

3 August 2023

## Global Markets Research

### Daily Market Highlights

## 3 Aug: Market selloff after US downgrade

**Fitch downgraded US' long-term ratings to 'AA+'; Outlook Stable**

**10Y, 30Y UST yields rose to the highest in 2023; Equities markets tumbled; DXY gained**

**ADP report showed that private sector employment is still robust; Above expectations**

- Wall Street saw a wave of selling with Nasdaq losing 2.2% d/d, its worst day since February, after Fitch downgraded the US' IDR and dented sentiment. The S&P 500 pulled back by 1.4% d/d, while the Dow Jones Industrial Average tumbled 1.0% d/d dragged by shares of Intel and Microsoft. European and Asian markets also fell as global sentiment was pulled down by the downgrade. Stoxx Eur 600 and FTSE 100 fell 1.4% d/d each, while Nikkei 225 and Hang Seng led losses in Asia, slipping between 2.3%-2.5% d/d each.
- Anxiety over Fitch's downgrade also sent UST yields for the 10Y and 30Y up 6 and 8bps to close at 4.08% and 4.18%, their highest close for the year. Yields for the 2Y, on the other hand, fell 3bps to 4.88%. 10Y European bond yields closed mixed between -3bps to +1bps.
- The Dollar nevertheless shrugged off Fitch's US credit rating downgrade, with the DXY rising to as high as 102.78 before losing steam and slipping to 102.59 (+0.3% d/d). EUR and GBP depreciated between 0.4%-0.5% d/d each, while regional currencies closed weaker between 0.2%-1.1% d/d. MYR specifically, traded 0.5% d/d weaker at 4.5425, while JPY was the outlier, closing flattish at 143.32.
- Oil prices settled down between 2.0%-2.3% d/d despite a drop in the US crude inventory, as investors de-risked following the downgrade. According to the Energy Information Administration, US crude stocks fell by a record 17m barrels last week but it should be noted that this weekly inventory data is constantly revised.

#### **Fitch downgraded US' IDR to AA+; Private sector employment higher than expected**

- Fitch Ratings downgraded US' long-term foreign currency issuer default rating (IDR) to 'AA+' from 'AAA'. At the same time, its rating watch Negative was removed and a Stable outlook was assigned. The Country Ceiling has been reaffirmed 'AAA.' The downgrade was underpinned by an expected fiscal deterioration over the next three years and an erosion of standards of governance over the last 20 years. Accordingly, the repeated debt-limit political standoffs and last-minute resolutions have eroded confidence in fiscal management.
- The ADP National Employment report signalled that job creation remained robust in July, with private sector employers adding 324k jobs in July (June: 455k), while annual pay was up 6.2% y/y. Although a deceleration, this is still

#### Key Market Metrics

	Level	d/d (%)
<b>Equities</b>		
Dow Jones	35,282.52	-0.98
S&P 500	4,513.39	-1.38
NASDAQ	13,973.45	-2.17
Stoxx Eur 600	460.84	-1.35
FTSE 100	7,561.63	-1.36
Nikkei 225	32,707.69	-2.30
Hang Seng	19,517.38	-2.47
Straits Times	3,325.02	-1.45
KLCI 30	1,444.56	-0.46
<b>FX</b>		
Dollar Index	102.59	0.28
EUR/USD	1.0938	-0.42
GBP/USD	1.2711	-0.52
USD/JPY	143.32	-0.01
AUD/USD	0.6538	-1.13
USD/CNH	7.2009	0.21
USD/MYR	4.5425	0.52
USD/SGD	1.3410	0.33
<b>Commodities</b>		
WTI (\$/bbl)	79.49	-2.31
Brent (\$/bbl)	83.20	-2.01
Gold (\$/oz)	1,937.40	-0.17
Copper (\$\$/MT)	8,509.50	-1.41
Aluminum(\$/MT)	2,209.00	-2.06
CPO (RM/tonne)	3,814.00	0.32

Source: Bloomberg, HLBB Global Markets Research

\* Dated as of 1 Aug for CPO

above the 1H average of 256k jobs and was above street estimate. The leisure and hospitality industries again drove growth, while the manufacturing industry shed jobs for the fifth straight month. The favourable labor market should continue to support consumer spending going forward although ADP sees a slowdown in pay growth.

- Mortgage application posted its second week of decline and at a faster pace of -3.0% w/w for the week ended 28 July (21 Jul: -1.8% w/w). Higher mortgage rates, with the 30Y fixed rate increasing to 6.93%, coupled with limited inventory contributed to the decline in overall applications. The Purchase Index contracted by 3.2% w/w (21 Jul: -2.5% w/w), while the Refinancing Index dipped 2.5% d/d (21 July: -0.4% w/w).

#### Australia's PMI-Services revised slightly downwards for July; First contraction in 4 months

- The final Judo Bank Australia Services PMI was revised downwards by 0.1ppts to 47.9 for the month of July (June: 50.3). This is the first contraction in 4 months and was primarily driven by the adverse impact of higher interest rates which affected spending and business confidence.

#### Singapore's PMI edged up but still contractionary

- Singapore's PMI inched up to 49.8 in July (June: 49.7), signalling that the manufacturing sector is stabilising and was underpinned by slower contraction in new orders, new exports, output and employment. The Electronics PMI specifically, posted a slower contraction at 49.3 (June: 49.0).

#### House View and Forecasts

FX	This Week	3Q-23	4Q-23	1Q-24	2Q-24
DXY	99-103	102	101	100	99
EUR/USD	1.08-1.12	1.11	1.12	1.14	1.12
GBP/USD	1.26-1.30	1.29	1.31	1.33	1.30
USD/JPY	135-141	141	139	136	133
AUD/USD	0.65-0.69	0.67	0.68	0.68	0.69
USD/MYR	4.46-4.56	4.69	4.64	4.60	4.55
USD/SGD	1.31-1.35	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	5.00	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
3-Aug	JN Jibun Bank Japan PMI Services (Jul F)	53.9
	SI S&P Global Singapore PMI (Jul)	54.1
	HK S&P Global Hong Kong PMI (Jul)	50.3
	AU Exports MoM (Jun)	4%
	AU Retail Sales Ex Inflation QoQ (2Q)	-0.60%
	CH Caixin China PMI Services (Jul)	53.9
	EC HCOB Eurozone Services PMI (Jul F)	51.1
	UK S&P Global/CIPS UK Services PMI (Jul F)	51.5
	EC PPI YoY (Jun)	-1.50%
	UK Bank of England Bank Rate	5.00%
	US Challenger Job Cuts YoY (Jul)	25.20%
	US Nonfarm Productivity (2Q P)	-2.10%

	US Unit Labor Costs (2Q P)	4.20%
	US Initial Jobless Claims	221k
	US S&P Global US Services PMI (Jul F)	52.4
	US Factory Orders (Jun)	0.30%
	US Durable Goods Orders (Jun F)	4.70%
	US Cap Goods Orders Nondef Ex Air (Jun F)	0.20%
	US ISM Services Index (Jul)	53.9
4-Aug	AU RBA-Statement on Monetary Policy	
	SI Retail Sales YoY (Jun)	1.80%
	EC Retail Sales MoM (Jun)	0.00%
	US Change in Nonfarm Payrolls (Jul)	209k
	US Unemployment Rate (Jul)	3.60%

Source: Bloomberg

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