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Global Markets Research

Daily Market Highlights

08-Sep: Renewed growth concerns

Dow, S&P 500 pulled back after Labour Day long weekend

RBA reduced weekly bond purchases to AUD4b as earlier planned

China's exports surged despite partial port closure

- US stocks largely retreated on Tuesday as traders returned from the long Labour Day weekend. The Dow Jones fell 0.8% and the S&P 500 pulled back by 0.3% amid mounting evidence that the US economic growth has peaked and may lose momentum further as the Covid Delta variant continues to spread. Tech driven NASDAQ rose marginally (+0.07%) to reach a record level. Elsewhere, European shares pared gains from recent rallies as investors awaited the ECB's meeting. Asian equities were boosted by China's positive trade data.

- US treasury yields rose on Tuesday as investors brushed off the lower payroll number last week and focused on rising wage growth instead. A Fed tapering is still on the table this year although a September move is unlikely. The benchmark 10Y UST yield picked up 5bps to 1.37%. European sovereign bond yields advanced ahead of the ECB's Thursday decision as markets look forward to a change in the pace of the PEPP program.

- The dollar firmed up against all G10 currencies as risk sentiment weakened. Commodity currencies were the top losers in Tuesday's session with CAD leading the declines just ahead of today's Bank of Canada's monetary policy decision. The dollar index added 0.5% to 92.51, its best day since mid-August.

- USD/MYR regained some footing and rose moderately (+0.2%) to 4.1553. The resurgence in the broader USD may continue to support the pair but we continue to expect cautious trading ahead of tomorrow's BNM meeting where the OPR is expected to remain unchanged. No change to the weekly expected range of 4.13-4.17.

- Gold prices fell as the USD strengthened; futures plunged 1.9% to $1796.3/oz; Oil prices slipped on weaker global outlook and a strong USD; Brent crude shed 0.7% to $71.69/barrel and WTI sold off 1.4% to $68.35/barrel.

RBA went ahead with bond tapering plan:

- The RBA left its cash rate and the three-year yield target at 0.1% respectively, a widely expected move. It had also decided to stick to its original plan to taper its bond buying program, reducing the weekly bond purchases from $5b to $4b until at least mid-February 2022. Australia's continuous struggle to contain the Delta variant and the related regional lockdowns had prompted many market players to predict a delay in the said tapering plan.
- RBA now expects GDP to decline materially in 3Q and the unemployment rate to move higher over coming months. This setback is expected to be only temporary as the outbreak is expected "to delay, but not derail, the recovery". "Uncertainty about the timing and pace of this bounce-back and it is likely to be slower than that earlier in the year".
- RBA also reaffirmed that wage and price pressures remain subdued. "Very accommodative financial conditions" will continue to support the economic recovery. RBA said that the $4b/week bond purchase rate all the way through mid-Feb next year

Key Market Metrics

	Level	d/d (%)
Equities		
Dow Jones	35,100.00	-0.76
S&P 500	4,520.03	-0.34
NASDAQ	15,374.33	0.07
Stoxx 600	472.87	-0.49
FTSE 100	7,149.37	-0.53
Nikkei 225	29,916.14	0.86
Hang Seng	26,353.63	0.73
Straits Times	3,108.53	0.24
KLCI 30	1,583.48	0.12
FX		
Dollar Index	92.51	0.52
EUR/USD	1.1840	-0.25
GBP/USD	1.3786	-0.37
USD/JPY	110.28	0.38
AUD/USD	0.7386	-0.71
USD/CNH	6.4615	0.17
USD/MYR	4.1553	0.18
USD/SGD	1.3461	0.26
Commodities		
WTI ($/bbl)	68.35	-1.36
Brent ($/bbl)	71.69	-0.73
Gold ($/oz)	1,796.30	-1.92

Source: Bloomberg, HLBB Global Markets Research reflected the delay in recovery and the increased uncertainty associated with the outbreak. To offer a context, the RBA might have reduced the weekly purchase rate further for the remainder of 2021, if there was no pandemic related disruption given that Australian growth momentum had been strong prior to the outbreak.

Eurozone's 2Q GDP growth revised higher:

- The Eurozone's second quarter GDP growth was revised higher to 2.2% q/q, from 2.0% in the initial estimate. This left the y/y rate higher as well at 14.3% (versus 13.6% initially). Growth was driven by the rebound in household consumption, investment and government spending as the economy reopened during that period when vaccination rate accelerated.
- In a separate note, German investor confidence slumped in September as seen in the decline in the ZEW expectations index. The gauge for the Eurozone's outlook slipped to 31.1 in September, from 42.7 in August, indicating a weakening outlook for the single-currency bloc following the strong recovery in the second quarter. The global pandemic resurgence and ongoing supply chain constraints appeared to be the main reason weighing on sentiment.

Japan's 2Q GDP growth revised upwards:

- Japan 2Q GDP growth came in higher at 0.5% q/q in the second revision, compared to 0.3% in the early estimate. This reflects higher capex and stronger private consumption ahead of the surge in Covid-19 cases and the Summer Olympics. Private inventory and next exports meanwhile contributed negatively to the quarterly growth as the stronger domestic demand had boosted purchases from overseas. On a year-on-year basis, GDP expanded by 7.6% in the second quarter (1Q: -1.3%), partially boosted by the low corresponding rate last year.

China's trade data beat expectations in August:

- China's exports and imports rose to record levels in August, beating the consensus forecasts. The gains were unexpected as authorities had shut down a key terminal at its Ningbo-Zhoushan port last month during the Covid outbreak. The container port is one of the world's busiest ports.
- Despite that, exports rose 25.6% y/y in August (Jul: +8.1%) to $294.3b thanks to cars and steel shipments. Imports surged 33.1% y/y (Jul: +28.1%) to $236b as it purchased more LNG, a positive sign for domestic demand. Shipments to its key trading partners mostly rose in August, except for the UK and Singapore. Demand from the US (+15.5% y/y) had been crucial in supporting the overall exports.

Malaysia's international reserves rose to $116.3b:

- Malaysia's foreign reserve rose to $116.3b as at 30 Aug, from $111.3b previously. BNM said that the increase in reserves reflects an additional allocation of Special Drawing Rights (SDR) to Malaysia of SDR3.5b (or $5.0b), by the IMF. It said that the SDR allocation will "provide additional liquidity to the global financial system, bolster reserves, build confidence, and enhance the resilience of the world economy". The reserves position is sufficient to finance 8.3 months of retained imports and is 1.3 times total short-term external debt.

House View and Forecasts

FX	This Week	3Q-21	4Q-21	1Q-22	2Q-22
DXY	91-93	92.00	91.50	90.00	89.00
EUR/USD	1.17-1.20	1.18	1.19	1.21	1.22
GBP/USD	1.37-1.40	1.40	1.41	1.43	1.45
AUD/USD	0.73-0.75	0.74	0.74	0.76	0.77
USD/JPY	109-111	109.00	108.00	107.00	105.00
USD/MYR	4.13-4.17	4.23	4.20	4.20	4.15
USD/SGD	1.33-1.35	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
08/09	US MBA Mortgage Applications (03 Sep)	-2.4%
	US JOLTS Job Openings (Jul)	10.07mil
09/09	US U.S. Federal Reserve Releases Beige Book	NA
	UK RICS House Price Balance (Aug)	79.0%
	CN CPI YoY (Aug)	1.0%
	CN PPI YoY (Aug)	9.0%
	JP Machine Tool Orders YoY (Aug P)	93.4%
	MA BNM Overnight Policy Rate (09 Sep)	1.75%
	EZ ECB Main Refinancing Rate (09 Sep)	0.00%
	US Initial Jobless Claims (04 Sep)	340k

Source: Bloomberg

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