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Global Markets Research

Daily Market Highlights

03-Aug: Delta variant clouded outlook

US equities & yields fell amid concerns over Delta variant

Oil prices tumbled the most in two weeks

US ISM Manufacturing Index retreated in July

- US stocks reversed early gains to close lower on Monday's session as investors weighed the strong corporate earnings against the threat posed by the rising Delta variant cases on economic outlook. The US ISM Manufacturing Index came in lower for July, indicating that the robust growth rate had peaked and slowed. The Dow Jones and S&P 500 recorded modest losses of 0.3% and 0.2% respectively while NASDAQ was little changed (+0.06%).
- US treasury yields slipped further amid growth concern and the disappointing ISM data. The yield on 10Y UST was down by 4.5bps to 1.18%. The dollar registered mixed performances against its G10 counterparts. The dollar index fell 0.1% to 92.05 amid weakness against the JPY while CHF and EUR were flat. USD/MYR gained 0.1% to 4.2250 on Monday. We expect some range trading within 4.21-4.25 in the week ahead as investors monitor the local political and pandemic development. 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.
- Meanwhile gold futures rose 0.3% to \$1818.10/oz amid mixed USD movements. Crude oil prices plunged the most in two weeks as the Delta variant clouded the outlook for the oil market. Brent crude tumbled 4.5% to \$72.89/barrel while WTI shed 3.6% to \$71.26/barrel.
- Senate democrats' plan to pass a \$1 trillion bipartisan infrastructure bill this week may be stalled by the quarantine of key Republican Senator Lindsey Graham who has tested positive for Covid-19. The RBA's decision is due at noon today and general expectations are the central bank will delay its initial plan to taper its weekly purchase of Australian government bonds as the recent surge in Covid cases had dampened growth outlook. Stock futures in Japan point lower as of writing while Hong Kong likely sees a muted start.

PMI data showed slower manufacturing growth in developed economies:

- The US ISM Manufacturing Index ticked lower to 59.5 in July, from 60.6 in June, suggesting a slower rate of expansion in the manufacturing sector, although the near-60 reading indicates a continuously solid growth rate. The survey showed that new orders and productions grew at slower paces last month and the considerable retreat in the gauge of prices support views that the elevated inflation is showing signs of a gradual pullback. The separately released US Markit Manufacturing PMI rose to a record high of 63.4 in July (Jun: 62.1) but the capacity constraints weigh on outlook.
- The Eurozone Markit Manufacturing PMI came in lower at 62.8 in July (Jun: 63.4) but nonetheless still at historically elevated levels, indicating solid expansion of factory activity. Similarly, the UK Markit Manufacturing PMI also retreated to 60.4 (Jun: 63.9) as the recovery pace eased further in July. The above-60 level remains a positive sign.

Key Market Metrics

	Level	d/d (%)
Equities		
Dow Jones	34,838	-0.28
S&P 500	4,387	-0.18
NASDAQ	14,681	0.06
Stoxx 600	464	0.59
FTSE 100	7,082	0.70
Nikkei 225	27,781	1.82
Hang Seng	26,236	1.06
Straits Times	3,161	-0.18
KLCI 30	1,493	-0.11
FX		
Dollar Index	92.05	-0.14
EUR/USD	1.19	0.00
GBP/USD	1.39	-0.15
USD/JPY	109.31	-0.37
AUD/USD	0.74	0.23
USD/CNH	6.47	0.03
USD/MYR	4.22	0.10
USD/SGD	1.35	-0.10
Commodities		
WTI (\$/bbl)	71.26	-3.64
Brent (\$/bbl)	72.89	-4.51
Gold (\$/oz)	1,818.10	0.30

* Change in bps instead of %, Source: Bloomberg, HL Bank

- In Asia, Japan Markit Manufacturing PMI was revised higher to 53.0 in the final reading for July (Jun: 52.4), as the manufacturing sector remained supported by solid external demand.
- China Caixin Manufacturing PMI slipped to 50.3 in July (Jun: 51.3) as weaker demand and extreme weather conditions last month weighed on overall activity.
- Vietnam Markit Manufacturing PMI improved slightly to 45.1 in July (Jun: 44.1), but nonetheless indicates the ongoing deterioration of manufacturing activity as the country struggled to contain its worst Covid wave yet.
- Singapore's official Purchasing Managers Index rose to 51.0 in July (Jun: 50.8), reflecting the continuously solid manufacturing sector condition. Malaysia Markit Manufacturing PMI was little changed at 40.1 in July, compared to 39.9 in June, continuously reflecting the impact of the tighter restrictions imposed on the country's factories as the number of new daily cases hit record highs in July.

US private residential construction spending rose in June:

- Construction spending in the US increased less than expected, coming in only 0.1% m/m higher in June, compared to the previous month (-0.2%). Analysts had expected construction expenditure to pick up by 0.4% m/m. The good news is that the spending in the private residential sector rose 1.1% m/m (May: +0.3%) as underlying housing demand remained strong in the US. The headline number had been weighed down by the decline in the non-residential construction spending.

Hong Kong's retail sales slipped in June:

- Hong Kong's retail sales fell 5.0% m/m in June, following a 9.6% m/m surge in May. This brings the annual growth rate of retail sales to a softer 5.8% y/y (May: +10.4%), marking its fourth consecutive months of slowdown, partly attributed to a less favourable base from last year when compared to May.

House View and Forecasts

FX	This Week	3Q-21	4Q-21	1Q-22	2Q-22
DX	91.00-93.00	92.00	91.50	90.00	89.00
EUR/USD	1.17-1.19	1.18	1.19	1.21	1.22
GBP/USD	1.38-1.41	1.40	1.41	1.43	1.45
AUD/USD	0.73-0.75	0.74	0.74	0.76	0.77
USD/JPY	108.55-110.52	109.00	108.00	107.00	105.00
USD/MYR	4.21-4.25	4.23	4.20	4.20	4.15
USD/SGD	1.34-1.36	1.35	1.35	1.34	1.33

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	1.50	1.50	1.50	1.50
Fed	0.25-0.50	0.25-0.50	0.25-0.50	0.25-0.50	0.25-0.50

Source: HLBB

Up Next

Date	Events	Prior
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%
04/08	NZ Pvt Wages Inc Overtime QoQ (2Q)	0.4%
	NZ Employment Change QoQ (2Q)	0.6%
	NZ Unemployment Rate (2Q)	4.7%

SI Markit Singapore PMI (Jul)	50.1
HK Markit Hong Kong PMI (Jul)	51.4
JP Jibun Bank Japan PMI Services (Jul F)	46.4
AU Retail Sales MoM (Jun F)	-1.8%
CH Caixin China PMI Services (Jul)	50.3
EZ Markit Eurozone Services PMI (Jul F)	60.4
UK Markit/CIPS UK Services PMI (Jul F)	57.8
EZ Retail Sales MoM (Jun)	4.6%
US MBA Mortgage Applications (30 Jul)	5.7%
US ADP Employment Change (Jul)	692k
US Markit US Services PMI (Jul F)	59.8
US ISM Services Index (Jul)	60.1

Source: Bloomberg

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