak JPY. The 12-month outlook and pace of job creation also remained relatively strong.
- The Caixin China PMI Services came in lower than expected at 51.2 in June (May: 54.0). Although still expansionary supported by rising new and export business, the pace of growth has weakened, leading to weaker business optimism and cautiousness in hiring and also signalling a struggling growth momentum for the economy, weighed down by the slump in the property market as well as consumer confidence.
- The S&P Global Singapore PMI rose slightly to 55.2 in June (May: 54.2) suggesting a robust end to 2Q. Moving forward, the acceleration in new business expansion and uptick in confidence levels, as well as firms continuing to acquire inputs and workforce, all signal that growth will be sustained in 2H. Risks remain on the supply side pressure, potentially sending inflation spiralling upwards in coming months.

**Weaker than expected US labour indicators, ISM-Services**

- Highlights to the minutes to the latest FOMC meeting: 1) Additional favorable data were required to give FOMC members greater confidence that inflation was moving toward 2%, with several noting that if inflationary pressures is to persist, the Fed funds rate might need to be raised. 2) Hawkish FOMC members pointed to upside risks for inflation from worsening geopolitical developments, heightened trade tensions, more persistent shelter price inflation, more expansionary fiscal policy as well as financial conditions that might be/could become insufficiently restrictive. On the flip side, a few participants emphasized that nominal wage growth had declined. 3) The vast majority assessed that economic activity is gradually cooling, and most believed that the current policy stance is restrictive. 4) Lower- and moderate-income households are facing increasing financial strains. 5) Indicators pointed to a less tight labor market, with FOMC members adding that the monthly increase in employment consistent with labor market equilibrium might now be higher than in the past because of immigration. Several suggested that the establishment survey may have overstated actual job gains.
- Indeed, labour market prints released overnight were worse than expected. Jobless claims rose more than expected by 4k to 238k for the week ending June 29 (June 22: -5k), while continuing claims jumped 26k to 1858k the week prior (June 15: +11k), its highest since November 2021 as employees take a longer period of time to look for a job. The uptick in claims were in line with June's higher job cut announcements reported by Challenger (+19.8% y/y vs -20.3% y/y), its first uptick in 3 months led by job losses in the discretionary entertainment/leisure sector, utility, technology, real estate, aerospace and services sectors. Contributing to the higher continuing claims is the slower job gains for the third straight month. The ADP Employment report showed that

job gains amongst private employers slowed to 150k jobs (May: 157k). Job gains were not broad-based and was primarily due to a rebound in hiring in leisure and hospitality. Y/y pay gains for job-stayers were 4.9% for the month, the slowest pace of growth since August 2021 which should help to contain inflation, while pay gains for job-changers also slowed to 7.7%.

- Broad-based weakness in the ISM services also intensified downturn fears and added fresh evidence that consumers are pulling back from discretionary spending. Coupled with the rising jobless claims, these makes a case for a Fed rate cut later this year. June's ISM-Services fell more than expected and slipped into contractionary zone for the second time in the last 3 months and to its worst in 4 years (48.8 vs 53.8). The decline was driven by notably lower business activity, a contraction in new orders for the second time since May 2020 and continued contraction in employment. Prices paid continued to ease, although higher costs for some commodities suggests that any deceleration will be capped.
- May's trade deficit widened more than expected (-$75.1bn vs -$74.5bn) and to its largest since 2022 as the decline in exports (-0.7% m/m vs +0.7% m/m) outpaced imports (-0.3% m/m vs +2.3% m/m). A widening in trade deficit is expected to subtract from GDP for the second quarter. Moving forward, limited growth in overseas markets and strong USD is expected to temper demand, while the US' appetite for imported merchandise may cool due to softer consumer spending, providing some reliefs to deficit concerns.
- The impact from the softer domestic and external demand was also echoed in the manufacturing sector. Factory orders unexpectedly fell in May (-0.5% m/m vs +0.4% m/m), its first contraction in 4 months and the worst since January, signalling business cautiousness amidst higher borrowing rates. Contraction was broad-based, and observed for both capital and consumers good orders.
- In the housing market, mortgage rates moved higher and crossed the 7% mark again, sending mortgage applications sliding 2.6% w/w for the week ending June 28 (Jun 21: +0.8% w/w).

**Energy drove Eurozone's PPI**

- Reaffirming a disinflation trend, producer prices continued to fall 0.2% m/m and 4.2% y/y in May (Apr: -1.0% m/m and -5.7% y/y), with the narrower contraction in prices largely driven by energy prices. Looking forward, the ECB will remain cautious, as the price increases are still way above pre-pandemic averages but the deceleration in PPI as well as the HCOB Services PMI price indices will the pave way for ECB to cut later this year.

**Australia's building approvals and retail sales overshot expectations; the latter boosted by discounts but unlikely sustained**

- A string of better-than-expected economic data for May. Building approvals accelerated to +5.5% m/m in May (Apr: +1.9% m/m) driven by private sector dwellings, while retail sales accelerated to +0.6% m/m (Apr: +0.1% m/m) as turnover was boosted by shoppers taking advantage of early end-of-financial year promotions and sales events. Despite the upbeat sales data, shoppers remain price-sensitive in response to persistent cost-of-living pressures and have largely relied on sales to stimulate discretionary spending, suggesting restrained and stagnant spending in recent months.

## 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 |
|---|---|---|
| 4-July | HK S&P Global Hong Kong PMI (Jun) | 49.2 |
| | AU Exports MoM (May) | -2.50% |
| | UK DMP 1 Year CPI Expectations (Jun) | 2.90% |
| 5-July | JN Household Spending YoY (May) | 0.50% |
| | SI Retail Sales SA MoM (May) | -2.70% |
| | JN Leading Index CI (May P) | |
| | MA Foreign Reserves | $114.1b |
| | EC Retail Sales MoM (May) | -0.50% |
| | US Change in Nonfarm Payrolls (Jun) | 272k |
| | US Average Hourly Earnings MoM (Jun) | 0.40% |
| | US Average Weekly Hours All Employees (Jun) | 34.3 |

*Source: Bloomberg*

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