HongLeong Bank

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Global Markets Research
Daily Market Highlights

29-July: US slumped into technical recession

US second quarter GDP contracted 0.9% q/q, defying forecasts for a small growth
US stocks rallied; treasury yields dipped alongside a weaker dollar
JPY notched best daily gains in eight months on haven bids

- US stocks extended the rally on Thursday despite a weak GDP print that shows the US economy falling into a technical recession. The Dow Jones, S&P 500 and NASDAQ rose over 1.0%, led by defensive shares.

- US treasury yields tumbled alongside lower global yields as investors reduced bets on future Fed rate hikes after yesterday's FOMC decision. The benchmark 2Y UST yield fell 13bps to 2.87% and the 10Y yield slumped 11bps to 2.68%.

- The US dollar generally weakened against major currencies as investors sought out the safety of JPY and CHF following the GDP release. JPY was the best performing currency and notched its best single-day performance (+1.7%) in eight months. CHF rose 0.5% while GBP picked up 0.2%. EUR was little changed (-0.03%). The dollar index fell marginally (-0.09%) to 106.35.

- The greenback was also weaker against most Asia-ex-Japan currencies, with KRW leading the gains at 1.1%. IDR rose 0.5% and SGD edged up 0.2%. MYR traded slightly higher (+0.1%) against the USD at 4.4535.

- In the oil market, the US benchmark WTI fell 0.9% to $96.42/barrel as the weak GDP data portend weaker demand. In contrast, Brent crude advanced 0.5% to $107.14/barrel, keeping the Brent-WTI gap at more than $10/barrel.

US economy fell into technical recession:

- The US GDP contracted by 0.9% q/q annualised rate in the second quarter, defying the expectations for a 0.4% growth. This followed the 1.6% q/q decline in the first quarter and the back-to-back contraction means that the economy meets the definition of a technical recession. The latest reading spurred talks of a looming downturn just a day after Fed Chair Powell played down such a possibility.
- The contraction reflected lower private inventory investment, residential fixed investment, federal government spending, state and local government spending, and non-residential fixed investment that were partly offset by increases in exports and personal consumption expenditures (PCE). Within PCE, the fall in goods consumption due to red-hot inflation was offset by the increase of services consumption.

Initial jobless claims signals softer hiring:

- Initial jobless claims fell for the first time in four weeks to 256k for the week ended 23 July, but this was after the upwardly revised 261k gain in the previous week. The 4-week moving average continued to trend up consistently (since early April) to 249.25k, a firm sign that hiring pace has gone softer.

Key Market Metrics

	Level	d/d (%)
Equities		
Dow Jones	32,529.63	1.03
S&P 500	4,072.43	1.21
NASDAQ	12,162.59	1.08
Stoxx Eur 600	432.77	1.09
FTSE 100	7,345.25	-0.04
Nikkei 225	27,815.48	0.36
Hang Seng	20,622.68	-0.23
Straits Times	3,220.65	0.48
KLCI 30	1,491.20	1.39
FX		
Dollar Index	106.35	-0.09
EUR/USD	1.0197	-0.03
GBP/USD	1.2180	0.18
USD/JPY	134.27	-1.68
AUD/USD	0.6989	-0.04
USD/CNH	6.7445	0.01
USD/MYR	4.4535	-0.11
USD/SGD	1.3799	-0.20
Commodities		
WTI ($/bbl)	96.42	-0.86
Brent ($/bbl)	107.14	0.49
Gold ($/oz)	1,750.30	1.81
Copper ($$/MT)	7,762.00	1.64
Aluminum ($/MT)	2,456.00	1.38
CPO (RM/tonne)	3,912.00	-0.32

Source: Bloomberg, HLBB Global Markets Research

- The Kansas City Fed Manufacturing Index rose slightly to 13 in July (Jun: 12) thanks to the smaller decline in new orders and a recovery in production. The prices paid index was seen falling sharply to 41, versus 71 prior.

Eurozone's economic sentiment battered by looming recession:
- The Eurozone's economic confidence slipped below 100 for the first time in seventeen months as sentiment was further hurt by a looming recession amid higher interest rates and a potential energy crisis. The European Commission's headline economic sentiment index fell to 99 in July, from 103.5 in June, led by the fall in the consumer confidence gauge which turned more negative this month (-27 vs -23.8 prior). The confidence measures for other sectors turned weaker as well but remained in the positive territory.

Mixed Japan's data:
- Japan's jobless rate remained unchanged at 2.6% in June (May: 2.6%), missing the forecast of 2.5% as hiring slowed amid surging Covid-19 cases last month. The job-to-applicant ratio rose to 1.27 in the same month (May: 1.24).
- Retail sales fell 1.4% m/m (May: +0.7%) after three successive months of growth that were supported by pent-up demand.
- Industrial production rebounded by 8.9% m/m (May: -7.5%) following two monthly declines, boosted by the reopening of Shanghai.

Australia's retail sales rose lesser than expected:
- Australia's retail sales growth slowed to 0.2% m/m in June, from 0.7% m/m in May, missing the consensus forecast of 0.5%. The softer retail sales data added to evidence that higher interest rates and inflation may start to take a toll on household spending.

New Zealand's business and consumer confidence remained weak:
- New Zealand's ANZ Business Confidence Index rose 6pts to -56.7 in July, from -62.6 in June. The small recovery indicates that business sentiment remained poor. Whereas activity indicators were fairly steady, inflation pressures remain intense but not worsening.
- Meanwhile, the ANZ Consumer Confidence Index rose to 81.9 in the same month, from 80.5 previously. Inflation expectations fell to 4.9%, from 5.6%, the lowest level in a year. ANZ said that consumers remained worried about inflation, higher interest rates, lower house prices and ongoing uncertainty.

House View and Forecasts

FX	This Week	3Q-22	4Q-22	1Q-23	2Q-23
DXY	106-108	106.00	105.00	103.00	102.00
EUR/USD	1.00-1.03	1.02	1.03	1.05	1.04
GBP/USD	1.18-1.20	1.21	1.22	1.24	1.23
AUD/USD	0.68-0.70	0.67	0.69	0.70	0.70
USD/JPY	136-138	138.00	135.00	133.00	132.00
USD/MYR	4.45-4.47	4.42	4.40	4.38	4.35
USD/SGD	1.38-1.39	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
29/07	EZ CPI Estimate YoY (Jul)	8.6%
	EZ GDP SA QoQ (2Q A)	0.6%
	US Personal Income (Jun)	0.5%
	US Personal Spending (Jun)	0.2%
	US PCE Core Deflator YoY (Jun)	4.7%
	US MNI Chicago PMI (Jul)	56.0
	US U. of Mich. Sentiment (Jul F)	51.1
01/08	MA S&P Global Malaysia PMI Mfg (Jul)	50.4
	VN S&P Global Vietnam PMI Mfg (Jul)	54
	JP Jibun Bank Japan PMI Mfg (Jul F)	52.2
	CN Caixin China PMI Mfg (Jul)	51.7
	EZ S&P Global Eurozone Manufacturing PMI (Jul F)	49.6
	HK GDP YoY (2Q A)	-4.0%
	UK S&P Global/CIPS UK Manufacturing PMI (Jul F)	52.2
	EZ Unemployment Rate (Jun)	6.6%
	US S&P Global US Manufacturing PMI (Jul F)	52.3
	US Construction Spending MoM (Jun)	-0.1%
	US ISM Manufacturing (Jul)	53

Source: Bloomberg

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