

13 August 2021

Global Markets Research

Daily Market Highlights

13-Aug: Higher USD and yields

US labour markets continued to improve; producer prices surprised on the upside

Stocks advances; USD gained along higher yields

Malaysia GDP report today is expected to affirm that recovery remains on track in 2Q

- US stock benchmarks advanced overnight with the tech-heavy NASDAQ joining the party for the first time in three days. The S&P500 and the NASDAQ increased 0.30-0.35% d/d while the Dow recorded muted gain of 0.04%, as gains led by the technology sectors were offset by declines in industrials and materials in the absence of fresh catalysts. Signs of continuous solid improvement in the US labour market as initial jobless claims eased for the third straight week, helped underpin risk sentiments. Stocks ended mixed in Europe and Asia earlier.
- US treasuries traded on a softer note again, pushing yields higher by around 1bp as overall risk sentiments stayed intact. This came despite decent demand for the \$27bn 30Y bond sale, fetching a high yield of 2.04%.
- The US Dollar strengthened against most G10s, the most vs the commodity currencies and the sterling. The DXY rose 0.1% d/d back above the 93.0 handle to a 93.04 close on Thursday. We expect continued rangetrading in the Dollar Index around the 93 levels as markets will likely hang on to recovery optimism, sidelining Delta variants concern for now.
- USD/MYR pulled back as expected after the sharp upward move on Wednesday. The pair traded steadily lower through the day to close near the day-low, down 0.2% d/d to 4.2315. We expect USD/MYR to trade on a slightly bullish note today amid selling pressure ahead of the weekend and cautiousness ahead of the release of Malaysia 2Q GDP.
- Commodity prices consolidated after recent gains. Gold fell 0.01% to \$1749.0/oz. Brent crude and WTI slipped 0.2% to \$71.31/barrel and \$69.09/ barrel respectively on concerns over consumption outlook as fast spreading Delta variants remained on investors' mind.
- Looking ahead, futures point to another mixed start in Asia markets this morning. Focus will be on Malaysia 2Q GDP where we are expecting some upside to our initial projection of 14.6% y/y as the reimposition of lockdown during the quarter appears to have limited impact thus far.

US PPI surprised on the upside; initial jobless claims fell:

- Producer prices held steady at 1.0% m/m in July, contrary to consensus estimate for an easier print of +0.6% m/m while core PPI unexpectedly headed up to 7.8% y/y (Jun: +7.3% y/y). The increase in goods producer prices halved to 0.6% but was offset by quicker gain in services prices (+1.1% vs +0.8%). Core PPI also stood firm at 1.0% m/m and picked up to 6.2% y/y in July (Jun: +1.0% m/m and +5.6% y/y). suggests supply bottlenecks and higher raw material costs are still prevalent and may be passed down to consumers, keeping CPI elevated and putting the Fed's transitory inflation notion to test.

Key Market Metrics

	Level	d/d (%)
Equities		
Dow Jones	35,499.85	0.04
S&P 500	4,460.83	0.30
NASDAQ	14,816.26	0.35
Stoxx 600	474.84	0.11
FTSE 100	7,193.23	-0.37
Nikkei 225	28,015.02	-0.20
Hang Seng	26,517.82	-0.53
Straits Times	3,182.80	0.09
KLCI 30	1,501.97	-0.16
FX		
Dollar Index	93.04	0.12
EUR/USD	1.1730	-0.08
GBP/USD	1.3808	-0.43
USD/JPY	110.41	-0.02
AUD/USD	0.7335	-0.53
USD/CNH	6.4776	0.02
USD/MYR	4.2315	-0.20
USD/SGD	1.3578	0.10
Commodities		
WTI (\$/bbl)	69.09	-0.23
Brent (\$/bbl)	71.31	-0.18
Gold (\$/oz)	1,749.00	-0.08

Source: Bloomberg, HLBB Global Markets Research

- Initial jobless claims eased for the 3rd consecutive week to 375k for the week ended 7-Aug (prior 387k), as expected. This reaffirmed the case of continuous solid recovery in the job market which would in turn bring the Fed another step closer to its tapering plans. Continuing claims also moderated to 2866k for the week ended 31 Jul (prior 2980k).

Eurozone saw narrower decline in industrial production:

- Industrial production continued to decline albeit at a smaller rate of 0.3% m/m in Jun (May: -1.1% revised). This marked its first back-to-back decline since Mar/Apr last year when the pandemic first started as infection cases surged in the region. Declines in energy and capital goods far outweighed increases in consumer and intermediate goods

UK economy recovered from 1Q slump:

- The UK economy staged a rebound and grew 4.8% q/q and 22.2% y/y in 2Q as expected (1Q: -1.6% q/q and -6.1% y/y), underpinned by recovery in broad consumption (led by household). Meanwhile, investment remained weak and contracted for the second consecutive quarter while the gain in exports was negated by quicker imports growth. The domestic sector turned around and grew 5.8% q/q (1Q: -3.9%) with private consumption (+7.3% vs -4.6%) contributed 4.2ppt to overall GDP growth. Recovery outlook looks intact going forward taking cue from the pick-up in monthly GDP to 1.0% m/m in June despite some restrictions back then. Key risks will be resurging cases from the Delta variants.
- On a less positive note, industrial production unexpectedly fell 0.7% m/m in Jun (May: +0.6% m/m) and slowed more than expected from 20.7% y/y to 8.3% y/y in the said month. The contraction was due to declines in the energy and mining sectors, offsetting continuous modest increase in manufacturing production. Construction output also unexpectedly extended its decline by 1.3% m/m in Jun (May: -0.7%) but the services index staged a surprised pick-up (+1.5% vs +0.7% m/m).
- Visible trade deficit widened more than expected to £12.0bn in June (May: -£9.6bn), following a sharp 35% jump in deficits with non-EU28 countries. Overall, exports fell 3.6% m/m but imports rose 3.6% m/m, deepening the gap in trade balances.

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
13/08	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%
16/08	US U. of Mich. Sentiment (Aug P)	81.2
	NZ Performance Services Index (Jul)	58.6
	UK Rightmove House Prices YoY (Aug)	5.7%
	JP GDP SA QoQ (2Q P)	-1.0%
	CN Retail Sales YoY (Jul)	12.1%
	CN Industrial Production YoY (Jul)	8.3%
	CN Fixed Assets Ex Rural YTD YoY (Jul)	12.6%
	CN Surveyed Jobless Rate (Jul)	5.0%
	JP Industrial Production MoM (Jun F)	6.2%
	US Empire Manufacturing (Aug)	43.0

Source: Bloomberg

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