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Global Markets Research

Daily Market Highlights

05-Aug: S&P retreated from record high

Investors weighed mixed US data & Clarida's comments
Dollar saw renewed strength while oil prices tanked
Bank of England to announce MPC decision

- US stock benchmarks ended on a mixed note overnight as investors weighed the mixed economic data against the Federal Reserve Vice Chair Richard Clarida's remarks on monetary policy. The S&P 500 retreated by 0.5% from the record high in the previous session amid a broad-based decline in most categories of stocks. The Dow shed a whopping 323pts of 0.9%, dragged by losses in biotech company Amgen as well as industrial giants such as Caterpillar, 3M and Honeywell. NASDAQ eked out a modest 0.1% gain as tech stocks advanced.

- The US private sector added only half of the jobs as expected by analysts while Clarida said that the Fed may start raising rates in 2023 as it reaches its economic targets by the end of next year, adding that a bond tapering announcement may come later this year.

- Yields rose at the short-to-medium end of the curve while long-term yields were flat. 10Y UST last traded with a yield of 1.18%, 1bp higher compared to previous closing. Risk aversion gave rise to renewed USD strength, boosting the greenback across the board and the DXY by 0.2% to 92.27. All G10 currencies weakened against USD, except for the kiwi dollar which was propelled by surging expectations of a RBNZ rate hike as soon as 18 August following the upbeat New Zealand CPI data yesterday.

- USD/MYR ended virtually unchanged at 4.2205 on Wednesday. The renewed USD strength may raise the pair potentially to 4.23-4.24 range while investors monitor the local political and pandemic development. We see 4.25 as a major resistance and a break will lead the pair towards 4.28. The pair is supported at 4.20.

- Gold prices were flat overnight with futures trading little changed at $1810.5/oz. Crude oil prices slumped further on higher US crude inventories which dampened the outlook for oil consumption amid lingering concerns over the spread of the coronavirus Delta variant. The US benchmark WTI plunged by 3.4% to $68.15/barrel after hovering above the $70 mark for more than two weeks. Brent crude lost 2.8% to $70.38/barrel.

- Focus turns to the Bank of England's MPC decision today and markets are looking for any hawkish shift in the central bank's policy stance as the UK economic recovery is underway.

Key Market Metrics

	Level	d/d (%)
Equities		
Dow Jones	34,792.67	-0.92
S&P 500	4,402.66	-0.46
NASDAQ	14,780.53	0.13
Stoxx 600	468.22	0.61
FTSE 100	7,123.86	0.26
Nikkei 225	27,584.08	-0.21
Hang Seng	26,426.55	0.88
Straits Times	3,182.90	1.07
KLCI 30	1,491.33	-0.60
FX		
Dollar Index	92.27	0.21
EUR/USD	1.1837	-0.23
GBP/USD	1.3889	-0.19
USD/JPY	109.48	0.40
AUD/USD	0.7379	-0.23
USD/CNH	6.4630	-0.06
USD/MYR	4.2205	0.01
USD/SGD	1.3510	-0.02
Commodities		
WTI ($/bbl)	68.15	-3.42
Brent ($/bbl)	70.38	-2.80
Gold ($/oz)	1,810.50	0.02

Source: Bloomberg, HLBB Global Markets Research

Mixed US data as job growth waned while services PMI set a new record:

- The ADP National Employment Report showed that the US private sector added 330k jobs in July, much fewer than the expected job gains of 690k. The number of jobs added in June was also revised down to 680k (from 692k previously). The slower job growth in July reflects the smaller increase in both goods producing and services providing sectors. The overall services sector added only 318k jobs, way lower compared to previous month's gain of 624k. Manufacturing (+8k) and construction (+1k) employment were even weaker, highlighting the impact of the ongoing supply chain constraints. Friday's official NFP data will give us more clues over the latest state of the US job market.

- July's ISM Services Index meanwhile came in stronger than expected, at a record high of 64.1 (Jun: 60.1), versus the consensus estimate of 60.5. Demand for services continued to soar, both on the domestic front and abroad, although supply chain delays also led to higher backlog of orders in July. Firms surveyed also pointed out the negative impact of rising costs on their businesses.
- The separately released Markit Services PMI was revised higher to 59.9 (Jun: 63.7) from the preliminary reading, although still showing a sharp retreat from the previous month.
- Mortgage applications fell 1.7% w/w as at 30 July (prior: +7.0%) as applications for refinancing and purchasing homes both came down.

Markit services showed continuous growth in major economies:

- The Eurozone's services PMI edged higher to 59.8 in July (Jun: 58.3). Services output accelerated following the relaxation of restrictions for the region's services sector alongside the rising vaccination rates.
- Services PMI for the UK ticked lower to 59.6 in July, from 62.4 in June, reflecting weaker growth in business activity, adding to evidence that the economic recovery in the UK has slowed last month.
- Japan's services PMI slipped to 47.4 in July (Jun: 48.0) as companies saw activity hampered by the recent surge in Covid-19 infections.
- China's Caixin Services PMI advanced to 54.9 in July, from the 14-month low of 50.3 following the successful containment of the recent Covid-19 outbreak that had spurred new orders.
- Hong Kong's PMI was little changed at 51.3 in July (Jun: 51.4), indicating sustained albeit moderate growth in the private sector economy.
- Singapore's PMI rose sharply to 56.7 in July (Jun: 50.1) as private sector activity rebounded with a brief respite from the Phase 2 (heightened alert) restrictions.

Eurozone's retail sales rose at slower pace in June:

- Retail sales in the euro area rose 1.5% m/m in June, undershooting the expectations for a 1.7% m/m gain. May's sales number was also revised downwards to represent a smaller increase of 4.1% m/m, compared to the initial estimate of +4.6%. The smaller gain in retail sales came following the surge in pent-up demand in May in the services sector following the easing of Covid restrictions. In June, sales of food, drinks & tobacco were down alongside online shopping. These were offset by higher sales in non-food products as well as automobile fuel sales.

Australia's retail sales fell in June:

- Australia's retail sales fell 1.8% m/m in June as part of the country went into lockdown during that month that saw the retail sector being shut down temporarily to contain the new Covid outbreak. Sales fell across all categories of goods except for food. Adjusted for inflation, the retail sales for the entire second quarter still managed to post a small 0.8% q/q gain (1Q: -0.5%), thanks to the growth recorded in April and May. Sales may be affected still, moving into the third quarter as lockdown was extended by another four weeks in Sydney.

House View and Forecasts

FX	This Week	3Q-21	4Q-21	1Q-22	2Q-22
DXY	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 Global Markets Research

Up Next

Date	Events	Prior
05/08	AU Exports MoM (Jun)	6.0%
	UK Bank of England Bank Rate (05 Aug)	0.1%
	US Trade Balance (Jun)	-$71.2b
	US Initial Jobless Claims (31 Jul)	400k
06/08	JP Labor Cash Earnings YoY (Jun)	1.9%
	JP Household Spending YoY (Jun)	11.6%
	MA Foreign Reserves (30 Jul)	$111.1b
	US Change in Nonfarm Payrolls (Jul)	850k
	US Unemployment Rate (Jul)	5.9%
	US Average Hourly Earnings YoY (Jul)	3.6%

Source: Bloomberg

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