25 July: Risk-off sentiments amid earnings disappointment

USTs closed mixed amid Dudley's dovish comments; haven currencies outperformed in FX space
Mixed PMIs - US and UK expanded at stronger pace; EU weaker; Japan returned to growth
MYR held steady even as CPI prints undershot expectations; little price pressures for Malaysia

- The global equity markets came under pressure from a deluge on earnings from tech giants to banking stocks. In the US, disappointing earnings reports by Tesla and Alphabet earlier sparked the sell-off in tech stocks and sent the 3 major indices plunging 1.3-3.6% d/d. Ford shares also tumbled 1.2% d/d after earnings miss but IBM and Chipotle earnings came better than expected.
- Similarly in Europe, the Stoxx Eur 600 closed down 0.6% d/d, with most sectors and major bourses in negative territory. Disappointing results from LMVH and Deutsche Bank rattled the equity markets, the latter after reporting its first quarterly loss in 4 years. Asian markets also fell following the mixed spate of earnings and PMIs, and are expected to track the pullbacks in its US and European peers today.
- In the Treasury market, the 2Y yield fell 2bps to 4.43% after a dovish talk by former Fed President William Dudley, where he called for the Fed to lower rates in the next meeting. The 5- to -30Y bond yields, nonetheless, rose 1-6bps across the curve with the 10Y finishing 3bps higher at 4.28%. 10Y European bond yields increased between 0-5bps, save for the Norwegian sovereign bonds.
- Haven currencies outperformed their risk-sensitive peers in the forex space following the slump in the equity markets. DXY tumbled to its intraday low of 104.12, but rebounded to close at 104.39 (-0.1% d/d). USD strengthened against all its G10 peers save for the CHF and JPY (0.7-1.1% d/d), the latter supported by expectations of a rate hike next week. The Dollar also firmed up 0.2% d/d against CAD after the Bank of Canada's dovish rate cut. Closer to home, regional currencies strengthened against USD, except for the INR and IDR. CNH and SGD were 0.2-0.3% d/d stronger against the Dollar, while MYR held steady and closed just above the flatline at 4.6720 despite its weaker than expected inflation prints.
- Oil prices ticked upward by 0.8-0.9% d/d, ending its slump over the past week after the Energy Information Administration reported that US oil inventories shrank by 3.7mb/d last week. Moving forward, the remainder of the summer driving season and threats of wildfires on production in Alberta are expected to keep prices supported.

Mixed slew of PMIs – Eurozone still in doldrums, Japan returned to growth, US and UK expanded at stronger pace

- The flash S&P PMI data suggests a 'Goldilocks' scenario for the US, with the economy growing at a robust pace while inflation indicators moderate to its lowest seen over the past 4 years. The Composite PMI unexpectedly edged up to its highest in 27 months at 55.0 (June: 54.8) but growth disparities

Key Market Metrics

	Level	d/d (%)
Equities		
Dow Jones	39,853.87	-1.25
S&P 500	5,427.13	-2.31
NASDAQ	17,342.41	-3.64
Stoxx Eur 600	512.30	-0.61
FTSE 100	8,153.69	-0.17
Nikkei 225	39,154.85	-1.11
CSI 300	3,418.17	-0.63
Hang Seng	17,311.05	-0.91
Straits Times	3,460.82	-0.01
KLCI 30	1,621.14	-0.52
FX		
Dollar Index	104.39	-0.06
EUR/USD	1.0840	-0.13
GBP/USD	1.2907	-0.01
USD/JPY	153.89	-1.09
AUD/USD	0.6581	-0.51
USD/CNH	7.2663	-0.31
USD/MYR	4.6720	-0.03
USD/SGD	1.3434	-0.16
Commodities		
WTI ($/bbl)	77.59	0.82
Brent ($/bbl)	81.71	0.86
Gold ($/oz)	2,415.70	0.35
Copper ($$/MT)	9,104.00	-0.68
Aluminum($/MT)	2,300.50	0.24
CPO (RM/tonne)	4,017.50	-0.32

Source: Bloomberg, HLBB Global Markets Research
** Dated as of 23 July for CPO*

widened. Thes service sector led the upturn at 56.0, while manufacturing slipped to 49.5 (June: 55.3 and 51.6). The positive news was further marred by slower growth in employment and business confidence falling for a second month due to the Presidential Election.

- Echoing its most recent data, the Eurozone economy barely expanded in July with the Composite PMI unexpectedly sliding to 50.1 in July from 50.9 previously, and both the manufacturing and services sectors were worse than expected at 45.6 and 51.9 respectively (June: 45.8 vs 52.8). New orders fell for the second month running and business confidence dropped to its 6-month low, resulting in firms halting their spell of hiring. To make things worse, output prices fell only fractionally in the manufacturing sector, making it harder for inflation to move towards the 2% target.
- Private sector activity in the UK expanded at a solid and faster rate than expected in July (Composite: 52.7 vs 52.3), supported by the sharpest upturn in new businesses for 15 months, quickest expansion in staffing in 13 months as well as strengthening of business confidence. Services activity growth undershot expectations but accelerated slightly to 52.4 (June: 52.1), while manufacturing recorded its strongest growth since 2022 and better than expected at 51.8 (June: 50.9). BOE will also most likely take a cautious stance to loosening policy, amid signs of inflationary pressures in the manufacturing sector due to the Red Sea tension, as well as renewed hiring plans which could add to pay pressures.
- Japan's private sector activities returned to growth in July, with the services sector (53.9 vs 49.4) leading the expansion and to its 3-months high, while manufacturers (49.2 vs 50.2) saw a modest decline in activity. The Jibun Composite PMI at 52.6 (June: 49.7) suggests solid growth overall, as demand and employment conditions strengthened although new work at manufacturing firms fell at its steepest pace since 1Q.

Weak housing indicators in the US

- New home sales unexpectedly fell to its 7-month low in June, while mortgage applications fell w/w as stubbornly high mortgage rates and strong home-price appreciation dampened affordability and deterred prospective buyers. Mortgage applications fell 2.2% for the week ended July 19 (Jul 12: +3.9% w/w), while new home sales slid 0.6% m/m to 617k (May: -14.9% m/m). The median sales price of new houses sold rebounded 2.5% m/m to $417.3k, while the number of new houses for sale at the end of June was 476.0k or a supply of 9.3 months at the current sales rate (May: -1.6% m/m and 9.1 months).
- Goods trade deficit narrowed more than expected to $96.8bn in June from $99.4b in May as export growth outpaced imports at +2.5% m/m and +0.7% m/m respectively (May: -1.8% m/m and -0.7% m/m). Broad-based gains were observed for exports but imports were driven by rebounds in capital and consumer goods, all boding well for investment, consumption and overall GDP calculation.

Japan's PPI-Services accelerated, keeping rate hike expectations alive

- Data this morning showed that PPI-Services came stronger than expected at 3.0% y/y in June while May's price print was revised a shade higher to +2.7% y/y. Making significant contributions to the price pressures during the month was other services especially hotels, and to a lesser extent, from transportation/freight services, information & communication as well as advertising services.

- The next BOJ meeting is scheduled for July 31, and the recent uptick in prices are largely in line with the central bank's target of a virtuous cycle from income to spending and thus, will mostly likely keep expectations of a rate hike alive at this juncture, supporting the JPY. As it is, the OIS is pencilling one 10bps rate hike by end of 3Q, and another 10bps by end of 4Q.

Headline and core CPI unexpectedly held steady; confirming little price pressures for Malaysia

- Malaysia's headline CPI surprised on the downside in June, holding steady at 2.0% y/y, contrary to ours as well as market expectation for a pick-up to 2.2% y/y. Core CPI also registered a steady increase of 1.9% y/y for the third straight month, adding to signs of a lack of price pressure in the system. The slightly softer increase in services CPI (+2.2% vs +2.3% y/y) and miscellaneous goods & services (+2.8% vs +3.0% y/y) also painted a similar picture of modest price conditions. In addition, prices rose at a softer pace of 0.2% m/m (May: +0.3% m/m), and details painted a mixed picture, with six out of the thirteen main categories registered quicker price gains.
- Overall inflation remained moderate and benign with CPI averaging +1.8% y/y in the first half of the year. The softer than expected June CPI print testified to overall well-contained price pressure, including the limited impact from the recent floating of diesel prices on 10-June, although the full month impact will only be seen in July. As we highlighted before, we are mindful of second order effects if service providers and businesses begin raising prices to manage higher cost pressure. Despite upside risks from this potential spillover, we believe CPI readings will remain moderate in the low-2.0% region, until and unless the RON95 blanket subsidy is removed, which we continue to pencil in a possible timeline towards the end of the year. Most of the inflationary impact should be more evident in 2025 before normalizing in 2026. In view of the still benign inflation and potential upside surprises to GDP growth this year, we expect BNM to stay the course even as more central banks embark on an easing cycle globally.

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	1.28-1.31	1.28	1.29	1.28	1.28
USD/JPY	154-160	158	155	151	148
AUD/USD	0.65-0.69	0.67	0.68	0.69	0.69
USD/MYR	4.64-4.69	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
25-Jul	AU NAB Business Confidence (2Q)	-2
	HK Exports YoY (Jun)	14.80%
	UK CBI Trends Total Orders (Jul)	-18
	US GDP Annualized QoQ (2Q A)	1.40%
	US Durable Goods Orders (Jun P)	0.10%
	US Initial Jobless Claims (44013)	243k
	US Kansas City Fed Manf. Activity (Jul)	-8
26-Jul	JN Tokyo CPI YoY (Jul)	2.30%
	SI Industrial Production SA MoM (Jun)	1.10%
	EC ECB 3 Year CPI Expectations (Jun)	2.30%
	US Personal Income (Jun)	0.50%
	US Personal Spending (Jun)	0.20%
	US Core PCE Price Index YoY (Jun)	2.60%
	US U. of Mich. Sentiment (Jul F)	66
	US Kansas City Fed Services Activity (Jul)	2

Source: Bloomberg

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