12 August 2021

Global Markets Research

Daily Market Highlights

12-Aug: Added signs of transitory inflation

Moderating inflation pared expectations for an imminent Fed tapering

Risk rally drove the Dow and S&P 500 to new record highs

Focus shifts to US PPI and initial jobless claims; UK 2Q GDP

- The moderation in US CPI reading overnight which offered tentative signs of a transitory inflation sent cheers to the markets. The Dow (+0.6%) and S&P (+0.3%) hit another fresh record highs overnight, while the NASDAQ (-0.2%) extended its leg down the second straight day as investors rotated out to cyclical shares. Industrials, materials and financials led gains in the Dow on lingering demand and recovery optimism stemming from President Biden's massive infrastructure plan and stimulus.

- US treasuries advanced with yields falling around 2bps up to the 10Ys following strong demand for its debt auction of $41bn 10Y bond which attracted a high yield of 1.34%. Reduced expectations for an imminent Fed tapering announcement also helped reverse some of the recent rise in yields.

- The US Dollar also slipped along with lower yields after the release of US CPI report confirming moderating inflation. The greenback weakened against all the majors, the most vs the Nordic and commodity currencies. The DXY fell 0.1% d/d back below the 93.0 handle to a 92.92 close on Wednesday and may continue to rangetrade barring any surprises from tonight's PPI and initial jobless claims data.

- USD/MYR traded on a more bullish than expected tone yesterday, hitting an intraday high of 4.2420 and was seen hovering in the 4.23-4.24 region through the day. The pair last closed at 4.2400, up 0.3% d/d. Yesterday's sharp move has almost wiped out the negative momentum and strengthened the bulls but near overbought level suggests some imminent pullback before any move higher again, testing the 4.25 key resistance next.

- Commodity prices saw extended gains on continued growth optimism stemming from stimulus hopes. Gold prices increased 1.3% to $1750.4/oz. Crude oil prices recovered from earlier losses spooked by talks of production increase. Brent crude rose 1.2% to $71.44/barrel while the US benchmark WTI increased 1.4% to $69.25/ barrel.

- Looking ahead, futures point to another mixed start in Asia markets this morning. On the data front, UK 2Q GDP will be keenly watched for the state of the economy following recent flare-up in the Delta variants. US initial jobless claims will also be key following the emphasis from the Fed on the job market as one of the major precursors to tapering plans.

US CPI eased to 0.5% m/m as expected:

- CPI moderated to 0.5% m/m in July as expected while core CPI ticked lower a tad more than expected to 0.3% m/m, both coming off from June's +0.9% due to much smaller increase in transportation (+0.6% vs +3.6%), notably used cars and trucks that had contributed to the spike earlier. The gain in food (+0.7% vs +0.8%)

Key Market Metrics

	Level	d/d (%)
Equities		
Dow Jones	35,484.97	0.62
S&P 500	4,447.70	0.25
NASDAQ	14,765.13	-0.16
Stoxx 600	474.32	0.42
FTSE 100	7,220.14	0.83
Nikkei 225	28,070.51	0.65
Hang Seng	26,660.16	0.20
Straits Times	3,180.00	-0.85
KLCI 30	1,504.44	0.52
FX		
Dollar Index	92.92	-0.14
EUR/USD	1.1739	0.16
GBP/USD	1.3868	0.18
USD/JPY	110.43	-0.13
AUD/USD	0.7374	0.33
USD/CNH	6.4763	-0.17
USD/MYR	4.2400	0.27
USD/SGD	1.3564	-0.22
Commodities		
WTI ($/bbl)	69.25	1.41
Brent ($/bbl)	71.44	1.15
Gold ($/oz)	1,750.40	1.25

Source: Bloomberg, HLBB Global Markets Research and services (+0.3% vs +0.4%) inflation softened while that of housing stabilized at 0.4%. Core CPI ex energy and food also tapered off from the recent peak of +0.9% to +0.3% m/m, its lowest since March.

- On a year-on-year basis, headline CPI held steady at a three-decade high of 5.4% y/y in July while core CPI moderated to 4.3% y/y. This offered tentative signs that inflation may have peaked and assuaged markets that the recent spike may just be transitory, alleviating the pressure on the Fed to taper soon.
- MBA mortgage application continued to whipsaw, increasing 2.8% w/w for the week ended 6-August after declining 1.7% prior. Purchases increased 1.8% while refinancing rose 3.2% supported by still low average long term rates of 2.99%.

UK RICS house price balance eased but remained elevated:

- According to RICS housing market survey, UK house price balance pulled back less than expected to 79% in July (Jun: 82% revised), but remained near its highest level in 33 years nonetheless. Price and sales expectations increased, but were weighed down by new buyer enquiries and agreed sales as an expiry of a temporary property purchase tax cut introduced in July last year during the pandemic put a dent on demand.

Japan machine tool orders remained robust:

- Machine tool orders continued to register hefty double-digit gain, rising 93.4% y/y in July although it marked a 2nd consecutive month of pullback from lofty levels of over 100% (Jun: +96.6% YOY). While Japan remains under the threat of renewed Covid wave, robust machine tool orders signalled business spending and production are still expected to grow in the near future, providing some support to the Japanese economy.

Australia Westpac consumer confidence weakened in August:

- A measure of consumer confidence by Westpac showed consumers turned less upbeat in August, with the index easing 4.4% m/m to 104.1 in August (Jul: 108.8). Re-imposition of lockdown measures have dented current conditions, personal finances and purchasing plans, as well as consumers' expectations on the economy a year ahead. This will pose some downside risks to the recovery momentum in 3Q as the Delta virus variants continued to spread.

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	1.17-1.20	1.18	1.19	1.21	1.22
GBP/USD	1.37-1.41	1.40	1.41	1.43	1.45
AUD/USD	0.72-0.75	0.74	0.74	0.76	0.77
USD/JPY	108-111	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
12/08	UK GDP QoQ (2Q P)	-1.6%
	UK Monthly GDP (MoM) (Jun)	0.8%
	UK Industrial Production MoM (Jun)	0.8%
	UK Visible Trade Balance GBP/Mn (Jun)	-£8481m
	EZ Industrial Production SA MoM (Jun)	-1.0%
	US Initial Jobless Claims (07 Aug)	--
	US PPI Final Demand YoY (Jul)	7.3%
13/08	NZ BusinessNZ Manufacturing PMI (Jul)	60.7
	MA GDP YoY (2Q)	-0.5%
	HK GDP YoY (2Q F)	7.5%
	EZ Trade Balance SA (Jun)	9.4b
	US Import Price Index YoY (Jul)	11.2%
	US U. of Mich. Sentiment (Aug P)	81.2

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