Global Markets Research

Daily Market Highlights

10-Sep: ECB slowed PEPP bond purchase pace

Deepening Delta variant-related growth concerns weighed on stocks
Sharp drop in initial jobless claims prompted lower yield, weaker USD
BNM left OPR unchanged and struck a neutral tone

- US stocks edged lower for the fourth session on Thursday even as initial jobless claims fell sharply last week. This came as the rapid spread of the Delta variant continues to cast a shadow over the supposedly strong US growth outlook. The US main benchmarks registered modest losses with the Dow and S&P 500 falling by 0.4% and 0.5% respectively while the tech-heavy NASDAQ ended 0.3% lower. European shares saw mixed performances after the ECB's policy statement reflected a more optimistic outlook and a decision to slow its bond buying pace. Asian key markets closed on a mixed note too.

- US treasury yields fell on the huge drop in initial jobless claims and after the Treasury Department's auction of $24b 30Y notes attracted super strong demand. The benchmark 10Y UST yield was down by 4.1bps to 1.30% while the 30Y yield plunged nearly 6bps to 1.90%. Earlier, Atlanta Fed President Raphael Bostic said that the Fed could slow its bond buying pace this year even as softer economic data may delay the move.

- The dollar slumped amid lower yields where the safe havens CHF and JPY were seen leading the gains. EUR was little changed after the ECB's announcement. The dollar index snapped a two-day winning streak to decline 0.2% to 92.48.

- USD/MYR ended little changed (-0.07%) at 4.1485 on Thursday, unfazed by the largely expected BNM's decision to keep OPR unchanged at 1.75%. Despite some reversal in broad USD, we continue to expect cautious trading ahead of the weekend as the pair is likely to hover at 4.14-4.15 levels in the absence of event risks.

- Gold prices rebounded as the dollar weakened; futures rose 0.4% to $1797.8/oz. Crude oil prices plummeted after China said it would release its stockpiles to counter limited global supply despite the Delta variant weighing on demand. The US EIA meanwhile reported a smaller than expected withdrawal in crude inventory (-1.5mil barrels vs -4.6mil barrels expected), a sign of weaker consumption. Brent crude undid the recovery in the previous session as it plunged by 1.6% to $71.45/barrel. WTI settled 1.7% lower at $68.14/barrel.

ECB slowed PEPP bond buying pace:

- The ECB left all its key rates unchanged as expected and said it would now purchase bonds with a moderately lower pace under its €1,850b Pandemic Emergency Purchase Program (PEPP), instead of the previously "significantly higher pace". The pace for the separate Asset Purchase Program (APP) will be left unchanged at $20b per month. It reiterated that the full PEPP envelope may not be fully used and could be equally calibrated if required. The decision to slow the PEPP pace came after the euro area's economic conditions improved in recent months following the higher vaccination rates and the reopening of the services sector.

Key Market Metrics

	Level	d/d (%)
Equities		
Dow Jones	34,879.38	-0.43
S&P 500	4,493.28	-0.46
NASDAQ	15,248.25	-0.25
Stoxx 600	467.57	-0.06
FTSE 100	7,024.21	-1.01
Nikkei 225	30,008.19	-0.57
Hang Seng	25,716.00	-2.30
Straits Times	3,071.70	0.09
KLCI 30	1,578.89	-1.17
FX		
Dollar Index	92.48	-0.19
EUR/USD	1.1825	0.08
GBP/USD	1.3837	0.48
USD/JPY	109.72	-0.48
AUD/USD	0.7368	0.04
USD/CNH	6.4513	-0.09
USD/MYR	4.1485	-0.07
USD/SGD	1.3428	-0.22
Commodities		
WTI ($/bbl)	68.14	-1.67
Brent ($/bbl)	71.45	-1.58
Gold ($/oz)	1,797.80	0.37

Source: Bloomberg, HLBB Global Markets Research

- The ECB upgraded its growth and inflation forecasts, as the economy is on track for a strong growth in the third quarter. GDP growth was revised to 5.0% in 2021 (previous estimate: 4.6%), 4.6% in 2022 and 2.1% in 2023. It still maintained that inflation may be transitory but acknowledged that underlying inflation has gone up; it significantly revised upwards its price projections where the headline inflation is now expected to be at 2.2% in 2021 (previous estimate: 1.9%), 1.7% in 2022 (1.5%) and 1.5% in 2023 (1.4%). The ECB sees the risks to the economic outlook as broadly balanced and concluded that the speed of the economic recovery depends on the course of the pandemic and progress with vaccinations.

Unchanged OPR and neutral policy tone:

- BNM left OPR unchanged at the record low of 1.75% as expected, marking a pause for the seventh consecutive time. BNM acknowledged that the recent re-imposition of nationwide lockdown had shaken the recovery momentum. While the central bank emphasized that downside risks to the growth outlook remain, it expects gradual relaxations and more reopening of economic sectors to allow the Malaysian economy to return to its recovery path.
- Judging from the shift to a more neutral tone in its policy statement, we are of the view that OPR will be kept unchanged at the last MPC meeting this year in November. We are maintaining our full year 2021 growth forecast at 2.7%, foreseeing a bumpy ride ahead as infection rates remain high and virus variants continue to evolve.

Sharp drop in US initial jobless claims:

- The number of first-time claimants for unemployment benefits fell to another pandemic era low last week as hiring activity continued to outpace layoffs in the US. Initial jobless claims came in at 310k for the week ended 3 September, its lowest ever since the pandemic shocked the job market last year. The number of claimants is slowly approaching the pre-pandemic levels of circa 220k per week as firms strive to hire more employees amid the ongoing economic growth. Government data yesterday showed that job openings were at an all -time high in July.

China's consumer inflation eased; factory gate prices surged:

- China's consumer inflation eased to 0.1% m/m and 0.8% y/y in August (Jul: +1.0%), reflecting softer consumer spending as the country faced a new virus outbreak that had led to tighter restrictions. Prices of consumer goods as well as services rose at lower rates. Prices of food continue to fall (-4.4% y/y). Continuous decline in prices of pork (-44.9% y/y) compared to last year remained a drag on headline CPI. On the other hand, producer price inflation surged to 9.5% y/y in August (Jul: +9.0%) as commodity prices stayed elevated last month even as authorities strove to curb price gains. NBS officials attributed the jump in factory gain inflation to higher prices of coals, steels and chemicals.

New Zealand's retail spending deep-dived amid lockdown:

- New Zealand's retail card spending dipped 19.8% m/m in August (Jul: +0.7%) as the country went into a lockdown to curb the new Covid-19 outbreak last month. Spending on services, apparels and durables all registered double digit declines while consumables surged over 9% m/m. New Zealand is set to ease the restrictions as PM Ardern said that the nationwide alert level would be lowered to level 2 where schools, businesses and offices are allowed to reopen. However, this rule does not apply to the country's largest city of Auckland where it is also the outbreak's epicentre.

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
10/09	MA Industrial Production YoY (Jul)	1.4%
	UK Monthly GDP (MoM) (Jul)	1.0%
	UK Industrial Production MoM (Jul)	-0.7%
	UK Visible Trade Balance GBP/Mn (Jul)	-£11988m
	US PPI Final Demand YoY (Aug)	7.8%
13/09	JP BSI Large Manufacturing QoQ (3Q)	-1.4

Source: Bloomberg

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