

28 June 2024

Global Markets Research

Daily Market Highlights

28 June: Calm markets ahead of the US PCE inflation prints

**UST yields and DXY fell; overall downshifts in US economic data despite the upward revision to 1Q GDP
JPY/USD remained above 160 despite verbal intervention; Tokyo's inflation rate quickened
Mixed sentiment in Europe; China's industrial profits slowed; Australia's job vacancies fell further**

- The three major US equity indices eked out narrow gains between 0.1-0.3% d/d overnight, with trading largely calm ahead of the PCE price inflation data due today. On Thursday, S&P 500's communication services sector was amongst the best performers, while consumer discretionary also gained, benefitting from the rally in Amazon shares. Several stocks, nonetheless, slid after reporting disappointing quarterly earnings, from Levi Strauss to Walgreens Boots Alliance.
- Elsewhere, Stoxx Eur 600 closed lower by 0.4% with the retail sector a notable laggard, driven by the 13% d/d plunge in H&M shares due to earnings miss. Asian markets also closed lower, as sentiment continued to feel the rumble from the weak JPY and as China's industrial profits slowed. As JPY continued to trade near its 38-year low, Japan's Finance Minister Shunichi Suzuki said that the country was "deeply concerned about FX impact on the economy". The Asian equity markets are, nonetheless, set to open mixed today following the futures.
- Treasuries rose, pulling yields from their peaks this week amidst the weaker-than-expected consumer spending and higher jobless claims prints. UST yields fell 4-5bps across the board, with the 2Y closing at 4.71% and the 10Y at 4.29%. Meanwhile, 10Y European bond yields closed mixed between -2 to +4bps.
- In the forex market, DXY gave up the 106-handle, ultimately settled 0.1% d/d lower at 105.91 amidst the retreat in UST yields. JPY closed just above the flatline but remained above the 160 level in spite of the verbal intervention from its Finance Minister. GBP and EUR appreciated in tune to 0.1-0.2% d/d each, with the latter off its intraday high of 1.0726 on cautious sentiment ahead of the French general elections. Regional currencies closed mixed and mild by +/-0.2% d/d against the Dollar, with the MYR closing the day rather flattish at 4.7175.
- The WTI and Brent rallied 1.0-1.3% d/d as tensions between Israel and Iran-backed militia Hezbollah provided support for crude oil prices, overshadowing signs of weak near-term fundamentals.

Range of data to suggest a downshift in the US economy

- A wide range of economic data that signals further downshift in US growth under high interest rates. The government marked down its consumer spending print by 0.5ppts to +1.5% q/q in 1Q (4Q: +3.3% q/q). Overall GDP was nonetheless, revised upwards by 0.1ppts to +1.4% q/q (4Q: +3.4% q/q), primarily reflecting downward revision to imports (subtraction in the calculation of GDP and largely implying softer domestic demand) as well as upward revisions to non-residential fixed investment and government spending.

Key Market Metrics

	Level	d/d (%)
Equities		
Dow Jones	39,164.06	0.09
S&P 500	5,482.87	0.09
NASDAQ	17,858.68	0.30
Stoxx Eur 600	512.59	-0.43
FTSE 100	8,179.68	-0.55
Nikkei 225	39,341.54	-0.82
CSI 300	3,454.12	-0.75
Hang Seng	17,716.47	-2.06
Straits Times	3,343.35	0.35
KLCI 30	1,584.94	-0.38
FX		
Dollar Index	105.91	-0.14
EUR/USD	1.0704	0.22
GBP/USD	1.2639	0.13
USD/JPY	160.76	-0.03
AUD/USD	0.6647	-0.02
USD/CNH	7.3035	0.04
USD/MYR	4.7175	0.03
USD/SGD	1.3585	0.04
Commodities		
WTI (\$/bbl)	81.74	1.04
Brent (\$/bbl)	86.39	1.34
Gold (\$/oz)	2,336.60	1.63
Copper (\$\$/MT)	9,515.50	-0.26
Aluminum(\$/MT)	2,492.50	-0.78
CPO (RM/tonne)	3,951.50	0.97

Source: Bloomberg, HLBB Global Markets Research
* Dated as of 26 June

- Core capital goods, a proxy for investment in equipment excluding aircraft and military equipment, also fell 0.6% m/m in May (Apr: +0.3% m/m), worse than all street estimates and matching its biggest drop this year. Bookings for durable goods rose 0.1% m/m, but this marks a deceleration from +0.2% m/m the prior month, and was boosted by demand for military aircrafts. Stripping this, orders would have fallen 0.1% d/d (Apr: +0.4% m/m), suggesting cautious firms who are dialling back on expansion plans. By components, orders for electrical equipment, machinery and communication gears fell during the month, but increased for motor vehicles, computers and fabricated metals.
- A leading indicator to the housing market, pending home sales activities unexpectedly fell 2.1% m/m in June (May: -7.7% m/m), and to its lowest since 2001. NAR, nonetheless expects moderately lower mortgage rates and higher home sales amidst stabilizing home prices in 2H of this year, and moving into 2025, expects mortgage rates to remain above 6% even with the Fed Funds rate cuts. NAR is also projecting existing home sales to grow by 4.2% in 2024 and 15.5% 2025 and median existing-home price to increase to record annual highs of \$405.k in 2024 and \$412.0k in 2025 respectively (2023: \$389.8k).
- In the labour market, continuing claims rose to its highest level since the end of 2021, a sign that it's taking longer for the unemployed to find a job and could push the unemployment rate up going forward. Continuing claims jumped 18k to 1839k for the week ended June 15 (June 8: +8k), while jobless claims fell the second week by 6k to 233k the week after (June 15: -4k).
- Kansas City Fed Manufacturing Activity index fell more to -8 in June (May: -2), although expectations for future remained expansionary. All the sub-components were negative and fell m/m, except supplier delivery time and the price indices.

Eurozone's economic confidence remains broadly stable; UK's business sentiment retreated from its 8-year high

- Economic confidence in the Eurozone remains broadly stable in June and for the 1H of 2024, although it undershot expectations at 95.9 (-0.2ppts m/m) and remains around 4 points below its long-term average. The flat trend largely reflects a broadly stable confidence in industry, construction and among consumers, while confidence in services and retail trade dipped, potentially signalling still weak consumer spending going forward. Amongst its largest economies, it improved markedly for Spain, was stable for Germany and deteriorated for France and Italy.
- In contrast, business sentiment in the UK retreated more than expected from its 8-year high in June, as confidence were dented by weaker trading and economic optimism, as well as price expectations. The Lloyd's Business Barometer saw a bigger than expected downtick to 41, suggests that May's 50 print was largely a blip, with the index largely traded sideways within the 42-44 levels for the 1H of the year.

Australia's job vacancies fell further; inflation expectations inched up

- Job vacancies fell further by 2.7% q/q in May (Feb: -6.2% q/q), but remained well above their pre-pandemic levels. The decline in job vacancies was seen across many industries, led by wholesale trade and manufacturing. Only 4 industries had growth in job vacancies, with the non-market driven healthcare contributing to the bulk of them.
- Overall, the data points to a less tight labour market which would weigh on

an already weak consumer spending, but with the 0.3ppts upturn in June's CPI to +4.4% y/y, we expect the RBA to still leave the cash rate unchanged at the August 5–6 monetary policy meeting. It should, however, be noted that CPI expectations remained below their level observed at this time last year, and is still consistent with a broader trend of moderating inflation and wage expectations.

Japan's jobless rate held steady; IPI rebounded but is expected to fall again in June; Tokyo's inflation rate accelerated

- A mixed string of data from Japan this morning. Jobless rate matched expectations and held steady at 2.6% in May, while the industrial production (IPI) growth rebounded more than expected to +2.8% m/m from -0.9% m/m on steady demand for its electrical and electronics goods, and as Daihatsu resumed production after suspending operation earlier due to its safety test fraud scandal. Despite this, production has largely fluctuated, with output expected to decrease in June before increasing again in July, all potentially suggesting a still weak manufacturing sector.
- Meanwhile, Tokyo' inflation rate quickened in June, with the headline accelerating to 2.3% y/y while core rose 2.1% y/y (May: 2.2% y/y and 1.9% y/y). The uptick largely reflects government's moves to phase out its utility subsidies and the introduction of energy level which pushed up prices, while the education support programme in the capital weighed on prices. On balance, with prices above the 2% target and JPY trending near its 38-year low, this suggests that the BOJ will likely be on track toward normalizing its monetary policy as early as next month.

China's industrial profits slowed on steel; EVs and high-tech industries supported manufacturing sector

- Industrial profits slowed to +3.4% y/y in the first five months of 2024, down from +4.3% y/y in the Jan-Apr period. This comes after a flurry of largely downbeat economic indicators for May, a worrisome for the statement of the economy. The manufacturing sector continued to register positive, albeit softer growths due to high-tech and EV-related products, while steel mills lost money due to the slump in the housing sector.

House View and Forecasts

FX	This Week	2Q-24	3Q-24	4Q-24	1Q-25
DXY	104-107	105.43	105.56	103.45	101.38
EUR/USD	1.05-1.08	1.06	1.05	1.06	1.06
GBP/USD	1.25-1.28	1.24	1.22	1.23	1.24
USD/JPY	155-161	152	149	146	143
AUD/USD	0.65-0.68	0.65	0.65	0.65	0.66
USD/MYR	4.68-4.73	4.73	4.68	4.64	4.57
USD/SGD	1.34-1.37	1.35	1.35	1.34	1.33

Rates, %	Current	2Q-24	3Q-24	4Q-24	1Q-25
Fed	5.25-5.50	5.25-5.50	5.25-5.50	5.00-5.25	4.50-4.75
ECB	4.25	4.25	3.75	3.50	3.50
BOE	5.25	5.25	4.75	4.50	4.50
BOJ	0 - 0.10	0 - 0.10	0 - 0.10	0 - 0.10	0 - 0.10
RBA	4.35	4.35	4.35	4.10	4.10
BNM	3.00	3.00	3.00	3.00	3.00

Source: HLBB Global Markets Research

Up Next

Date	Events	Prior
28-June	AU Private Sector Credit MoM (May)	0.50%
	UK GDP QoQ (1Q F)	0.60%
	EC ECB 1 Year CPI Expectations (May)	2.90%
	US Personal Income (May)	0.30%
	US Personal Spending (May)	0.20%
	US PCE Core Deflator YoY (May)	2.80%
	US MNI Chicago PMI (Jun)	35.4
	US U. of Mich. Sentiment (Jun F)	65.6
	US Kansas City Fed Services Activity (Jun)	11
1-July	UK S&P Global UK Manufacturing PMI (Jun F)	51.4
	US S&P Global US Manufacturing PMI (Jun F)	51.7
	US ISM Manufacturing (Jun)	48.7

Source: Bloomberg

Hong Leong Bank Berhad

Fixed Income & Economic Research, Global Markets
 Level 8, Hong Leong Tower
 6, Jalan Damanela
 Bukit Damansara
 50490 Kuala Lumpur
 Tel: 603-2081 1221
 Fax: 603-2081 8936

HLMarkets@hlbb.hongleong.com.my

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