5 September 2024

## Global Markets Research

## Daily Market Highlights

# 5 Sep: Risk-off mood for the second day in global markets

### Back-to-back losses for S&P 500 & Nasdaq; UST yields and DXY tumbled

### Weaker than expected job openings in the US revived bets for bigger Fed rate cut

### Mixed PMIs; uptick in Eurozone's PPI due to energy; Australia grew a steady 0.2% in 2Q

- Worries over the softening labour market saw traders pencilling in higher probability of a 50bps rate cut overnight and pushed S&P 500 and the Nasdaq to their second day of losses. The two equity indices slid 0.2-0.3% d/d, while the Dow was the outlier and edged up 0.1% d/d. This came after the latest JOLTS reading came in lower than expected at its lowest since January 2021. Also weighing on the indices was the 1.7% d/d plunge in Nvidia shares after reports that the US Justice Department sent subpoenas to the chipmaker in an antitrust probe, of which they later deny. Some megacap technology and chip stocks regained their footing, while defensive stocks like utilities and consumer staples gained.
- Worries over the health of the global economy also dented appetite for European stocks, sending Stoxx Eur 600 sharply lower by 1.0% d/d. Most sectors and major bourses traded in negative territory, led by technology stocks. Asian markets also plunged overnight, with Japan's Nikkei 225 down 4.2% d/d, leading losses in the region.
- Risk off sentiment and expectations of a jumbo rate cut by the Fed sent Treasuries rallying and yields sliding 7-11bps led by the short-end. The 2Y yields dipped 11bps to 3.75% while the 10Y closed down 8bps to 3.76%. 10Y European bond yields fell between 3-9bps.
- Traders betting on steep rate cut bets by the Fed also sent DXY tumbling 0.5% d/d overnight to 101.36. All G10 currencies appreciated against the Dollar led by safe haven JPY and CHF, as well as NOK at 0.5-1.2% d/d respectively. Regional currencies also mostly strengthened against the USD led by KRW and MYR (+0.4% d/d to 4.3533), while SGD appreciated 0.3% d/d to close at 1.3038.
- Oil prices fell 1.4-1.6% d/d amid concerns over weakening global growth and demand, as OPEC+ debates whether to proceed with the increased supply in 4Q and on restoration in Libya crude flows.

#### Mixed regional S&P PMIs

- The final Eurozone Services PMI was revised down 0.4ppts to 52.9 in August but this still reflects an uptick from July's 51.9. Growth was observed across the board geographically but notably for French due to the Olympic Games. This positive vibe is expected to linger through September due to the Paralympics but a slowdown is likely in the coming months after that.
- In contrast, the final UK Services PMI was revised up 0.3ppts to 53.7 in August (prior: 52.5) as improving economic conditions and domestic political stability helped to bolster customer demand and thus, new business again. Job creation also quickened as compared to 1H despite scarce candidate availability and elevated wage pressures, the latter potentially keeping

**Key Market Metrics**

| | Level | d/d (%) |
|---|---|---|
| **Equities** | | |
| Dow Jones | 40,974.97 | 0.09 |
| S&P 500 | 5,520.07 | -0.16 |
| NASDAQ | 17,084.30 | -0.30 |
| Stoxx Eur 600 | 514.82 | -0.97 |
| FTSE 100 | 8,269.60 | -0.35 |
| Nikkei 225 | 37,047.61 | -4.24 |
| CSI 300 | 3,252.17 | -0.65 |
| Hang Seng | 17,457.34 | -1.10 |
| Straits Times | 3,441.38 | -1.12 |
| KLCI 30 | 1,670.24 | -0.38 |
| **FX** | | |
| Dollar Index | 101.36 | -0.46 |
| EUR/USD | 1.1082 | 0.35 |
| GBP/USD | 1.3147 | 0.25 |
| USD/JPY | 143.74 | -1.20 |
| AUD/USD | 0.6725 | 0.21 |
| USD/CNH | 7.1134 | -0.10 |
| USD/MYR | 4.3533 | -0.36 |
| USD/SGD | 1.3038 | -0.25 |
| **Commodities** | | |
| WTI ($/bbl) | 69.20 | -1.62 |
| Brent ($/bbl) | 72.70 | -1.42 |
| Gold ($/oz) | 2,502.70 | 0.12 |
| Copper ($$/MT) | 8,960.00 | 0.06 |
| Aluminum($/MT) | 2,396.50 | -0.46 |
| CPO (RM/tonne) | 4,048.50 | 1.29 |

*Source: Bloomberg, HLBB Global Markets Research*
** Dated as of 3 Sep*

inflation elevated. Some firms nevertheless, cited concerns about policy uncertainty in the run up to the Autumn Budget.

- The final Japan PMI Services was revised down 0.3ppts to 53.7 in August (prior: 53.7). Amid sustained growth in new business inflows as well as positive movements in employment and business confidence, suggesting that the solid growth for this sector will likely be solid until year-end.
- The Caixin China Services PMI came below expectations and slid 0.5ppts to 51.6 in August as new orders decelerated and the employment index turned contractionary, the latter due to a more cautious approach by firms to save costs. Export business nonetheless picked up due to higher tourist arrivals, while overall confidence remained positive albeit below historical average.
- In Hong Kong, its Composite PMI inched down slightly to 49.4 in August (prior: 49.5), suggesting that the sector remains relatively subdued. Nonetheless, there are emerging signs of a turnaround with the downturn in new orders easing for the second month, while improving tourism supported a rise in export business for the first time in 10 months.
- In Singapore, the Composite PMI rose to 57.6 from 57.2 previously. Barring any sharp downturns in September, the latest PMI suggests that we will see a better 3Q GDP print for the economy, while forward-looking indicators such as new orders, backlogs and future output, suggests that private sector activity should be sustained in the near-term.
- In the manufacturing sector, Vietnam Manufacturing PMI slid to 52.4 in August from 54.7 previously. The index at this level, nonetheless, suggests a solid monthly improvement and operating conditions have now strengthened in each of the past 5 month. Of note however, firms are facing a drop in employment, which is making completing projects more difficult and adding to outstanding business.

**Less upbeat assessment from the Biege Book**

- Highlights from the latest Beige Book: 1) Economic activity grew slightly only in 3 districts, with more districts reporting flat or declining activity (9 vs 5). Most expect economic activity to remain stable or to improve somewhat in the coming months. 2) Consumer spending was reported to have ticked down in this latest Beige Book as compared to holding steady previously. 3) Labour market remains steady, with rare reports of layoffs. 4). In terms of potential inflationary pressure, wage growth was modest, while increases in non-labor input costs and selling prices were slight to moderate. 5) Manufacturing activities declined in most districts, auto sales continued to vary while real estate activity was mixed, though most indicated softer home sales.

**Lowest JOLTS job openings in the US in 3.5 years; highest trade deficit in 2 years**

- In the labour market, job openings slumped more than expected and to its lowest since January 2021 in another sign of slack in the labor market, while the still low level of layoffs suggests the labor market remained resilient and the economy is not heading into a recession. According to the JOLTS job openings survey, job openings fell to 7.7m in July from a downwardly revised June’s 7.9m. With the decline, the job openings rate eased to 4.6% from 4.8% previously, led by fewer openings in the health care & social assistance, state & local government and transportation, warehousing, & utilities sectors. The number of total separations increased to 5.4m and the total separations rate ticked up slightly to 3.4 (prior: 3.2), while the quits rate, a measure of how workers' willingness or ability to leave jobs also increased to 2.1 from 2.0 previously.

- Factory orders rebounded more than expected by 5.0% m/m in July after falling 3.3% m/m in June, boosted by defence aircraft, but demand elsewhere was moderate amid higher borrowing costs. Excluding transportation, orders rose 0.4% m/m after gaining 0.1% m/m with orders from the consumer goods sector reported flat growth (prior: -0.5% m/m).
- Mortgage applications accelerated to +1.6% w/w for the week ended August 30 (prior: +0.5% m/m) as the 30Y fixed mortgage rates eased further to 6.43% during the week. This spurred demand for purchase applications and while refinance applications were slightly down, it continued to show strong annual gains and accounted for almost 46% of total applications, the highest monthly average since March 2022 as borrowers with higher rates have been refinancing to lower their monthly payments.
- On the external front, trade deficit widened to its 2-year high of $78.8bn in July (prior: -$73.0bn), fuelled by a surge in imports of goods. The latter increased 2.1% m/m (prior: +0.7% m/m) to the highest level since March 2022, outpacing exports growth of +0.5% m/m (prior: +1.7% m/m). The surge in imports reflects stepped-up efforts by US companies to ensure adequate supply ahead of a potential dockworkers' strike and ahead of the holiday season and the shortfall suggests trade will again weigh on GDP in 3Q.

**Monthly uptick in Eurozone's PPI due to energy, no change to disinflation and ECB's easing cycle path**

- Producer prices fell at a more modest than expected pace at -2.1% y/y in July (prior: -3.3% y/y) but accelerated m/m to 0.8% (prior: -3.3% y/y and +0.6% m/m). As the uptick for the latter was driven only by energy prices, underlying cost-driven pressures in the bloc remained mild and thus, unlikely to change course for ECB's monetary easing path going forward.

**Australia grew a steady 0.2% q/q in 2Q, matching expectations**

- Matching expectations, the economy grew at steady 0.2% q/q in 2Q while growth on a y/y basis eased to 1.0% y/y from 1.3% y/y previously, its lowest since 1992 outside the pandemic period. Growth during the quarter was largely boosted by population growth and government spending, while household spending was subdued and fell 0.1% d/d (prior: -0.6% q/q). Specifically, weakness was more prevalent in discretionary goods following the high base effect in 1Q due to sport, gambling music events, as well as because of the higher costs of living. As such, a sustainable recovery in spending as seen in July (+0.8% m/m vs -0.5% m/m), remains debatable at this juncture

**Positive real wage growth in Japan likely to keep policy tightening cycle on track**

- In Japan, real wages continued to grow for the second month and outbeat forecasts at +0.4% y/y in July (prior: +1.1% y/y). This data reaffirms expectation of the virtuous cycle of wage gains feeding into demand-pull inflation and laying the backdrop for additional tightening policy later this year or in early 2025. As it is, the strong nominal wage growth not only reflects the impact from the shunto negotiation but also chronic labour shortage in the Japanese economy.

## House View and Forecasts

| FX | This Week | 3Q-24 | 4Q-24 | 1Q-25 | 2Q-25 |
|---|---|---|---|---|---|
| DXY | 100-103 | 102.41 | 100.87 | 99.86 | 98.86 |
| EUR/USD | 1.09-1.12 | 1.11 | 1.12 | 1.10 | 1.08 |
| GBP/USD | 1.30-1.33 | 1.29 | 1.30 | 1.30 | 1.29 |
| USD/JPY | 142-148 | 145 | 143 | 140 | 137 |
| AUD/USD | 0.66-0.69 | 0.66 | 0.66 | 0.67 | 0.68 |
| USD/MYR | 4.29-4.36 | 4.50 | 4.40 | 4.35 | 4.30 |
| USD/SGD | 1.29-1.32 | 1.33 | 1.32 | 1.30 | 1.28 |

| Rates, % | Current | 3Q-24 | 4Q-24 | 1Q-25 | 2Q-25 |
|---|---|---|---|---|---|
| Fed | 5.25-5.50 | 5.00-5.25 | 4.50-4.75 | 4.25.-4.50 | 4.00-4.25 |
| ECB | 3.75 | 3.50 | 3.25 | 3.00 | 2.75 |
| BOE | 5.00 | 5.00 | 4.75 | 4.50 | 4.25 |
| BOJ | 0.25 | 0.25 | 0.25 | 0.40 | 0.40 |
| RBA | 4.35 | 4.35 | 4.35 | 4.10 | 3.85 |
| BNM | 3.00 | 3.00 | 3.00 | 3.00 | 3.00 |

*Source: HLBB Global Markets Research*

## Up Next

| Date | Events | Prior |
|---|---|---|
| 5-Aug | AU Exports MoM (Jul) | 1.70% |
| | SI Retail Sales YoY (Jul) | -0.60% |
| | MA BNM Overnight Policy Rate | 3.00% |
| | UK DMP 1 Year CPI Expectations (Aug) | 2.50% |
| | EC Retail Sales MoM (Jul) | -0.30% |
| | US Challenger Job Cuts YoY (Aug) | 9.20% |
| | US ADP Employment Change (Aug) | 122k |
| | US Initial Jobless Claims | 231k |
| | US S&P Global US Services PMI (Aug F) | 55.2 |
| | US ISM Services Index (Aug) | 51.4 |
| 6-Aug | JN Household Spending YoY (Jul) | -1.40% |
| | AU Home Loans Value MoM (Jul) | 1.30% |
| | JN Leading Index CI (Jul P) | 109 |
| | MA Foreign Reserves | $115.9b |
| | EC GDP SA QoQ (2Q F) | 0.30% |
| | EC Employment QoQ (2Q F) | 0.20% |
| | US Change in Nonfarm Payrolls (Aug) | 114k |
| | US Unemployment Rate (Aug) | 4.30% |
| | US Average Hourly Earnings MoM (Aug) | 0.20% |
| | VN Industrial Production YoY (Aug) | 11.20% |
| | VN CPI YoY (Aug) | 4.36% |
| | VN Retail Sales YoY (Aug) | 9.40% |
| | VN Exports YoY (Aug) | 19.10% |

*Source: Bloomberg*

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