19 July 2024

Global Markets Research

Daily Market Highlights

19 July: US labour market risk taking center stage

US equities ended lower; UST yields and DXY closed higher on Fed rate cut prospects

EUR weakened along with other majors; ECB offered no clear signal on future policy path

Softer labour market data in the US and UK; steady in Australia and Hong Kong

- S&P500 and NASDAQ saw extended declines of between 0.7-0.8% d/d on Thursday while the Dow also halted a six-day rally and fell 1.3% d/d, as the rotational play from tech to smaller cap stocks earlier in the week fizzled out. Megacap stocks ended the day mixed while the small cap benchmark Russell 2000 index lost about 2.0% after its recent rally. Investors turned increasingly wary over prospects of a sooner rather than later Fed rate cut amid signs of further cooling in the US labour market, echoing the Fed Chair Powell's rhetoric of "two-sided risks" at his semi-annual congressional testimonies last week. Market pricing for a September rate cut has since stayed above 90%, last stood at 97% at time of writing. Meanwhile, Fed Daly commented that we are currently at inflection point, recent inflation data has been "really good" and further slowing in the labour market could push up unemployment rate. She however cautioned that the Fed have to balance the costs of acting fast and being wrong.
- Across the Atlantic, European stocks traded mixed with the Stoxx Eur 600 losing 0.2% while the UK FTSE 100 added 0.2% d/d. Asian stocks also turned in a mixed bag with the Nikkei 225 plunging 2.4% d/d while China and Hong Kong equities closed the day in the green as markets digest headlines coming out from the China's Third Plenum. Futures are pointing to a lower opening in Asia markets this morning tracking overnight losses in US equities.
- Global sovereign bonds largely ended lower as well. UST yields rose 3-5bps across the curve on the day with the 2s last settled at 4.47% (+3bps) while the 10s added 4.5bps to 4.20%, bear steepening the curve. On the European front, 10-year bond yields climbed higher up to 2bps with the exception of the 10-year UK gilt which slipped 1bps to 4.06%.
- On the FX front, it was another session of broad USD strength as the USD strengthened against all G10s and most major Asian currencies as the higher jobless claims data reaffirmed prospects of a Fed rate cut as early as September. The DXY rebounded to close the day 0.4% d/d higher at 104.18, near its intraday high of 104.23. The NOK fell the most by 0.8% followed by the JPY (-0.75%) to 157.37. EUR shed 0.4% to 1.0897 post-ECB meeting which left little clues on the next ECB policy path, while the GBP lost 0.5% d/d to 1.2944 amid data showing a softer job market in the UK. Regional currencies also lost grounds with the MYR softening a tad by 0.1% d/d to 4.6695 against the greenback.
- Crude oil prices fell on concerns over slower demand from moderating global growth and looser supply curbs, hence higher supply by OPEC+ later this year. The Brent fell 0.4% to $84.46/ barrel while the WTI lost 0.8% d/d to US$82.40/ barrel.

Key Market Metrics

	Level	d/d (%)
Equities		
Dow Jones	40,665.02	-1.29
S&P 500	5,544.59	-0.78
NASDAQ	17,871.22	-0.70
Stoxx Eur 600	514.01	-0.16
FTSE 100	8,204.89	0.21
Nikkei 225	40,126.35	-2.36
CSI 300	3,520.93	0.55
Hang Seng	17,778.41	0.22
Straits Times	3,471.16	-0.53
KLCI 30	1,633.81	0.02
FX		
Dollar Index	104.18	0.42
EUR/USD	1.0897	-0.38
GBP/USD	1.2944	-0.50
USD/JPY	157.37	0.75
AUD/USD	0.6706	-0.34
USD/CNH	7.2775	0.08
USD/MYR	4.6695	0.11
USD/SGD	1.3440	0.26
Commodities		
WTI ($/bbl)	82.40	-0.84
Brent ($/bbl)	84.86	-0.39
Gold ($/oz)	2,447.90	-0.62
Copper ($$/MT)	9,371.00	-2.55
Aluminum($/MT)	2,385.50	-0.83
CPO (RM/tonne)	4,002.00	0.40

Source: Bloomberg, HLBB Global Markets Research
** Dated as of 17 July for CPO*

ECB left rates unchanged and reiterated data dependent approach

- ECB kept rates unchanged as expected – main refinancing rate at 4.25%, marginal lending facility rate at 4.50% and deposit facility rate at 3.75%. The central bank also stopped short of making any commitments on the timing of future rate cuts especially in September, but its expectation for further easing in wage growth kept rate cuts on the table. President Lagarde emphasized at the press conference that future policy move will be data dependent. Market pricing for a September rate cut now stands at 82%, little change from pre-ECB meeting.

Mixed US data - added signs of a softer labour market; continued decline in leading index; surprised jump in Philly Fed business outlook

- Initial jobless claims rose more than expected by 20k to 243k for the week ended 13-July (prior: -16k), its highest in five weeks, added to signs of a cooling labour market in the US although the recent swings could be due to the usual retooling at auto plants during the summer months. Continuing claims also rose to 1.87m for the week ended 6-July, after declining the preceding week, as unemployed workers took longer time to find jobs, implying unemployment rate may continue to inch higher near term. This supported the Fed's view of growing risks in the labour market which may continue to add weights to a September rate cut.
- Leading index saw extended declines albeit at a more modest pace of 0.2% m/m in June (May: -0.4% revised from -0.5% m/m), signalling the US economy remained on the softer side but continued to cruise along. This was due to smaller declines in ISM new orders, rebounds in orders of non-defence capital goods (ex-air), building permits, and pick-ups in stock prices and leading credit index.
- Philadelphia Fed Business Outlook surprised on the upside with a 13.9 print in July (Jun: 1.3), its highest in three months and its longest positive streak since May-22, lifted by a sharp rebound in employment, new orders and shipment. This somewhat contradicted with weaknesses seen in other manufacturing indicators recently and we caution reading too much into one single print.

Prevalent signs of a cooling UK labour market; softer wage growth implies the next BOE's decision will be a close call

- Data continue to show signs that the labour market may be cooling. Payrolled employee change slowed to +16k for June from a sharply upward revised +54k in May (prior: -3k). The number of vacancies fell 30k for the quarter albeit still above pre-pandemic levels led by electricity, gas, steam and air conditioning supply, while jobless claims change came in lower at 32.3k (May: 51.9k), but remaining near its highest since Feb-21. ILO unemployment rate was however steady at its highest rate since 2021 at 4.4% in May Earnings growth remains relatively strong, although it slipped below 6.0% for the first time in 20 months the latest sign than labour market is cooling. Weekly earnings ex bonus moderated to +5.7% y/y in May as expected, from +6.0% y/y in April, pushing up market pricing for an August BOE rate cut although we opine that there is no rush for an immediate cut at this juncture.

Australia's labour market remains tight with an upward surprise in employment gains

- Australia's employment market remains tight in June, with job growth beating expectations for the third month at +50.2k (May: +39.5k). Unemployment rate inched up 4.1% (May: 4.0%), but this was mainly attributable to the higher labour force participation rate of 66.9% (May: 66.8%). Partially attributable to the tight labour and elevated growth rate, the NAB business confidence also remains negative at -1 in 2Q (1Q; -2).

- The monthly growth in employment has been growing 0.3% since April, above the 20Y pre-pandemic average of 0.2% and matching population growth and the employment-to-population also held steady at 64.1%, still close to the historically high levels seen throughout 2023. All these suggest a still strong and resilient labour market, but one that will unlikely tip the central bank to raise its cash rate in the August meeting unless we see a strong CPI reading for 2Q, due to be released end-July.

Hong Kong jobless rate held steady at 3.0% in June

- Unemployment rate stabilized at 3.0% for the three months to June, a level unchanged since March. The labour force and number of employed continued to increase between 0.1% and 0.2% m/m while the number of unemployed fell for the first time in four months, by 1.3% m/m to 114.7k, pointing to an improving job market.

Malaysia's exports softened more than expected; no change to our view for further export recovery going forward

- Growth in exports softened for a 2nd straight month, and by more than expected to 1.7% y/y in June (May: +7.1% downwardly revised). This marked its smallest gain in three months and came in below expectations, raising concerns if the recovery in global trade is losing momentum, or was it a hiccup from the ongoing trade tensions between China and the West. Noticeably, we noted that shipment to Singapore and China fell for the first time in three months, while that to the US continued to grow at hefty double-digit pace in June. This could be a tell-tale sign of Malaysia benefitting from the diversion in trade flows as tensions rise between China and the West. Meantime, imports continued roaring ahead, as growth picked up steam for the 4th straight month to 17.8% y/y in June (May: +13.4%), its biggest gain in five months, thanks to continued double-digit increases across the board, led by intermediate goods imports (+37.2% vs +24.1% y/y). This laid the grounds for further expansion in exports going forward. Trade surplus further widened to RM14.3bn in June (May: RM9.95bn) as the decline in imports (-5.4% m/m) outpaced the decline in exports (-1.6% m/m) on a month-on-month basis.
- We expect further recovery in Malaysia exports performance going forward, driven by continuous expansion in global demand, spillover from global tech upcycle, and sustained commodity prices. Malaysia is also well-positioned to benefit from shift in trade flows as trade tensions between China and the West intensify. We therefore maintain our view for exports to pick up in the months ahead, offering an added impetus to GDP growth in second half of the year. That said, expectation for more robust imports growth as a result of further expansion in domestic demand is expected to exert a drag on net exports, hence overall GDP growth. Although the bigger surplus in June offered some comfort, the smaller surplus for 2Q as a whole still suggests a drag on net exports in 2Q.

House View and Forecasts

FX	This Week	3Q-24	4Q-24	1Q-25	2Q-25

DXY	103-106	104.28	102.71	101.69	100.67
EUR/USD	1.07-1.10	1.08	1.09	1.08	1.06
GBP/USD	1.27-1.31	1.28	1.29	1.28	1.28
USD/JPY	156-161	158	155	151	148
AUD/USD	0.66-0.69	0.67	0.68	0.69	0.69
USD/MYR	4.64-4.70	4.66	4.60	4.54	4.50
USD/SGD	1.33-1.36	1.34	1.33	1.32	1.30

Rates, %	Current	3Q-24	4Q-24	1Q-25	2Q-25
Fed	5.25-5.50	5.25-5.50	5.00-5.25	4.75.-5.00	4.50-4.75
ECB	3.75	3.50	3.25	3.00	2.75
BOE	5.25	5.00	4.75	4.50	4.25
BOJ	0 - 0.10	0.10-0.20	0.10- 0.20	0.20- 0.30	0.20-0.30
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
19-Jul	UK GfK Consumer Confidence (Jul)	-14
	JN Natl CPI YoY (Jun)	2.80%
	MA GDP YoY (2Q A)	4.20%
	UK Retail Sales Inc Auto Fuel MoM (Jun)	2.90%
22-Jul	CH 5-Year Loan Prime Rate	3.95%
	CH 1-Year Loan Prime Rate	3.45%
	MA Foreign Reserves	$113.8b
	HK CPI Composite YoY (Jun)	1.20%
	US Chicago Fed Nat Activity Index (Jun)	0.18

Source: Bloomberg

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