2 August 2022

Global Markets Research

Daily Market Highlights

02 Aug: Global manufacturing weakened in July

US stocks started August on weak note; UST yields & dollar retreated

Oil tumbled on weaker growth outlook; gold advanced

RBA to hike cash rate by 50bps today

- US stocks closed modestly lower on the first trading day of August as the main US benchmarks fell 0.1-0.3% d/d after notching impressive gains in July. Treasury yields slumped further amid a synchronised decline in global bond yields. The benchmark 10Y UST yield fell 7bps to 2.58%, marking its fourth back-to-back retreat while 2Y yield was 2bps lower at 2.87%. This came as the weakness in US data, particularly the receding price pressure in the ISM manufacturing survey further quelled Fed rate hike expectations.

- The dollar traded lower against a basket of major currencies. The JPY rallied for the fourth consecutive session on Monday, climbing 1.3% to 131.61 to trade against the dollar. Other top gainers were NZD (+0.8%) and GBP (+0.7%). EUR appreciated 0.4% while CAD (-0.4%) was the sole loser. The dollar index shed 0.4% to $105.45.

- In Asia-ex-Japan, THB jumped 2.2% in response to strong PMI data and expectations that the Bank of Thailand may finally normalise policy this month. SGD rose 0.2% while most Asian currencies weakened modestly. MYR was little changed at 4.4530 (-0.04%).

- Oil tumbled as the softer manufacturing PMI data across the globe pointed to weaker demand. Brent crude lost a whopping 9.1% to $100.03, snapping a three-day winning streak. WTI fell 4.8% to $93.89/barrel. Gold prices rose for the fourth successive session to $1769/oz (+0.4%) thanks to the weaker greenback.

- The Reserve Bank of Australia is expected to deliver its third consecutive 50bp rate hike today, lifting the cash rate from 1.35% to 1.85% to curb Australia's inflation and to catch up with the global policy tightening cycle.

US manufacturing PMIs points to softer price pressure, weakening demand:

- The July ISM Manufacturing Index was only slightly lower at 52.8, versus 53.0 in June, but the further contraction in the new order gauge (48 vs 49.2 prior) added to concerns that demand is faltering amid a synchronised slowdown in global manufacturing. The prices paid index fell substantially to 60.0 (Jun: 78.5), signalling softening price pressure. The S&P Global Manufacturing PMI also fell slightly to 52.2 in the same month (Jun: 52.7), matching the ISM survey.
- Construction spending fell 1.1% m/m in June (May: +0.1%), compared to the expectations of 0.1% growth. This reflects a sharp 1.6% fall in private residential spending amid a weakening outlook for the housing market as higher mortgage rates and deteriorating consumer sentiment weigh on the demand.

Manufacturing conditions softened in most countries:

Key Market Metrics

	Level	d/d (%)
Equities		
Dow Jones	32,798.40	-0.14
S&P 500	4,118.63	-0.28
NASDAQ	12,368.98	-0.18
Stoxx Eur 600	437.46	-0.19
FTSE 100	7,413.42	-0.13
Nikkei 225	27,993.35	0.69
Hang Seng	20,165.84	0.05
Straits Times	3,238.75	0.85
KLCI 30	1,502.07	0.66
FX		
Dollar Index	105.45	-0.43
EUR/USD	1.0262	0.41
GBP/USD	1.2250	0.65
USD/JPY	131.61	-1.25
AUD/USD	0.7023	0.54
USD/CNH	6.7837	0.50
USD/MYR	4.4530	0.04
USD/SGD	1.3776	-0.21
Commodities		
WTI ($/bbl)	93.89	-4.80
Brent ($/bbl)	100.03	-9.07
Gold ($/oz)	1,769.00	0.35
Copper ($$/MT)	7,819.50	-1.24
Aluminum ($/MT)	2,430.50	-2.33
CPO (RM/tonne)	4,300.00	6.91

Source: Bloomberg, HLBB Global Markets Research

- The S&P Global PMI data released on Monday showed that the manufacturing operating conditions weakened in Europe, the UK and in Asia. Notably, the Eurozone's manufacturing PMI fell to 49.8 in July (Jun: 52.1); a reading below 50 indicates contraction. The UK PMI was more resilient at 52.1 (Jun: 52.7).
- In Asia, the Jibun Bank Japan Manufacturing PMI slipped to 52.1 (Jun: 52.7) while China's Caixin Manufacturing PMI dropped to 50.4 in July (Jun: 51.7). Closer to home, Vietnam's manufacturing PMI ticked lower to 51.2 (Jun: 54.0). Malaysia's manufacturing PMI rose slightly to 50.6 in July (Jun: 50.4), but remained near the edge of 50.

Hong Kong economy contracted in 2Q:

- The Hong Kong 2Q22 GDP data missed the consensus expectations according to a preliminary reading. The economy grew a mere 0.9% q/q in 2Q after the revised 2.9% contraction in 1Q. On a y/y basis, GDP shrank by 1.4% y/y, extending from the 3.9% y/y decline prior as Covid restriction hurt consumer consumption and business activity while weaker external demand (particularly China) weighed on international trade.

House View and Forecasts

FX	This Week	3Q-22	4Q-22	1Q-23	2Q-23
DXY	105-107	106.00	105.00	103.00	102.00
EUR/USD	1.01-1.03	1.02	1.03	1.05	1.04
GBP/USD	1.20-1.22	1.21	1.22	1.24	1.23
AUD/USD	0.69-0.71	0.67	0.69	0.70	0.70
USD/JPY	131-135	138.00	135.00	133.00	132.00
USD/MYR	4.44-4.46	4.42	4.40	4.38	4.35
USD/SGD	1.37-1.39	1.40	1.38	1.37	1.36

Rates, %	Current	3Q-22	4Q-22	1Q-23	2Q-23
Fed	2.25-2.50	2.50-2.75	3.00-3.25	3.00-3.25	3.00-3.25
ECB	-0.50	0.25	0.50	0.50	0.50
BOE	1.25	1.75	2.00	2.00	2.00
RBA	1.35	1.60	1.85	1.85	1.85
BOJ	-0.10	-0.10	-0.10	-0.10	-0.10
BNM	2.25	2.50	2.75	2.75	2.75

Source: HLBB Global Markets Research

Up Next

Date	Events	Prior
02/08	AU Home Loans Value MoM (Jun)	1.7%
	AU RBA Cash Rate Target (02 Aug)	1.35%
	HK Retail Sales Value YoY (Jun)	-1.7%
	SG Purchasing Managers Index (Jul)	50.3
	US JOLTS Job Openings (Jun)	11254k
03/08	NZ Unemployment Rate (2Q)	3.2%
	NZ Employment Change QoQ (2Q)	0.1%
	NZ Pvt Wages Inc Overtime QoQ (2Q)	0.7%
	JP Jibun Bank Japan PMI Services (Jul F)	51.2
	HK S&P Global Hong Kong PMI (Jul)	52.4
	SG S&P Global Singapore PMI (Jul)	57.5
	CN Caixin China PMI Services (Jul)	54.5
	EZ S&P Global Eurozone Services PMI (Jul F)	50.6
	UK S&P Global/CIPS UK Services PMI (Jul F)	53.3
	EZ Retail Sales MoM (Jun)	0.2%
	US MBA Mortgage Applications (29 Jul)	-1.8%
	US S&P Global US Services PMI (Jul F)	47
	US Factory Orders (Jun)	1.6%
	US ISM Services Index (Jul)	55.3

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

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