HongLeong Bank

27 September 2024

## Global Markets Research

## Daily Market Highlights

# 27 Sep: AI and China-fuelled rally in risk

## Equities resumed gains boosted by chips and China related stocks

## Bond yields largely increased; USD weakened; AUD and NZD led gains

## Focus will shift to US core PCE prints for Fed policy outlook ahead

**US equities continued rallying boosted by chips and China stocks; bond yields largely increased while the USD broadly weakened again**

- Global financial markets saw a return of risk-on sentiments spurred by AI and China-related optimism, and as US data and the revision to annual GDP affirmed a resilient US economy. The broader US S&P500 hit fresh record high again amid gains in most sectors. Despite pulling back from session high, the benchmark stock index still closed the day 0.4% d/d higher. Meanwhile, the Dow and NASDAQ rose 0.6% d/d. The much anticipated speech from Fed Chair Powell at the annual US Treasury Market Conference turned out to be a non-event as his pre-recorded speech did not touch on economic outlook and monetary policy path, disappointing those looking for more clues if the FOMC would cut 25bps or 50bps next.
- European and Asian bourses also ended the day in the green. China stocks stole the limelight with over 4.0% gain on the day again, on hopes the slew of stimulus measures will help address growth risk and fallout from the real estate and banking sectors. The China government called for more measures to arrest further deterioration in the property market by strictly limiting the construction of new homes, and pledged more fiscal spending reportedly via more bond sales, at its politburo meeting among top leaders yesterday.
- Bonds remained under pressure with modest increases in yields. The UST curve traded mixed, with bonds up to 10-year saw increases in yields by between 1-7 bps while the ultralong end 20- and 30-year bond yields slipped marginally within one basis point. The curve flattened again after recent steepening move with the 2s added 7bps to 3.63% while the 10s inched up just 1bp to 3.80%. European bond yields also traded mixed between -4 to +2bps.
- In the FX space, USD bear took hold again, weakening against most G10s (except JPY) and was mixed against Asian FX. Aussie (+1.1%), kiwi (+1.0%), KRW (+1.4%) and CNH (+0.9%) led gains in their respective segments. The AUD jumped on China's pledge for more fiscal stimulus and RBA's policy divergence with other majors. The sterling advanced 0.7% d/d to 1.3415 amid expectation the BOE will go slow with its rate cuts. Meanwhile, the CHF strengthened 0.5% to 0.8462 as the SNB delivered a gradual 25bps cut as expected. The MYR ended the day weaker by 0.4% at 4.1458 vs the USD, consolidated from recent rallies. On the contrary, SGD strengthened 0.5% to 1.2832, its strongest level in a decade.
- On the commodity front, oil prices extended their decline on expectations of resumption in Libyan production and on news reports saying Saudi will

**Key Market Metrics**

| | Level | d/d (%) |
|---|---|---|
| **Equities** | | |
| Dow Jones | 42,175.11 | 0.62 |
| S&P 500 | 5,745.37 | 0.40 |
| NASDAQ | 18,190.29 | 0.60 |
| Stoxx Eur 600 | 525.61 | 1.25 |
| FTSE 100 | 8,284.91 | 0.20 |
| Nikkei 225 | 38,925.63 | 2.79 |
| CSI 300 | 3,545.32 | 4.23 |
| Hang Seng | 19,924.58 | 4.16 |
| Straits Times | 3,582.23 | -0.03 |
| KLCI 30 | 1,671.32 | -0.12 |
| **FX** | | |
| Dollar Index | 100.56 | -0.36 |
| EUR/USD | 1.1177 | 0.40 |
| GBP/USD | 1.3415 | 0.68 |
| USD/JPY | 144.81 | 0.04 |
| AUD/USD | 0.6896 | 1.07 |
| USD/CNH | 6.9730 | -0.85 |
| USD/MYR | 4.1458 | 0.40 |
| USD/SGD | 1.2832 | -0.52 |
| **Commodities** | | |
| WTI ($/bbl) | 67.46 | -3.41 |
| Brent ($/bbl) | 71.42 | -3.05 |
| Gold ($/oz) | 2,670.60 | 0.52 |
| Copper ($$/MT) | 10,090.00 | 2.95 |
| Aluminum($/MT) | 2,621.50 | 3.25 |
| CPO (RM/tonne) | 4,106.50 | 0.81 |

*Source: Bloomberg, HLBB Global Markets Research*
** Dated as of 25 Sep for CPO*

abandon its $100/ barrel oil target. WTI fell by 3.4% d/d to $67.46/ barrel while Brent contracted 3.1% d/d to $71.42/ barrel.

### Another bag of decent US data; final 2Q GDP came in unrevised at 3.0% q/q

- Final 2Q GDP came in unchanged at 3.0% q/q as per the second estimate, confirming resiliency in the US economy. Private consumption grew 2.8% q/q, a tad slower than second estimate and consensus, but remained the biggest contributor to 2Q growth (+1.9ppt). Change in inventories, fixed investment and government consumption also contributed positively to growth in the quarter. Net exports were the only drag, subtracting 0.9ppt from growth.
- Durable goods orders defied expectation for a 2.6% m/m decline and stayed flat in August. This however still marked a slowing from the 9.9% m/m increase in July. Orders ex-transportation however rebounded from a 0.1% decrease to increase more than expected by 0.5% m/m, a sign core orders are still growing.
- Initial jobless claims fell 4k to 218k for the week ended 21 September (prior: upwardly revised from 219k to 222k), a fresh 4-month low, reaffirming a still healthy labour market despite recent fear of a bigger slump as job gains slowed.
- Pending home sales rebounded albeit at a slower than expected pace of 0.6% m/m in August (Jul: -5.5% m/m), as a drop in Northeast partially offset gains in all other regions. Improvement in housing affordability and lower mortgage rates are helping drive sales, but contract signings near cyclical lows, adding to signs of a still fragile housing market.
- Kansas City Fed manufacturing index deepened its fall to -8 in September, worse than August's -3 and consensus's -5. Weaknesses were observed from all fronts including prices paid for raw materials, new orders, new export orders, production and employment, fuelling further contraction in the region's manufacturing activities going forward.

### Japan machine tool orders fell for the first time in four months; CPI eased as expected; no change to our view for BOJ to hike in 1Q25

- Machine tool orders fell 3.5% y/y in August as initially estimated (Jul:+8.4% y/y), marking its first decline in four months. Domestic orders fell 9.9% while foreign orders only slipped marginally by 0.6% y/y during the month. Most sectors reported decline in orders, except for the increase in shipbuilding transport and aircraft, a sign of broad weakness in capex spending that could translate into softer growth ahead. As a result, BOJ will likely further push back its rate hike timing, to 1Q25 in our view.
- Tokyo CPI moderated to 2.2% y/y in September as expected (Aug: +2.6%), thanks to smaller gains in food (+3.4% vs +3.5% y/y) and utilities (+9.0% vs +15.9% y/y) as the Japanese government's resumption of energy subsidies for August to October to help households weather the hot weather reduced electricity and gas prices. CPI ex-fresh food and energy held steady at 1.6% y/y, also within expectations.

### Hong Kong exports and imports moderated more than expected

- Exports growth pulled back more than expected to 6.4% y/y in August (Jul: +13.1% y/y), its slowest growth in five months, as exports to the top two exports markets slowed. Shipment to China nearly halved to 12.9% y/y (Jul: +23.0% y/y) while that to the US pulled back sharply to a mere 2.8% y/y (Jul: +19.7% y/y) as the US-China tensions remained elevated. Meanwhile, imports growth also softened more than expected to 7.9% y/y (Jul: +9.9% y/y), with imports growth from China slowing (+9.7% vs +12.2% y/y) while that from the US contracted (-5.1% vs +8.8% y/y), a sign of subdued domestic demand. As a result, trade deficit widened more than expected to HKD33.1bn (Jul: -HKD21.8bn), and would keep a lid on GDP in 3Q.

## Singapore industrial production picked up more than expected in August

- Industrial production picked up to increase more than expected by 21.0% y/y in August (Jul: +2.0% y/y), its best gain since Jun-21. The jump was spurred by a spike in electronics (+49.1% vs +2.9% y/y), and chemicals (+11.1% vs +1.8% y/y), entirely offsetting the extended fall in biomedical (-16.1% vs -17.4% y/y), and slower growth in transport engineering and general manufacturing. This was in line with an earlier report that showed electronics exports grew 35.1% y/y in August (Jul: +16.8% /y), adding to signs the Singapore economy is benefitting from the global tech upcycle, and potentially from China's frontloading purchases ahead of the imposition of US restrictions. We remain cautiously optimistic that the Singapore economy is on track to expand 2-3% this year.

## House View and Forecasts

| FX | This Week | 3Q-24 | 4Q-24 | 1Q-25 | 2Q-25 |
|---|---|---|---|---|---|
| DXY | 99-102 | 102.41 | 100.87 | 99.86 | 98.86 |
| EUR/USD | 1.10-1.13 | 1.11 | 1.12 | 1.10 | 1.08 |
| GBP/USD | 1.31-1.34 | 1.29 | 1.30 | 1.30 | 1.29 |
| USD/JPY | 140-146 | 145 | 143 | 140 | 137 |
| AUD/USD | 0.66-0.69 | 0.66 | 0.66 | 0.67 | 0.68 |
| USD/MYR | 4.10-4.22 | 4.50 | 4.40 | 4.35 | 4.30 |
| USD/SGD | 1.28-1.31 | 1.33 | 1.32 | 1.30 | 1.28 |

| Rates, % | Current | 3Q-24 | 4Q-24 | 1Q-25 | 2Q-25 |
|---|---|---|---|---|---|
| Fed | 4.75-5.00 | 4.75-5.00 | 4.25-4.50 | 4.00.-4.25 | 3.75-4.00 |
| ECB | 3.50 | 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 |
|---|---|---|
| 27-Sep | CH Industrial Profits YoY (Aug) | 4.10% |
| | JN Leading Index CI (Jul F) | 109.5 |
| | EC ECB 1 Year CPI Expectations (Aug) | 2.80% |
| | EC ECB 3 Year CPI Expectations (Aug) | 2.40% |
| | EC Consumer Confidence (Sep F) | -- |
| | EC Services Confidence (Sep) | 6.3 |
| | EC Industrial Confidence (Sep) | -9.7 |
| | EC Economic Confidence (Sep) | 96.6 |
| | US Personal Income (Aug) | 0.30% |
| | US Personal Spending (Aug) | 0.50% |
| | US Real Personal Spending (Aug) | 0.40% |
| | US PCE Price Index YoY (Aug) | 2.50% |
| | US Core PCE Price Index YoY (Aug) | 2.60% |
| | US U. of Mich. Sentiment (Sep F) | 69 |
| | US Kansas City Fed Services Activity (Sep) | 5 |
| 30-Sep | JN Industrial Production MoM (Aug P) | 3.10% |
| | JN Retail Sales YoY (Aug) | 2.60% |
| | JN Dept. Store, Supermarket Sales YoY (Aug) | 1.10% |
| | CH Manufacturing PMI (Sep) | 49.1 |
| | CH Non-manufacturing PMI (Sep) | 50.3 |
| | CH Caixin China PMI Mfg (Sep) | 50.4 |
| | CH Caixin China PMI Services (Sep) | 51.6 |

**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

| | |
|---|---|
| JN Housing Starts YoY (Aug) | -0.20% |
| UK Nationwide House PX MoM (Sep) | -0.20% |
| UK GDP QoQ (2Q F) | 0.60% |
| UK Net Consumer Credit (Aug) | 1.2b |
| UK Mortgage Approvals (Aug) | 62.0k |
| US MNI Chicago PMI (Sep) | 46.1 |
| US Dallas Fed Manf. Activity (Sep) | -9.7 |

*Source: Bloomberg*