1 September 2023

Global Markets Research

Daily Market Highlights

1 Sept: All eyes on US nonfarm job data tonight

US equities halted extended gains; UST yields and DXY closed higher ahead of NFP

US core PCE rose as expected; no change to Fed rate pause expectations in September

Mixed China PMIs continued to spell growth challenges ahead

- US equities shrugged off the higher opening with the Dow and the broader S&P500 closing the day in the red while the NASDAQ settled just above the flatline and off the day highs. This marked the first decline in the Dow and S&P500 in five days, and the first monthly decline in six months for all the three US benchmark stock indices. Gains spurred by firming expectations that the Fed will leave rates unchanged following a mixed bag of economic indicators including softening labour market and expected increase in core PCE were pared as investors shifted their focus to nonfarm payroll tonight. Fed-dated OIS pricing for a September hike remained little changed at a mere 12%. Fed President Bostic commented that policy makers need to be cautious about overtightening risk that could cause unnecessary harm to the labour market.

- Stocks also traded lower in European and Asian session earlier amid lingering China concerns despite piecemeal headlines on targeted measures to revive the China economy and real estate sector. The Eur Stoxx 600 and FTSE100 fell 0.4-0.5% d/d while in Asia, the Hang Seng and CSI 300 lost 0.6% on the day. The Malaysian market was closed for Independence Day holiday but the benchmark KLCI also shed 0.2% prior to the holiday. Futures suggest Asian markets are poised for a mixed opening this morning tracking the mixed market performances overnight and cautiousness ahead of NFP release tonight. China's move to reduce the downpayment for first and second time home buyers, as well as "encouragement" to reduce lower borrowing costs, may also invite mixed responses and not expected to have a significant boost to the dented sentiments. Meanwhile, Hong Kong markets will be out today in anticipation of Super Typhoon Saola.

- Global sovereign bond yields settled lower by and large on the back of some safety flows. UST yields slipped 1-2bps across led by the 2s, which fell 2bps to 4.86%. European bond yields saw bigger moves between 6-8bps.

- DXY halted three days of pullback to settle 0.5% d/d higher at 103.63, about 10pips off the intraday high of 103.74 as the USD advanced against all G10s save for the JPY and commodity currencies. On the contrary, Asian currencies strengthened against the USD by and large, led by CNY, THN and PHP. The SGD weakened 0.1% d/d to 1.3512 while the MYR last traded 0.2% stronger at 4.6385 prior to the holiday.

Key Market Metrics

	Level	d/d (%)
Equities		
Dow Jones	34,721.91	-0.48
S&P 500	4,507.66	-0.16
NASDAQ	14,034.97	0.11
Stoxx Eur 600	458.19	-0.20
FTSE 100	7,439.13	-0.46
Nikkei 225	32,713.27	0.29
Hang Seng	18,382.06	-0.55
Straits Times	3,233.30	0.41
KLCI 30	1,451.94	-0.17
FX		
Dollar Index	103.62	0.45
EUR/USD	1.0843	-0.73
GBP/USD	1.2673	-0.38
USD/JPY	145.54	-0.48
AUD/USD	0.6484	0.14
USD/CNH	7.2755	-0.38
USD/MYR	4.6385	0.20
USD/SGD	1.3512	0.11
Commodities		
WTI ($/bbl)	83.63	2.45
Brent ($/bbl)	86.86	1.16
Gold ($/oz)	1,947.00	-0.36
Copper ($$/MT)	8,422.50	-0.59
Aluminum($/MT)	2,208.00	0.30
CPO (RM/tonne)	3,812.00	2.20

Source: Bloomberg, HLBB Global Markets Research
Note: KLCI and USDMYR close as at 30 Aug; CPO close as at 29 Aug

- Oil prices closed marginally higher by 0.5-1.0%. WTI closed at $81.71/ barrel while the Brent climbed higher for the 3rd straight day to $86.83/ barrel. Russia's agreement on further output cut offered a lift, momentarily provided some relieves over lingering China-related demand concerns.

US core PCE inched up as expected; but has little impact on Fed policy outlook

- Core PCE ticked a notch up to 4.2% y/y in July as expected (Jun: +4.1% y/y) as it sustained a 0.2% m/m increase, hence did not sway expectations that the Fed will keep rates on hold at its next FOMC meeting in September. Fed-dated OIS pricing for a September hike was little changed at a mere 12%.
- Tracking the upward revision in private consumption for 2Q, from +1.6% q/q to +1.7% q/q, personal spending accelerated to 0.8% m/m in July (Jun: +0.6% m/m upwardly revised), supported by a still healthy labour market and easing inflation. On a less positive note, personal income unexpectedly rose at a slightly slower pace of 0.2% m/m in July (Jun: +0.3% m/m), which could translate into slower spending growth ahead.
- On the job market front, although initial jobless claims reported a surprised decline of 4k to 228k for the week ended 26-August (prior: 232k revised), continuing claims increased more than expected to 1725k (prior 1697k). This somewhat ties with recent telltale signs of a softening labour market. A day earlier, ADP job gains disappointed with just a 177k gain in August, missing the 195k expected. Expectation is tonight's NFP print will also show a lower reading.

Eurozone CPI and jobless rate held steady at 5.3% and 6.4% respectively

- CPI estimate bucked expectations for a deceleration to 5.1% y/y and held steady at 5.3% y/y in August instead. This came on the back of a bigger than expected rebound m/m to +0.6% (Jul: -0.1% m/m) shored up by a 3.2% m/m jump in energy prices. Core CPI however eased to 5.3% y/y in August as expected (Jul: +5.5% y/y), supporting the case for ECB to stay on hold.
- Jobless rate meanwhile stabilized at a historical low of 6.4% in July as expected, a level unchanged since April, suggesting the jobless rate may have bottomed.

China PMI manufacturing surprised with an uptick but remained contractionary; non-manufacturing weakened for a 5th straight month

- PMI manufacturing staged a surprised uptick to 49.7 in August (Jul: 49.3), thanks to improvements in output and new orders. On the contrary, non-manufacturing PMI pulled back more than expected to 51.0 in August (Jul: 51.5), dragged by new orders and business expectations.
- Extended contractions in manufacturing PMI for a 5th straight month, coupled with five consecutive months of decelerating momentum in non-manufacturing PMI, continued to spell headwinds for the China economy going forward.

House View and Forecasts

FX	This Week	3Q-23	4Q-23	1Q-24	2Q-24
DXY	101-106	102	101	100	99
EUR/USD	1.06-1.10	1.11	1.12	1.14	1.12
GBP/USD	1.24-1.29	1.29	1.31	1.33	1.30
USD/JPY	142-148	141	139	136	133
AUD/USD	0.63-0.66	0.67	0.68	0.68	0.69
USD/MYR	4.58-4.68	4.69	4.64	4.60	4.55
USD/SGD	1.34-1.37	1.35	1.34	1.33	1.33

Rates, %	Current	3Q-23	4Q-23	1Q-24	2Q-24
Fed	5.25-5.50	5.25-5.50	5.25.5.50	5.00-5.25	4.50-4.75
ECB	4.25	4.25	4.25	4.25	4.00
BOE	5.25	5.50	5.50	5.50	5.00
BOJ	-0.10	-0.10	-0.10	-0.10	-0.10
RBA	4.10	4.35	4.35	4.35	4.35
BNM	3.00	3.00	3.00	3.00	3.00

Source: HLBB Global Markets Research

Up Next

Date	Events	Prior
1 Sep	US Change in nonfarm payroll (Aug)	187k
	US jobless rate (Aug)	3.5%
	US average hourly earnings MOM (Aug)	0.4%
	US ISM manufacturing (Aug)	46.4
	US PMI manufacturing (Aug)	47.0
	EU PMI manufacturing (Aug F)	43.7
	UK PMI manufacturing (Aug F)	42.5
	SG PMI (Aug)	49.8

Source: Bloomberg

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