6 October 2021

Global Markets Research

Daily Market Highlights

06-Oct: US ISM Services rose in September

US stocks bounced back after selloff

Crude oil rally extended on tight supply expectations

US services sector showed resilience, trade deficit at record high

- US equities rebounded from Monday's selloff overnight, leaving all main benchmarks to end higher. The better-than-expected ISM Services offered some economic optimism. The Dow Jones rose 0.9% and the S&P 500 gained 1.1%; NASDAQ overperformed slightly, closing Tuesday's session 1.3% higher. Investors appeared to look past the congressional testimony of a Facebook whistle blower that may lead to tighter regulations of Big Tech in the future.

- Treasury yields continued to climb, leading the curve to bear-steepen. Overall yields rose by 0.6 to 5.1bps with the 10Y UST yield rising 4.7bps to 1.53%. The dollar regained some ground although the performances against the major currencies were mixed. The DXY rose 0.2% to 93.98 as the USD advanced against EUR, CHF, JPY and SEK but weakened against commodity-linked currencies.

- USD/MYR picked up 0.1% to 4.1790 on Tuesday as the pair held up relatively well despite the prior dollar weakness. This is in line with our neutral weekly outlook for the pair that takes into account some dollar consolidation this week. We continue to expect a weekly trading range of 4.16-4.20.

- The rebound in USD and some profit taking activity pressured gold prices as futures snapped a three-day winning streak to fall 0.4% to $1759.6/oz. Crude oil benchmarks soared another 1.6 to 1.7%; the OPEC+'s decision to keep up with its existing plan to hike output gradually (+400k bpd each month from November-April 2022) as opposed to a more drastic increase reaffirmed expectations that supply would be tight in face of expected rise in global demand. Brent crude settled at $82.56/barrel and WTI at $78.93/barrel.

Services growth accelerated in the US; slowed in Europe:

- The US ISM Services PMI rose to 61.9 in September, beating expectations that called for a pullback from August's reading (Aug: 61.7). The positive reading again showcases the resilience of the US services industry despite the spread of the Delta variant and rampant supply chain challenges. The Markit Services PMI for the US was lower at 54.9 in September (Aug: 55.1) but still indicates growth.
- The Eurozone's Markit Services PMI slipped to 56.4 in September (Aug: 59.0), confirming the fading effect of summer's economic reopening. The UK's services sector also experienced the same process with the services PMI ticking lower to 54.6 (Aug: 55.0) albeit at a less pronounced pace compared to the Eurozone.
- Meanwhile, Japan's services PMI showed some improvement at 47.8 in September, a nearly 5pt increase from 42.9 in August. The softer rate of deterioration suggests the waning impact of the State of Emergency restrictions on the services sector.

Key Market Metrics

	Level	d/d (%)
Equities		
Dow Jones	34,314.67	0.92
S&P 500	4,345.72	1.05
NASDAQ	14,433.83	1.25
Stoxx 600	456.03	1.17
FTSE 100	7,077.10	0.94
Nikkei 225	27,822.12	-2.19
Hang Seng	24,104.15	0.28
Straits Times	3,068.12	-0.70
KLCI 30	1,530.42	0.52
FX		
Dollar Index	93.98	0.21
EUR/USD	1.1598	-0.20
GBP/USD	1.3629	0.14
USD/JPY	111.46	0.48
AUD/USD	0.7292	0.15
USD/CNH	6.4493	-0.02
USD/MYR	4.1790	0.11
USD/SGD	1.3570	0.01
Commodities		
WTI ($/bbl)	78.93	1.69
Brent ($/bbl)	82.56	1.60
Gold ($/oz)	1,759.60	-0.37

Source: Bloomberg, HLBB Global Markets Research

US trade deficit hit record high in August:

- The US trade deficit widened to a record high of $73.3b in August (Jul: -$70.3b) as imports increased (+1.4% m/m) more than exports (+0.5% m/m). Imports of consumer goods rose alongside industrial supplies & materials, reflecting strong domestic demand. Exports growth was constrained by the supply chain bottlenecks; The small increase in exports was supported by higher shipment of industrial supplies & materials to overseas but was offset by the fall in shipments of vehicles, capital goods as well as food & feeds.

Singapore's retail sales fell in August:

- Singapore's retail sales fell 0.6% m/m in August (Jul: +0.9%), as some stricter restrictions were still in place in early August. The suspension of dining-in until 09 Aug had led sales of food & alcohol to decline for the second month. Meanwhile, sales of computer & telecommunication equipment as well as overall sales at supermarkets were down too. On a y/y basis, retail sales fell 2.8% (Jul: +0.2%), snapping a six-month gaining streak. Motor vehicle sales were down by 17.5% y/y due to the lower certificate of entitlement quota. Excluding motor vehicles, retail sales were flat.
- Meanwhile, Singapore's private sector economy experienced a faster rate of expansion in September as PMI rose to 53.8 (Aug: 52.1) following the easing of restrictions in later August.

RBA maintained policy; Australia's August trade surplus at record high:

- The RBA maintained its monetary policy setting as widely expected, offering no surprise to the AUD market. The cash rate was left unchanged and the 3-year government bond target was left unchanged at 0.1% while the weekly asset purchase rate was kept at $4b until at least mid-February 2022. RBA repeated the message that the current economic setback caused by the Delta variant is expected to be temporary. "Many businesses are now planning for the easing of restrictions and confidence has held up reasonably well". Wage and price pressures remain subdued in Australia and the impact of supply chain disruption remains limited on inflation. RBA acknowledged that house prices continued to rise and said that the Council of Financial Regulators is weighing the medium-term risks of rapid credit growth. It added that loan serviceability buffers are appropriate. It concludes by reinforcing its commitment to highly supportive monetary conditions.
- In a separate release, Australia's exports rose 4% m/m in August (Jul: +5%) to a record high of AUD48.5b amid robust demand for coal, LNG and gold. Iron ores shipment came down last month, in concurrent with lower exports to China (-2.6% m/m) as the demand from the Mainland was temporarily hit by the rise in Covid cases. The 1% m/m decline in imports (Jul: +4%) left the trade surplus at a fresh high of AUD15.08b (Jul: AUD12.65b).

House View and Forecasts

FX	This Week	4Q-21	1Q-22	2Q-22
DXY	93-96	91.50	90.00	89.00
EUR/USD	1.14-1.17	1.19	1.21	1.22
GBP/USD	1.33-1.36	1.41	1.43	1.45
AUD/USD	0.71-0.73	0.74	0.76	0.77
USD/JPY	110-113	108.00	107.00	105.00
USD/MYR	4.16-4.20	4.20	4.20	4.15
USD/SGD	1.35-1.37	1.35	1.34	1.33

Policy Rate %	Current	4Q-21	1Q-22	2Q-22
Fed	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
BOE	0.10	0.10	0.10	0.10
RBA	0.10	0.10	0.10	0.10
BOJ	-0.10	-0.10	-0.10	-0.10
BNM	1.75	1.75	1.75	1.75

Source: HLBB Global Markets Research

Up Next

Date	Events	Prior
06/10	HK Markit Hong Kong PMI (Sep)	53.3
	NZ RBNZ Official Cash Rate (06 Oct)	0.25%
	EZ Retail Sales MoM (Aug)	-2.3%
	US MBA Mortgage Applications (01 Oct)	-1.1%
	US ADP Employment Change (Sep)	374k
07/10	MA Foreign Reserves (30 Sep)	$116.2b
	US Initial Jobless Claims (02 Oct)	362k

Source: Bloomberg

Hong Leong Bank Berhad
Fixed Income & Economic Research,
Global Markets
Level 8, Hong Leong Tower
6, Jalan Damanlela
Bukit Damansara
50490 Kuala Lumpur
Tel: 603-2081 1221
Fax: 603-2081 8936
HLMarkets@hlbb.hongleong.com.my