26 July 2024

Global Markets Research

Daily Market Highlights

26 July: Risk-off ahead of US core PCE prices today

Risk-off in global markets - equities and DXY lower; bonds benefitted from haven bids

Upside surprise to US 2Q GDP on consumer spending; capex spending also beat estimates

PBoC delivered an off-cycle 20bps cut for 1Y MLF rate; MAS stood pat as expected

- Investors were broadly risk-off overnight, with the global equity markets closing in red and bonds in greens benefitted from flight to safety. In the US, Dow Jones was the outlier, making a comeback after US 2Q GDP remained surprisingly resilient and the economy remains on track for a soft landing. The Dow closed 0.2% d/d higher, but the S&P 500 and Nasdaq lost 0.5-0.9%. Broad-based losses were recorded, with the exception of energy, financials and small-caps stocks. Some individual stocks also recorded hefty falls. Shares of Ford Motor tanked 18.4% d/d, its worst day since 2008 after its earnings miss, while Super Micro Computer also shed 2.2% d/d.
- In Europe, Stoxx Eur 600 slid 0.7% d/d at close, hit by weak earnings and outlook from consumer stocks like Nestle and Kering. Asian stocks tracked its global peers and closed mostly lower, but are set for a muted open today ahead of the US PCE price release.
- In the bond market, Treasury yields fell 0-6bps across the board, while 10Y European bond yields edged down between 1-3bps save the Norwegian sovereign bonds. The 2Y UST yield closed flat at 4.43%, while the 10Y slid 4bps to 4.24%.
- DXY closed just below the flatline at 104.36, with CHF, EUR and DKK (+0.1-0.4% d/d) leading gains against the greenback while commodity currencies NZD and AUD (-0.7% d/d) lagged. JPY reversed course overnight and closed just slightly weaker at 153.94, while regional currencies mostly strengthened against the Dollar, led by CNH (+0.4% d/d) and MYR (+0.2% d/d).
- In the commodity market, crude oil prices gained by 0.8-0.9% d/d following the better-than-expected US GDP print, countering signs of a slump in demand from China.

PBoC delivered an off-cycle 20bps rate cut for 1Y MLF rate

- The People's Bank of China (PBoC) cut its 1Y MLF rate by 20bps to 2.30% and offered 200bn yuan to banks via the facility. The move followed PBoC's 10bps trim to the 7D reverse repo rates just a few days ago, but was a surprise given that it was off-cycle and the bigger magnitude, which was the largest since early 2020 during the pandemic.
- In a separate statement, PBoC also disclosed that banks have taken up just 12bn yuan of the 300bn yuan relending quota for affordable housing, a sign that confidence remains lacklustre and more stimulus is needed. From a historical perspective, PBoC has cut as much as 35bps within a year in the last cycle, and as such, we would not be surprised if the PBoC mirrored its past with another rate cut in its policy rates by end-2024.

Key Market Metrics

	Level	d/d (%)
Equities		
Dow Jones	39,935.07	0.20
S&P 500	5,399.22	-0.51
NASDAQ	17,181.72	-0.93
Stoxx Eur 600	508.63	-0.72
FTSE 100	8,186.35	0.40
Nikkei 225	37,869.51	-3.28
CSI 300	3,399.27	-0.55
Hang Seng	17,004.97	-1.77
Straits Times	3,430.45	-0.88
KLCI 30	1,615.18	-0.37
FX		
Dollar Index	104.36	-0.03
EUR/USD	1.0846	0.06
GBP/USD	1.2851	-0.43
USD/JPY	153.94	0.03
AUD/USD	0.6538	-0.65
USD/CNH	7.2402	-0.36
USD/MYR	4.6613	-0.23
USD/SGD	1.3434	0.00
Commodities		
WTI ($/bbl)	78.28	0.89
Brent ($/bbl)	82.37	0.81
Gold ($/oz)	2,353.50	-2.57
Copper ($$/MT)	9,122.00	0.20
Aluminum($/MT)	2,270.50	-1.30
CPO (RM/tonne)	4,011.00	-0.16

Source: Bloomberg, HLBB Global Markets Research
** Dated as of 24 July for CPO*

No change in Singapore's monetary policy stance; headline inflation revised lower for 2024 due to transport costs

- As expected, MAS maintained the rate of appreciation of the S$NEER policy band, with no change to the width of the band or level at which it was centred, to keep a lid on imported inflation as well as domestic cost pressures, and ensure medium-term price stability.
- In the accompanying statement, MAS said that the economy is expected to strengthen over the rest of 2024, with the slightly negative output gap closing by end-year. Barring renewed shocks to costs, core inflation is expected to ease more discernibly in 4Q, and fall further to around 2.0% in 2025. With this, MAS maintained its core-inflation projection of 2.5–3.5% for 2024, while its headline inflation projection was lowered to 2.0–3.0% (previous: 2.5–3.5%). This reflects the lower-than-anticipated private transport inflation in recent months.

US 2Q GDP surprised markets on the upside at 2.8% as consumer spending remains resilient

- A perfect "Goldilocks" situation for Fed, with growth not too hot, inflation cooling (core-PCE: 2.9% q/q vs 3.7% q/q) and a soft-landing scenario within reach. The US economy grew at a much stronger pace than expected in 2Q (2.8% q/q vs 1.4% q/q), as the engine of growth consumer spending accelerated to 2.3% from 1.5% previously. Personal saving rate, nonetheless, eased to 3.5% in 2Q (1Q: 3.8%), and as the labour markets cools and interest rates remain elevated, we expect consumers to tighten their belts and spending to moderate ahead.
- Private inventory investment, especially in the wholesale and retail trade inventories, also contributed to the better growth, as well as non-residential fixed investment (5.2% vs 4.4%). Imports (6.9% vs 6.1%), which subtracts from GDP, picked up led by capital goods, suggesting firm domestic demand, especially investment going forward. In fact, separate data also reaffirmed this trend, with durable orders excluding transportation and capital goods orders much stronger than expected at 0.5% m/m and +1.0% m/m respectively in June (May: -0.1% m/m and -0.9% m/m).
- In the labour market, jobless claims fell sharper than expected by 10k to 235k for the week ended July 20 (Jul 13: +22k), while continuing claims also dropped 9k to 1851k the week before (Jul 6: +13k). As it is, claims during the summer season can be volatile as workers are laid off and brought back when factories retool and re-open, but this does not change the broad trend of cooling and a more balanced labour market.
- In the Kansas region, Fed's manufacturing activity index continued to fall and undershot expectations in July (-13 vs -8), driven primarily by durable manufacturing, particularly transportation equipment, fabricated metal, and machinery. All m/m indices were negative except for price, but expectations for future activity stayed positive at +5, slightly softer than June's +7.

Optimism amongst UK manufacturers cooled, outlook remains positive

- Optimism among manufacturers, as reflected by the CBI survey, cooled more than expected to -32 in July after rising to -18 April, as output consistently underperformed expectations. Near-term outlook, nonetheless remains positive amid an ongoing recovery in the wider UK economy and sub-indicators also reaffirmed this as firms are looking to increase stock levels to meet demand, and the share of manufacturers working below capacity dropped sharply over the quarter.

Tokyo's core inflation quickened for the third month

- Core inflation (excluding fresh food) in the capital matched expectations and accelerated for the third month to 2.2% y/y in June (May: 2.1% y/y), keeping doors open for possible interest rate hikes in 3Q (OIS: 54% or rate hike by September). The figure come a day after the Japan's producer price inflation for services jumped, all boding well for BOJ's stance that higher wage will spur consumption.

Hong Kong continues to log double-digit growth for exports, but headwinds persist

- Although below expectations, exports continued to post double-digit growth in June (10.7% y/y vs 14.8% y/y), as demand from China, US and the EU all expanded notably, while those to many other major Asian markets also saw strong growths. Increases were also recorded for most major commodities especially office machines & automatic data processing machines; electrical machinery, apparatus & appliances & electrical parts thereof as well as telecommunications, sound recording & reproducing apparatus & equipment.
- While exports should stay positive going forward barring any shocks to the global economy and geopolitical tension, downside uncertainties from the softer China's economy as well as escalating trade tensions will weigh on external demand going forward.

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
26-Jul	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
29-Jul	UK Mortgage Approvals (Jun)	60.0k
	UK CBI Retailing Reported Sales (Jul)	-24
	US Dallas Fed Manf. Activity (Jul)	-15.1

Source: Bloomberg

Hong Leong Bank Berhad
Fixed Income & Economic Research, Global Markets
Level 8, Hong Leong Tower
6, Jalan Damanlela
Bukit Damansara
50490 Kuala Lumpur
Tel: 603-2081 1221
Fax: 603-2081 8936
HLMarkets@hlbb.hongleong.com.my

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