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Global Markets Research

Daily Market Highlights

02-Aug: US stocks gained in July

US equity benchmarks slipped last Friday but recorded gains in July
Dollar rebounded; yields fell after core PCE missed estimates
China's PMIs slowed in July; Eurozone's GDP growth beat expectations

- US stocks slipped lower on the last trading session of July but closed out the month with solid gains, supported by strong corporate earnings and generally positive economic sentiment throughout the month. On Friday, US main benchmarks recorded losses ranging 0.4-0.7% d/d amid increasing warnings over the spread of the Covid Delta variant in the US. The benchmarks also ended the week lower with the tech-heavy NASDAQ suffering over 1.0% w/w decline. For the month, the Dow rose 1.3%, the S&P 500 gained 2.3% and NASDAQ picked up 1.2%.

- US treasury yields fell on Friday (-2 to -5bps) amid risk aversion and to some extent a retreating in inflation concerns. The core PCE inflation came in softer than consensus estimates, indicating that the surging inflation may start to wane soon, as expected by the Federal Reserve. The yield on 10Y UST fell the most (-5bps) to 1.22%. The 10Y yield fell by a whopping 24.5bps in July, bringing its ongoing falling streak to a four-month long.

- The dollar rebounded on Friday, strengthening against nearly all G10 currencies except the CHF as demand for safe havens rose. DXY closed 0.3% d/d higher but insufficient to recover losses made throughout the week; the index shed 0.8% w/w and 0.3% m/m.

- USD/MYR snapped a five-session winning streak to close 0.4% d/d lower at 4.2205 on Friday. On a weekly basis, the pair was down by 0.1%, bringing an end to a six-week long climb. For the month, USD/MYR strengthened by 1.7%. We continue to see some range trading within 4.21-4.25 in the week ahead. Support from a weaker USD outlook may be negated by domestic noises on the pandemic and political front. We continue to see 4.25 as a major resistance and a break will lead the pair towards 4.28. The pair is supported at 4.20.

- In the commodity market, gold futures were down by 1.0% to $1812.6/oz as the dollar strengthened. The bullion rose 0.6% compared to the previous week and clinched a 2.3% m/m gain. Crude oil prices picked up for the third session, albeit at more moderate paces (+0.4% to +0.5% d/d) and closed out the week with solid gains (+2.6 to 3.0% w/w) on the back of strong consumption outlook and widespread predictions of a tighter oil market. Brent crude settled at $76.33/barrel and WTI at $73.95/barrel, with a respective m/m increase of 1.6% and 0.7%.

US core PCE inflation missed expectations:

- Personal spending rose 1.0% m/m in June (May: -0.1%), better than the expected gain of 0.7%, adding to signs of solid consumer spending in the US. Personal income was little changed (+0.1% m/m vs -2.2% m/m prior) in the same month as income normalised from the stimulus boost in March and April. This was better than the expected reading of -0.3% m/m, reflecting impact from the current hiring boom in the US as firms offered higher pays & incentives to recruit and retain employees.
- The core PCE price index rose at a smaller pace of 0.4% m/m (May: +0.5%) but the annual rate was still a tad higher (+3.5% y/y vs +3.4% y/y). Consensus had been

Key Market Metrics

	Level	d/d (%)
Equities		
Dow Jones	34,935	-0.42
S&P 500	4,395	-0.54
NASDAQ	14,673	-0.71
Stoxx 600	462	-0.45
FTSE 100	7,032	-0.65
Nikkei 225	27,284	-1.80
Hang Seng	25,961	-1.35
Straits Times	3,167	-0.43
KLCI 30	1,495	-1.21
FX		
Dollar Index	92.17	0.34
EUR/USD	1.19	-0.14
GBP/USD	1.39	-0.39
USD/JPY	109.72	0.22
AUD/USD	0.73	-0.70
USD/CNH	6.46	0.09
USD/MYR	4.22	-0.42
USD/SGD	1.35	0.10
Commodities		
WTI ($/bbl)	73.95	0.45
Brent ($/bbl)	76.33	0.37
Gold ($/oz)	1,812.60	-1.02

** Change in bps instead of %, Source: Bloomberg, HLBB Global Markets* expecting the core PCE inflation to hit 3.7% y/y amid reports of surging prices on the producer and consumer fronts. The smaller than expected gain gave rise to views that inflation may be peaking soon.

- In a separate report, the University of Michigan Consumer Sentiment Index was revised higher to 81.2 for its July's final reading (preliminary: 80.8). However, the index was still lower compared to June (85.5), reflecting waning consumer confidence that was said to be driven by higher inflation expectations.
- The MNI Chicago PMI jumped to 73.4 in July (June; 66.1), thanks to faster pace of new orders and production expansion.

Eurozone's economic growth beat expectations:

- Preliminary report showed that the Eurozone's 2Q GDP growth beat expectations at 2.0% q/q, better than the consensus forecast of 1.5%. This was higher compared to the 1.9% growth in the first quarter, bringing the annual rate to 13.7% y/y (1Q: -1.3%) as the lifting of the services sector drove up economic activity in the region. Unemployment rate fell to 7.7% in June, from the upwardly revised 8.0% in May.
- The flash HICP inflation came in negative at -0.1% m/m in July, but the favourable base effect nonetheless inflated the annual rate to 2.2% y/y (Jun: +1.9%), exceeding the ECB's recently revised target of 2.0%. The jump in energy prices (+14.1% y/y) alongside higher prices for food & alcohol (+1.6% y/y) and services (+0.9%) helped drive the headline index. The core reading eased to 0.7% y/y (Jun: +0.9%), reflecting smaller gain in non-energy industrial goods (+0.7% y/y).

China's economic recovery slowed in July:

- The latest PMI data showed the pace of economic recovery in China continued to slow last month. The official NBS Manufacturing PMI slipped to 50.4 in July (Jun: 50.9), reflecting the impact from weaker demand as well as extreme weather conditions and factories undergoing equipment maintenance. Recent flooding in central China has weighed on activity.
- The non-manufacturing PMI, a gauge of services and construction activity, also ticked lower to 53.3 (Jun: 53.5).
- Risks to the outlook include the shortage of chips in the manufacturing sector, generally higher raw material prices as well as the rise in Covid-19 cases in the country.

Hong Kong's GDP growth eased in 2Q:

- Hong Kong GDP contracted 1.0% q/q in the second quarter according to a preliminary report, retreating from the sharp 5.4% q/q growth in the first quarter. This was slightly worse than consensus estimate for a 0.8% decline, bringing the y/y growth rate to 7.5% (1Q: +7.9%).

House View and Forecasts

FX	This Week	3Q-21	4Q-21	1Q-22	2Q-22
DXY	91.00-93.00	88.00	89.50	90.50	91.50
EUR/USD	1.17-1.19	1.24	1.22	1.21	1.20
GBP/USD	1.38-1.41	1.44	1.42	1.40	1.38
AUD/USD	0.73-0.75	0.80	0.78	0.77	0.76
USD/JPY	108.55-110.52	107.50	109.00	110.00	111.00
USD/MYR	4.21-4.25	4.15	4.10	4.10	4.08
USD/SGD	1.34-1.36	1.31	1.33	1.33	1.32

Policy Rate (%)	Current	3Q-21	4Q-21	1Q-22	2Q-22
Fed	0.25-0.50	0.25-0.50	0.25-0.50	0.25-0.50	0.25-0.50
ECB	-0.50	-0.50	-0.50	-0.50	-0.50
BOE	0.10	0.10	0.10	0.10	0.10
RBA	0.10	0.10	0.10	0.10	0.10
BOJ	-0.10	-0.10	-0.10	-0.10	-0.10
BNM	1.75	1.75	1.75	1.75	1.75
Fed	0.25-0.50	0.25-0.50	0.25-0.50	0.25-0.50	0.25-0.50

Source: HLBB Global Market Research

Up Next

Date	Events	Prior
02/08	VN Markit Vietnam PMI Mfg (Jul)	44.1
	MA Markit Malaysia PMI Mfg (Jul)	39.9
	JP Jibun Bank Japan PMI Mfg (Jul F)	52.2
	CH Caixin China PMI Mfg (Jul)	51.3
	EZ Markit Eurozone Manufacturing PMI (Jul F)	62.6
	HK Retail Sales Value YoY (Jun)	10.5%
	UK Markit UK PMI Manufacturing SA (Jul F)	60.4
	SG Purchasing Managers Index (Jul)	50.8
	US Markit US Manufacturing PMI (Jul F)	63.1
	US Construction Spending MoM (Jun)	-0.3%
	US ISM Manufacturing (Jul)	60.6
03/08	AU Home Loans Value MoM (Jun)	4.9%
	AU RBA Cash Rate Target (03 Aug)	0.1%
	US Factory Orders (Jun)	1.7%

Source: Bloomberg

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