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Global Markets Research

Daily Market Highlights

3 Oct: Upside surprises in US core PCE

US stocks and bonds saw extended selloffs

August core PCE ticked up more than expected; spurring Fed rate hike jitters

DXY rebounded but hovered around 112s; NZD led losers

- US stocks saw extended losses for the 2nd straight day as the bigger than expected increase in August core PCE spurred expectations that the Fed will maintain its aggressive rate hike stance, hence exerting added risks to the growth outlook. The series of Fed speaks the last week has all reaffirmed that the Fed is committed to raise rates to combat inflation.
- The three major benchmark US stock indices fell 1.5-1.7% d/d, and was down 1.8-2.9% w/w, its third consecutive weekly decline. The Dow slipped further below the 30,000 level to its lowest since May-20, also marking its 3rd consecutive quarterly loss. Stocks traded in positive territory earlier in European markets but mixed in Asia. Futures are pointing to overall lower openings in Asia markets this morning.
- The global bond markets also traded mixed. US treasuries remained under selling pressure amid expectations for a hawkish Fed path while European government bonds rebounded from BOE and the UK-related selloffs. UST yields rose a further 4-9bps across the curve, led by the front end. 2Y note yields added 9bps to 4.28% while the 10s ticked another 4bps up to 3.83%.
- In the FX space, the USD strengthened broadly against most G10s, except for the losses vs the SEK and GBP. The Dollar Index snapped a two-day decline to increase 0.3% d/d to 112.17, led by gains vs the NZD (2.2%), NOK (1.7%), AUD (1.5%). On a weekly basis, the DXY fell 0.8%.
- Asian currencies continued to trade on a firmer note for the 2nd straight day, led by gains in the THB, INR and PHP. The CNH led losers, weakening 0.6% to 7.1419 ahead of the Golden Week holiday this week and the Party Congress next week. The PBoC injected 868bn yuan liquidity into the banking system, 9x more than the preceding week, and the most since Jan-19, exacerbating the weakness in the currency. PBoC has been offering both actual intervention and moral persuasion to help arrest the growth slowdown and property crisis including cutting home loan rates for first time house buyers, and tax breaks for some home purchases.
- At the local front, the MYR strengthened for the first time in seven trading days, despite by a marginal 0.06% gain to 4.6375 last Friday. On a weekly basis, the MYR weakened 1.3%, extending its weekly losses into the 5th consecutive week. Overall outlook for USD/ MYR remains bullish as policy divergence will remain the key driver in favour of the USD.

Key Market Metrics

	Level	d/d (%)
<u>Equities</u>		
Dow Jones	28,725.51	-1.71
S&P 500	3,585.62	-1.51
NASDAQ	10,575.62	-1.51
Stoxx Eur 600	387.85	1.30
FTSE 100	6,893.81	0.18
Nikkei 225	25,937.21	-1.83
Hang Seng	17,222.83	0.33
Straits Times	3,130.24	0.49
KLCI 30	1,394.63	-0.21
<u>FX</u>		
Dollar Index	112.17	0.34
EUR/USD	0.9802	-0.13
GBP/USD	1.1170	0.48
USD/JPY	144.74	0.19
AUD/USD	0.6400	-1.54
USD/CNH	7.1419	0.62
USD/MYR	4.6375	-0.06
USD/SGD	1.4353	0.18
<u>Commodities</u>		
WTI (\$/bbl)	79.74	-2.29
Brent (\$/bbl)	87.90	-1.08
Gold (\$/oz)	1,660.50	0.11
Copper (\$\$/MT)	7,490.00	-0.33
Aluminum(\$/MT)	2,142.00	-4.03
CPO (RM/tonne)	3,297.50	0.69

Source: Bloomberg, HLBB Global Markets Research

- Oil prices fell again on worries over slowing demand. Brent crude fell 1.1% to \$87.90/ barrel while the WTI declined 2.3% d/d to \$79.74/ barrel. On a weekly basis, oil gained 0.4-1.4%. Oil prices are seen rallying this morning amid news OPEC+ will cut production by more than one million barrels a day at this week's meeting.

Personal income and spending; uptick in core PCE implied the Fed will stay its course:

- US personal income sustained a 0.3% m/m increase while spending rebounded with a bigger than expected gain of 0.4% m/m in August (Jul: -0.2%), offering signs the US consumer sector is improving underpinned by a solid labour market. Consumers were seen spending more on services (+0.8%) mainly on housing & utilities, transportation and healthcare, but less on goods (-0.5%), including gasoline and other energy products. Real spending meanwhile rebounded to increase 0.1% m/m, as inflation eased.
- PCE inflation eased for the 2nd straight month to 6.2% y/y (Jul: +6.4%), but core PCE ticked higher more than expected to 4.9% y/y in August (Jul: +4.7% revised). Month-on-month, core PCE quickened rather substantially from a stagnant reading to 0.6% m/m during the month, driven by services (+0.6%). Goods prices meanwhile declined 0.3% m/m. The bigger than expected gain in core PCE reaffirmed the case for further aggressive Fed rate hike going forward.
- However, the smaller than initially estimated uptick in University of Michigan consumer sentiments in September (58.6 vs flash estimate 59.5 and July's 58.2), implied consumers remained uncertain about future outlook, although they have turned more upbeat about current economic conditions. 1Y inflation expectations eased less than expected to 4.7% while longer term 5-10Y inflation expectations softened more than initially expected to 2.7% in September (Aug: 4.8% and 2.9%).

Upside surprises in Eurozone CPI reinforced expectations for a 75bps hike; unemployment rate stabilized at record low:

- CPI estimate surged more than expected to 10.0% y/y in September, from +9.1% y/y in August, besting the +9.7% estimated and the highest on record. Core CPI also surprised on the upside at 4.8% y/y (Aug: +4.3% and consensus: +4.7%), driven by broad-based increases in prices. Added signs of continuous build-up in inflation has likely reinforced the case for a 75bps ECB rate hike in October.
- Unemployment rate held steady at a record low of 6.6% y/y in August, as the number of unemployed fell further to 10.97m during the month (Jul: 11.00m). Unemployment rate in the top three economies in the region namely Germany, France and Italy were stable to lower at 3.0%, 7.3% and 7.8% respectively, offering comfort that the labour market remained healthy.

UK 2Q GDP revised higher; mortgage approval rose; nationwide house prices slowed:

- Final 2Q GDP print was revised higher to +0.2% q/q and +4.4% y/y, better than the initial estimates of -0.1% q/q and +2.9% y/y, due to upward revisions in private consumption and exports, and smaller contraction in government spending. However, investment unexpectedly fell. Despite the upgrade in final readings, growth has slowed quite drastically from +0.8% q/q and +8.7% y/y in 1Q. This, coupled with weakness seen in recent data and confidence levels, point to a bleaker outlook ahead.

- In separate releases on Friday, net consumer credit slowed to £1.1bn in August, down from £1.5bn in July. Nationwide house prices moderated to 9.5% y/y in September (Aug: +10.0%), its slowest gain since Apr-21 as higher borrowing costs and economic woes dented demand for housing. Mortgage approvals however unexpectedly picked up to a 7-month high at 74.3k in August (Jul: 63.7k revised).

Resiliency in the Japanese economy:

- Jobless rate held steady at 2.5% in August while job-to-applicant ratio inched up more than expected to 1.32, suggesting an improving labour market that could spur wage growth and inflation going forward.
- On the back of an improving job market, the consumer sector has been doing well. Retail sales picked up more than expected to increase 1.4% m/m and 4.1% y/y in August (Jul: +0.7% m/m and +2.4% y/y). However, the unexpected pullback in consumer confidence to 30.8 in September (Aug: 32.5), could spell some headwinds to retail spending going forward as consumers turned less upbeat over overall livelihood, income growth and employment.
- Industrial production also surprised on the upside, increasing 2.7% m/m and 5.1% y/y in August, a marked improvement from July's +0.8% m/m and -2.0% y/y, driven by capital goods, non-durable consumer goods and construction goods, reflecting broad-based production growth.
- Housing starts halted three straight months of decline and staged a surprised rebound, increasing 4.6% y/y in August, from a 5.4% contraction in July. This was boosted by starts for housing for rent and housing for sale, which more than offset the continuous decline in owner occupied housing.

China official and Caixin PMIs diverged:

- Official PMI manufacturing picked up more than expected and returned to expansionary territory in September (50.1 vs 49.4) for the first time in three months, thanks to rebound in output while new orders registered a smaller contraction. On the contrary, the Caixin PMI manufacturing unexpectedly weakened to 48.1 in the same month (Aug: 49.5), marking its second straight month of contraction.
- On services, the official PMI index retreated more than expected to 50.6 in September (Aug: 52.6), dragged by a sharp pullback in new orders and business expectations, signalling a less sanguine outlook ahead as the China economy continues to battle with the Covid-zero policy. This reinforces our belief that the China government will roll out more targeted stimulus measures to support growth.

Hong Kong retail sales remained weak:

- Retail sales unexpectedly fell 0.1% y/y in August, down sharply from the 4.1% y/y increase in July, which turned out to be just a blip. Retail sales have fallen in six out of eight months this year as movement restrictions continued to hamper recovery in the once very open Hong Kong economy. Slowdown in China is expected to add more downside risks going forward even if Hong Kong is moving towards greater reopening now.

New Zealand consumer confidence steadied; building permits fell:

- ANZ consumer confidence held steady at 85.4 in September, its highest since January this year, as improvement in family finances and economic outlook one year ahead was neutralized by deterioration in confidence over the economy five years ahead. Purchase plan for major household items

also deteriorated. In a separate release, building permits fell 1.6% m/m in August (Jul: +4.9%), despite a 1.8% m/m increase in home approvals.

House View and Forecasts

FX	This Week	3Q-22	4Q-22	1Q-23	2Q-23
DXY	110-115	106.00	105.00	103.00	102.00
EUR/USD	0.95-1.00	1.02	1.03	1.05	1.04
GBP/USD	1.00-1.03	1.21	1.22	1.24	1.23
USD/JPY	143-148	138.00	135.00	133.00	132.00
AUD/USD	0.63-0.67	0.67	0.69	0.70	0.70
USD/MYR	4.62-4.68	4.42	4.40	4.38	4.35
USD/SGD	1.42-1.45	1.40	1.38	1.37	1.36

Rates, %	Current	3Q-22	4Q-22	1Q-23	2Q-23
Fed	3.00-3.25	3.00-3.25	4.25-4.50	4.25-4.50	4.25-4.50
ECB	1.25	1.25	2.75	2.75	2.75
BOE	2.25	2.25	3.25	3.25	3.25
BOJ	-0.10	-0.10	-0.10	-0.10	-0.10
RBA	2.35	2.35	3.10	3.10	3.10
BNM	2.50	2.50	2.50	2.75	2.75

Source: HLBB Global Markets Research

Up Next

Date	Events	Prior
03/10	AU S&P Global Australia PMI Mfg (Sep F)	53.9
	JN Tankan Large Mfg Outlook (3Q)	10
	JN Tankan Large Non-Mfg Outlook (3Q)	13
	JN Tankan Large All Industry Capex (3Q)	18.60%
	MA S&P Global Malaysia PMI Mfg (Sep)	50.3
	VN S&P Global Vietnam PMI Mfg (Sep)	52.7
	JN Jibun Bank Japan PMI Mfg (Sep F)	51
	EC S&P Global Eurozone Manufacturing PMI (Sep F)	48.5
	UK S&P Global/CIPS UK Manufacturing PMI (Sep F)	48.5
	SI Electronics Sector Index (Sep)	49.6
	SI Purchasing Managers Index (Sep)	50
	US S&P Global US Manufacturing PMI (Sep F)	51.8
	US Construction Spending MoM (Aug)	-0.40%
	US ISM Manufacturing (Sep)	52.8
04/10	AU Building Approvals MoM (Aug)	-17.20%
	AU RBA Cash Rate Target (38261)	2.35%
	EC PPI MoM (Aug)	4.00%
	US Factory Orders (Aug)	-1.00%
	US JOLTS Job Openings (Aug)	11239k

Source: Bloomberg

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