

18 August 2021

Global Markets Research

Daily Market Highlights

18-Aug: Setback in US retail sales

US stock benchmarks retreated from record levels

Dollar bulls dominated market

RBNZ set to make first pandemic rate hike

- US stocks tumbled overnight after retail sales fell more than expected in July amid the pandemic resurgence. The S&P 500 snapped a five-day winning streak to register a 0.7% decline following the record closing in the previous session. Shares of consumer discretionary shares led the losses among the eleven S&P 500 sectors. The Dow shed 0.8% while NASDAQ lost 0.9%.
- Treasury yields were flat across the curve as investors weighed the weaker retail sales data against the higher industrial production. The 10Y UST yield was little changed (-0.3bp) at 1.26%. Meanwhile, Fed Chair Jerome Powell spoke at a virtual event but offered no hint to the central bank's next policy moves. He said that the economy would not return to its pre-pandemic form as the sectors reorganised themselves.
- Gold prices fell as the dollar strengthened. USD rose against all its G10 counterparts, with the NZD being the major loser of the day as New Zealand announced a lockdown just ahead of today's RBNZ meeting. The dollar index rose for the second session (+0.5%) to 93.13. Gold futures edged lower (-0.1%) to \$1785/oz.
- USD/MYR saw another muted session on Tuesday, closing virtually unchanged at 4.2375. A break of the 4.23 handle has increased bullishness in the pair but momentum indicators look neutral for now. We continue to eye a range of 4.21-4.25, monitoring the local political development. Any break of the 4.25 key resistance will pave the way towards 4.28 next.
- Crude oil prices suffered continuous selloffs amid dampened global growth outlook, giving up the recovery made in late July. Brent crude fell 0.7% to \$69.03/barrel while WTI plunged 1.0% to \$66.59/barrel.
- Stock futures indicate muted starts in Japan and Hong Kong this morning. Markets are anticipating a 25-bp hike in the RBNZ's official cash rate later as well as its forward guidance on future tightening.

Retail sales setback and manufacturing rebound highlight mixed US growth:

- Retail sales fell 1.1% m/m in July, compared to the expected decline of 0.3%. Sales in the previous month was revised slightly upward to represent a 0.7% m/m gain. The so-called retail sales for control group, a gauge of core sales, was also down by 1.0% m/m (Jun: +1.4%). Online sales fell alongside those at brick-and-mortar stores while the "eating & drinking" category rose for the fifth consecutive month. Americans had shifted their spending from goods to services. The spread of the Delta variant and higher inflation are also contributing factors to July's retail weakness.

Key Market Metrics

	Level	d/d (%)
Equities		
Dow Jones	35,343.28	-0.79
S&P 500	4,448.08	-0.71
NASDAQ	14,656.18	-0.93
Stoxx 600	473.78	0.07
FTSE 100	7,181.11	0.38
Nikkei 225	27,424.47	-0.36
Hang Seng	25,745.87	-1.66
Straits Times	3,118.51	-0.86
KLCI 30	1,523.59	1.38
FX		
Dollar Index	93.13	0.54
EUR/USD	1.1710	-0.58
GBP/USD	1.3741	-0.78
USD/JPY	109.60	0.33
AUD/USD	0.7253	-1.16
USD/CNH	6.4912	0.23
USD/MYR	4.2375	0.01
USD/SGD	1.3624	0.49
Commodities		
WTI (\$/bbl)	66.59	-1.04
Brent (\$/bbl)	69.03	-0.69
Gold (\$/oz)	1,785.00	-0.11

Source: Bloomberg, HLBB Global Markets Research

- Industrial production meanwhile surged 0.9% m/m in July (Jun: +0.2%), boosted by manufacturing (+1.4%) and mining (+1.2%) output. The Fed said that the 11.2% jump in motor vehicles and parts accounted for about half of the gain in factory output as manufacturers cancelled or trimmed their usual July shutdowns. Despite that, vehicle production remained limited by persistent shortage of semiconductors.
- The NAHB Housing Market Index slipped 5pts to 13 month-low in August (75 vs 80 prior). Homebuilding sentiment has now fallen for the third consecutive month, reflecting the supply chain challenges faced by developers.

Eurozone GDP growth unrevised at 2% q/q:

- The Eurozone's 2Q GDP growth was unrevised at 2.0% q/q (1Q: -0.3%) as the economy emerged from the technical recession following a surge in the region's vaccination rate. The y/y growth was revised minimally to 13.6%, from 13.7% prior (1Q: -1.3%), its first positive reading in six quarters. Hiring also rose in concurrence in the economic recovery as employment picked up 0.5% q/q in the said quarter (1Q: -0.2%). Compared to the same period last year, employment was 1.8% y/y higher (1Q: -1.8%), its steepest y/y gain since late 2007.

UK hiring spree continued:

- The UK unemployment rate fell to 4.7% in the three months to June, from 4.8% prior. This was below the consensus forecast of 4.8%. Employment rose 95k in the same period (previous: +25k), below the expected gains of 100k. Nonetheless, this marked the fourth consecutive positive reading since March when the government gradually relaxed Covid restrictions. Job growth came from both full-time and part-time sectors, just ahead of the full economic reopening in July even when the country was facing a new Covid outbreak. The labour market remained partially supported by the government's furlough scheme and its expiry in September may lead to less favourable job data.

Japan's trade balance back into surplus

- Exports rose 37.0% y/y in July, a marked slowdown from the 48.6% increase in the June, but still reflected the low base distortion. Imports also picked up at smaller magnitude (+28.5% y/y vs +32.7% prior). The adjusted trade balance swung back to a surplus of ¥52.b (May: -¥62.7b); the stronger exports reflect solid overseas demand for Japanese goods.
- A separate note showed that core machinery orders fell 1.5% m/m in June (May: +7.8%), following three consecutive months of gains. The smaller than expected decline left total orders 18.6% y/y higher compared to the same month last year, pointing to resilience in business investment growth.

RBA minutes implied dovishness:

- In its 03 August meeting, the RBA had left its policy unchanged and most importantly decided to go ahead with its asset tapering plan in September despite the uncertainty arising from the Delta variant outbreak. In the newly released minutes, the RBA said that the outbreaks had interrupted recovery and the near-term outlook was highly uncertain, but it foresaw the economy would bounce back quickly once they were contained.
- Officials did consider the case for delaying the tapering as any additional asset purchase would only have marginal effect at present. It also recognised that fiscal policy was a more appropriate instrument than monetary policy to provide support in response to temporary and localised reduction in incomes. It added that it would be "prepared to act in response to further bad news on the health front should that lead to a more significant setback for the economic recovery". The minutes came after authorities had decided to extend the lockdown in Melbourne and expand the Sydney lockdown to state wide.

House View and Forecasts

FX	This Week	3Q-21	4Q-21	1Q-22	2Q-22
DXY	91.00-94.00	92.00	91.50	90.00	89.00
EUR/USD	1.16-1.19	1.18	1.19	1.21	1.22
GBP/USD	1.36-1.40	1.40	1.41	1.43	1.45
AUD/USD	0.71-0.74	0.74	0.74	0.76	0.77
USD/JPY	109.00-112.00	109.00	108.00	107.00	105.00
USD/MYR	4.21-4.25	4.23	4.20	4.20	4.15
USD/SGD	1.34-1.37	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
18/08	AU Westpac Leading Index MoM (Jul)	-0.07%
	AU Wage Price Index YoY (2Q)	1.5%
	NZ RBNZ Official Cash Rate (18 Aug)	0.25%
	UK CPI YoY (Jul)	2.5%
	EZ CPI YoY (Jul F)	1.9%
	US MBA Mortgage Applications (13 Aug)	2.8%
	US Building Permits MoM (Jul)	-5.3%
19/08	US Housing Starts MoM (Jul)	6.3%
	US FOMC Meeting Minutes (28 Jul)	--
	AU Employment Change (Jul)	29.1k
	AU Unemployment Rate (Jul)	4.9%
	HK CPI Composite YoY (Jul)	0.7%
	US Philadelphia Fed Business Outlook (Aug)	21.9
	US Initial Jobless Claims (14 Aug)	375k
	US Leading Index (Jul)	0.7%

Source: Bloomberg

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