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Global Markets Research

Daily Market Highlights

04-Oct: Resilience in US Manufacturing

Friday's rally helped trim weekly losses in US equities

Treasury yields pulled back further alongside correction in the US dollar

US ISM PMI and consumer spending picked up

- US stocks kicked off the fourth quarter with robust gains on Friday after US lawmakers averted a government shutdown and the solid economic data offered added comfort. The Dow Jones and S&P 500 staged a strong rebound, clocking in 1.4% and 1.2% respectively, driven by a broad-based increase across nearly all sectors. The NASDAQ rose 0.8%.
- Friday's buying spree helped trim the overall weekly losses for all benchmarks which ended lower compared to the previous week. The Dow Jones shed 1.4% w/w while the S&P 500 lost 2.2%; NASDAQ suffered the heaviest weekly decline of 3.2% w/w.
- Treasury yields edged lower for the third consecutive session after having spiked earlier of the week on inflation fear; Friday's down moves came despite the higher-than-expected core PCE inflation and ISM Prices Paid index. The 10Y UST yield fell to 1.46% (-2.6bps) on Friday, and was little changed (+1bp) compared to the prior week.
- The dollar pared back gains on Friday as G10 currencies pulled off a broad-based correction. The dollar index was down by 0.2% to 94.04 on Friday but nonetheless posted its fourth weekly gain (+0.8%) in a row.
- USD/MYR closed 0.2% lower at 4.1790 after trading on a muted note for four sessions. We remain neutral on USD/ MYR in the week ahead, expecting some consolidation in the USD after the recent rally and anticipating a range of 4.16-4.20 in the absence of fresh catalysts.
- Meanwhile, gold prices stabilised on Friday as futures rose 0.1% to \$1757.00/oz after Thursday's rally. Crude oil prices jumped alongside equity prices amid a return of risk sentiment; Brent crude rose nearly 1.0% to \$79.28/barrel and WTI gained 1.1% to \$75.88/barrel.

Supply chain bottlenecks constraint global manufacturing sector; US PMI defied trend:

- Manufacturing sectors around the world continued to face the challenges of supply chain bottlenecks and the rise in Covid-19 cases in Asia in the last two months further added to the burden, resulting in an overall softer rate of activity at factories.
- The US ISM Manufacturing PMI managed to defy the trend as the key manufacturing gauge rose to 61.1 in September (Aug: 59.9), highlighting the resilience of the sector. The report showed that new orders continued to hold up at a robust rate while production growth softened a little. The increase in the prices paid index reflects the raw material and labour shortages, confirming signs of prolonged inflation. The separately released Markit Manufacturing PMI for the US printed a lower reading of 60.7 in September (Aug: 61.1) but nonetheless still at a historically elevated level.

Key Market Metrics

	Level	d/d (%)
Equities		
Dow Jones	34,326.46	1.43
S&P 500	4,357.04	1.15
NASDAQ	14,566.70	0.82
Stoxx 600	452.90	-0.42
FTSE 100	7,027.07	-0.84
Nikkei 225	28,771.07	-2.31
Hang Seng	24,575.64	-0.36
Straits Times	3,051.11	-1.15
KLCI 30	1,524.48	-0.87
FX		
Dollar Index	94.04	-0.21
EUR/USD	1.1596	0.14
GBP/USD	1.3546	0.53
USD/JPY	111.05	-0.22
AUD/USD	0.7258	0.43
USD/CNH	6.4369	-0.19
USD/MYR	4.1790	-0.17
USD/SGD	1.3571	-0.04
Commodities		
WTI (\$/bbl)	75.88	1.13
Brent (\$/bbl)	79.28	0.97
Gold (\$/oz)	1,757.00	0.10

Source: Bloomberg, HLBB Global Markets Research

- Other major economies such as the Eurozone (58.6 vs 61.4 prior), UK (57.1 vs 60.3 prior) and Japan (51.5 vs 52.7 prior) all reported lower PMIs last month although they remained above the 50 neutral threshold.
- In South East Asia, Vietnam PMI was unchanged at 40.2 while Malaysia PMI improved to 48.1 (Aug: 43.4); both reflect continuous contraction in manufacturing conditions.

US consumer spending picked up in August:

- Consumer spending continued to rise in the US even as income growth has slowed in August. Personal spending rose 0.8% m/m, more than consensus forecast of 0.7%; however, this followed a downwardly revised 0.1% decline in spending in July. Personal income growth meanwhile softened to 0.2% m/m (Jul: +1.1%), reflecting smaller increases in compensation, wages & salary. August's core PCE inflation rates were unchanged from July, at 0.3% m/m and 3.6% y/y respectively, highlighting the persistent inflationary pressure in the economy.
- The University of Michigan Consumer Sentiment Index was revised higher from 71.0 to 72.8 in September's final report (Aug: 70.3). This reflects some improvement in consumer confidence but the level remained severely low when compared to the above-80 prints in Mar-Jul. The spread of the Delta variant and higher inflation expectations were the main culprits weighing on sentiment.
- Last but not least, total US construction spending was unchanged in August (Jul: +0.3%). Private residential construction spending continued to rise (+0.4% m/m) as developers strive to fulfil the still-robust housing demand, but was offset by the fall in the non-residential sector.

Eurozone's HICP inflation at 13-year high:

- The Eurozone's HICP inflation accelerated to 0.5% m/m in September (Aug: +0.4%) according to a flash estimate. This translates to an annual HICP inflation rate of 3.4% y/y (Aug: +3.0%), a 13-year high. Stripping off the volatile items, inflation jumped to 1.9% y/y (Aug: +1.6%). The sharp jump in inflation reflects the surge in prices of goods resulting from supply chain bottlenecks and pent-up demand while also being amplified by the low corresponding base last year. The y/y HICP rate turned negative from August to December 2020 as the German government temporarily cut the Value Added Tax (VAT) as part of its Covid relief package.

Australia reported higher investor home loans:

- Australia's home loan approvals fell by 4.3% m/m in August, more than the expected decline of 0.5%. In July, home loans growth had been at a mere 0.2%. August's decline was driven by the fall in owner-occupier loans (-6.6% vs -0.4% prior) as the extension of multiple regional lockdowns and the rise in Covid-19 cases impacted mortgage applications. Investor loan approvals had continued to hold up relatively well despite the lockdowns, as it rose for the tenth consecutive month by 1.5% m/m (prior: +1.8%). This divergence suggests some near-term intervention by authorities to curb investor lending.

House View and Forecasts

FX	This Week	3Q-21	4Q-21	1Q-22	2Q-22
DXY	93-96	92.00	91.50	90.00	89.00
EUR/USD	1.14-1.17	1.18	1.19	1.21	1.22
GBP/USD	1.33-1.36	1.40	1.41	1.43	1.45
AUD/USD	0.71-0.73	0.74	0.74	0.76	0.77
USD/JPY	110-113	109.00	108.00	107.00	105.00
USD/MYR	4.16-4.20	4.23	4.20	4.20	4.15
USD/SGD	1.35-1.37	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	1.75	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 Markets Research

Up Next

Date	Events	Prior
04/10	EZ Sentix Investor Confidence (Oct)	19.6
	SG Purchasing Managers Index (Sep)	50.9
	US Factory Orders (Aug)	0.4%
05/10	SG Markit Singapore PMI (Sep)	52.1
	JP Jibun Bank Japan PMI Services (Sep F)	47.4
	AU Exports MoM (Aug)	5%
	AU RBA Cash Rate Target (05 Oct)	0.1%
	SG Retail Sales YoY (Aug)	0.2%
	EZ Markit Eurozone Services PMI (Sep F)	56.3
	UK Markit/CIPS UK Services PMI (Sep F)	54.6
	US Trade Balance (Aug)	-\$70.1b
	US Markit US Services PMI (Sep F)	54.4
	US ISM Services Index (Sep)	61.7

Source: Bloomberg

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