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Global Markets Research

Daily Market Highlights

4 Oct: Weak ISM pared rate hike expectations

US stocks and bonds rebounded; DXY fell below the 112 handle

Weaker than expected ISM manufacturing dented prospect of aggressive rate hike

All eyes on RBA meeting today followed by RBNZ tomorrow

- US stocks staged a hefty rebound overnight as weaker than expected ISM manufacturing data reduced the urgency for aggressive Fed rate hikes despite Credit Suisse's turmoil. The three benchmark US stock indices rallied by more than 2.0% d/d. The S&P 500 rose 2.6% with 95% of shares flashing green and Apple contributing the most to the gains. The tech-heavy NASDAQ gained 2.3% while the Dow jumped 2.7%. Stocks also ended higher in Europe but was mixed in Asia. Futures point to higher openings in Asia market this morning trailing the overnight rebound in market sentiments.
- Global bonds rebounded as well by and large, with double-digit spike in yields. US treasury yields surged across the curve with the 2-year yield plummeting 17bps to 4.12%. The 10 year note yield sank to 3.64% (-19bps) after topping 4.00% recently.
- The Dollar Index went through a day of choppy trade before ending the day lower at 111.66, slipping 0.45% d/d. The USD weakened against all G10s except the CHF. NOK and commodities advanced the most by between 1.5-2.2%. The EUR gained 0.2% while the sterling strengthened 1.4%.
- Asian currencies traded mixed, with gains in the CNH (+0.5%) and SGD (+0.2%). THB fell the most by 1.1%, followed by the INR and PHP. The MYR ended weaker at 4.6485 against the USD, a tad below its intraday high of 4.6512. BNM Governor has earlier said that there was no need to hoard or front load US Dollar purchases as the current depreciation of the currency is due to the strength of the US Dollar.
- Crude oil prices rebounded as headlines on OPEC+ output cut raised supply concerns. Brent crude rose 0.9% to \$88.70/ barrel while the WTI jumped 4.5% d/d to \$83.34/ barrel. Gold soared the most since March, gaining 2.9% to \$1708.60, after climbing over 1.0% last week.

Weaker PMIs manufacturing overall a sign of slowing demand:

- The U.S. ISM manufacturing index softened more than expected to 50.9 in September (Aug: 52.8), marking its slowest pace of expansion since May-20. What caught our attention was the surprised contraction in new orders (47.1 vs 51.3) and employment (48.7 vs 54.2), suggesting a sharp weakening in manufacturing activities, probably as companies adjust to potential future lower demand. On the contrary, the S&P global PMI manufacturing index showed a 52.0 print in the final September reading, marking a slightly bigger pick-up from the initial estimate of 51.8 (Aug: 51.5).

Key Market Metrics

	Level	d/d (%)
Equities		
Dow Jones	29,490.89	2.66
S&P 500	3,678.43	2.59
NASDAQ	10,815.43	2.27
Stoxx Eur 600	390.83	0.77
FTSE 100	6,908.76	0.22
Nikkei 225	26,781.45	2.16
Hang Seng	17,079.51	-0.83
Straits Times	3,107.09	-0.74
KLCI 30	1,397.62	0.21
FX		
Dollar Index	111.66	-0.45
EUR/USD	0.9826	0.24
GBP/USD	1.1323	1.37
USD/JPY	144.55	-0.13
AUD/USD	0.6516	1.81
USD/CNH	7.1046	-0.52
USD/MYR	4.6483	-0.06
USD/SGD	1.4318	-0.24
Commodities		
WTI (\$/bbl)	83.34	4.51
Brent (\$/bbl)	88.70	0.91
Gold (\$/oz)	1,708.60	2.90
Copper (\$\$/MT)	7,503.50	0.18
Aluminum(\$/MT)	2,227.00	3.97
CPO (RM/tonne)	3,350.50	1.25

Source: Bloomberg, HLBB Global Markets Research

- The Eurozone manufacturing sector fell deeper in contraction at 48.4 in September (Aug: 49.6), a 27-month low. The 5th straight month of contraction in new orders implied broad weakening of demand prospects.
- UK PMI manufacturing also printed 48.4 in September, but this marked an uptick from the 27-month low of 47.3 in August. The back-to-back contraction spells further downside risk to the UK economy ahead.
- Similarly, Japan's Jibun Bank Manufacturing PMI came under pressure as downturns in output and new orders accelerated as high inflation eroded client purchasing power. The index fell to 50.8 in September from 51.5 previously.
- In Australia, sharper output and new order growth was offset by a dip in business sentiment to the lowest since April 2020. The index slipped to 53.5 in September from 53.8 in August. Meanwhile, inflationary pressures softened as input and output cost inflation dipped to 19- and 8-month lows.
- In Malaysia, new orders moderated for the first time in 6 months, as demand showed signs of waning. The PMI moved back to below 50.0 at 49.1 (Aug: 50.3). On a positive note, firms expanded their staffing levels by the greatest extent in almost 3.5 years.
- On the other hand, output growth in Vietnam remained resilient at 52.5 in September, only a small pullback from August's 52.7, as operating conditions strengthened for the past 12 months. Inflationary pressures were muted while stocks of purchases and finished goods increased.
- Singapore reported its first contraction in the manufacturing PMI for the first time in 26 months. The index dipped 0.1 points to 49.9 in September amidst faster contraction in the key indexes of new orders, new exports, factory output, and a contraction in the employment index. The Electronics Sector PMI declined further by 0.2 point from the previous month to 49.4.

Extended decline in US construction spending points to weakness in housing:

- US construction spending fell for the second straight month in August, declining by 0.7% m/m to US\$1,781.3bn, extending the 0.6% m/m decline in July. Both spending on private and public construction fell for the month, declining by 0.6% m/m and 0.8% m/m respectively. Private residential construction, specifically was down 0.9% m/m while nonresidential construction was down 0.1% m/m.

Japan Tankan survey turned in less upbeat; Tokyo CPI eased but core CPI headed up:

- Japan's manufacturers were less upbeat in 3Q of the year, with the Tankan survey for the biggest manufacturers slipping to 8 from 9 previously. The decline was left by the oil and coal as well as non ferrous metal sectors, while sentiment amongst service sector and construction companies improved. The survey also pointed to further strengthening of capital spending.
- Tokyo CPI moderated a tad to 2.8% y/y in September as expected (Aug: +2.9%), but core CPI ex=fresh food and energy edged up more than expected to 1.7% y/y (Aug: +1.4%), in line with our recent observation and concern that underlying inflation remains prevalent and is broadening despite the easing in headline inflation.

House View and Forecasts

FX	This Week	3Q-22	4Q-22	1Q-23	2Q-23
DX	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
04/10	AU Building Approvals MoM (Aug)	-17.20%
	AU RBA Cash Rate Target	2.35%
	EC PPI MoM (Aug)	4.00%
	US Factory Orders (Aug)	-1.00%
	US JOLTS Job Openings (Aug)	11239k
05/10	AU S&P Global Australia PMI Services (Sep F)	50.4
	JN Jibun Bank Japan PMI Services (Sep F)	51.9
	SI S&P Global Singapore PMI (Sep)	56
	NZ RBNZ Official Cash Rate	3.00%
	SI Retail Sales YoY (Aug)	13.70%
	EC S&P Global Eurozone Services PMI (Sep F)	48.9
	UK S&P Global/CIPS UK Services PMI (Sep F)	49.2
	US MBA Mortgage Applications	-3.70%
	US ADP Employment Change (Sep)	132k
	US Trade Balance (Aug)	-\$70.7b
	US S&P Global US Services PMI (Sep F)	49.2
	US ISM Services Index (Sep)	56.9

Source: Bloomberg

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