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Global Markets Research

Daily Market Highlights

4 July: Markets shrugged off weak PMI readings

Muted trading as US markets were closed early for Independence Day holiday today

US stocks and DXY eked out small gains while bonds rebounded

Broad weaknesses in PMI prints reaffirmed downside growth risks ahead

- US equities traded firmer and ended mildly positive in a shortened trading day on Monday ahead of Independence Day holiday on 4-July. The three benchmark US stock indices closed 0.0-0.2% higher on the day, led by Tesla who reported record quarterly sales. Gains were also evident in the financials, consumer staples, materials and communication services sector, as markets chose to shrug off weaker than expected ISM manufacturing print that fell to its worst in over three years. European and UK equities ended in the red, as final PMI readings confirmed extended deterioration in the manufacturing sector. Asian stocks rebounded in Monday's trading, amid easing fear of a global recession as data points to resilient growth and cooling inflation. Nikkei 225 rallied 1.7% while the Hang Seng jumped 2.1% d/d. The KLCI also closed 1.4% d/d higher. Futures are pointing to mixed openings in Asia markets today.
- Sovereign bonds rebounded, pushing yields lower overall. The UST curve shifted 0-5bps higher, led by the front and the belly. 2Y UST yields rose 4bps to 4.94% while the 10s inched up 2bps to 3.86%, deepening the curve inversion to -108bps suggesting markets remain wary of a recession. In Europe, 10Y sovereign bond yields generally rose 4-6bps. Yields on the 10Y UK gilt increased 5bps to 4.43% while the German bunds rose 4bps to 2.43%.
- On the FX front, DXY climbed to as high as 103.27 in European openings but narrowed gains to close the day flat at 102.97. The greenback strengthened against 6 G10s but weakened against the other 4 (NZD, NOK, AUD and EUR). Asian currencies generally outperformed the greenback, with the KRW, THB and CNH leading gains. The MYR ended flat at 4.6665 against the USD, and is expected to stay rangebound ahead of BNM OPR announcement on Thursday.
- Global crude oil prices also continued to advance before paring gains towards Monday's close, on the back of supply concerns following news that Russia is introducing new export curbs on oil, and Saudi Arabia will maintain its production cut. Brent crude closed marginally higher at \$74.96/ barrel while WTI shed 0.5% d/d to last settle at \$70.12/ barrel.

Broad weakness in manufacturing activities in June points to bleak outlook ahead

- Final US PMI manufacturing index softened to 46.3 in June (May: 48.4), unchanged from the preliminary estimate confirming a bigger contraction in manufacturing activities during the month. In a separate release hours later, the ISM manufacturing index unexpectedly fell to its worst level since the

Key Market Metrics

	Level	d/d (%)
Equities		
Dow Jones	34,418.47	0.03
S&P 500	4,455.59	0.12
NASDAQ	13,816.77	0.21
Stoxx Eur 600	460.98	-0.21
FTSE 100	7,527.26	-0.06
Nikkei 225	33,753.33	1.70
Hang Seng	19,306.59	2.06
Straits Times	3,207.10	0.04
KLCI 30	1,395.89	1.40
FX		
Dollar Index	102.97	0.05
EUR/USD	1.0912	0.03
GBP/USD	1.2693	-0.08
USD/JPY	144.68	0.26
AUD/USD	0.6673	0.14
USD/CNH	7.2529	-0.20
USD/MYR	4.6665	0.00
USD/SGD	1.3512	-0.09
Commodities		
WTI (\$/bbl)	70.12	-0.47
Brent (\$/bbl)	74.96	0.07
Gold (\$/oz)	1,929.20	0.07
Copper (\$\$/MT)	8,380.00	0.73
Aluminum(\$/MT)	2,161.00	0.23
CPO (RM/tonne)	3,730.00	0.24

Source: Bloomberg, HLBB Global Markets Research

pandemic era in May-20, dragged by new orders, production, and inventories. The ISM print pulled back to 46.0 in June (May: 46.9), against expectations for a pick-up to 47.1.

- In the Eurozone, the final PMI manufacturing print showed a bigger pullback to 43.4 in June (prelim 43.6 and May: 44.8). This marked its 5th straight month of deceleration and a good one year of contraction, suggesting continued softening growth outlook ahead.
- A similar gauge from the UK however showed a slight upward revision from the preliminary reading of 46.2, with the final print revising up to 46.5 in June, but still a pullback from 47.1 in May. Mirroring its Eurozone counterpart, manufacturing activities in the UK has been contracting in the last 11 months. The pace of contraction has even deepened in the last four months, pointing to a bleak outlook ahead.
- Japan's PMI manufacturing eased to 49.8 in June (May: 50.6), no change from the initial estimate, confirming last month's rebound to above the 50-threshold as just a blip.
- China Caixin PMI manufacturing retreated but at a less than expected pace to 50.5 in June (May: 50.9). This, coupled with the slight uptick in the official PMI print seems to suggest some stabilization in the China manufacturing sector.
- Australia PMI manufacturing index eased to 48.2 in June, contrary to a preliminary reading that showed an uptick to 48.6, from 48.4 in May.
- In the ASEAN region, the readings were mixed, weakened in South Korea (47.8 vs 48.4), Thailand (53.2 vs 58.2), and Malaysia (47.7 vs 47.8); but improved in Vietnam (46.2 vs 45.3) and Indonesia (52.5 vs 50.3). In Singapore, the PMI gauge also ticked higher to 49.7 in June (May: 49.5), lifted by new orders, new export orders and output. The electronics PMI however eased for the 3rd straight month to 49.0 in June (May: 49.1), tracking the downcycle in the global semiconductor industry.

Japan Tankan survey painted a more upbeat outlook

- Tankan survey for 2Q was generally positive pointing to more upbeat outlook across the board. The manufacturing and non-manufacturing indices for both large and small businesses improved more than expected. Similarly, the outlook for large and small manufacturing also surprised on the upside while the non-manufacturing outlook improved less than expected. Most importantly, all industry capex picked up more than expected and increased 13.4% in 2Q (1Q: +3.2%), bouncing back from a seasonally soft 1Q suggesting improvement in business investment that would underpin growth in the 2Q.

Australia inflation expectations are cooling; building approvals rebounded strongly

- Melbourne Institute inflation expectations cooled considerably to +0.1% m/m in June (May: +0.9%) and the annual print also softened to +5.7% y/y (May: +5.9%), adding to signs of cooling inflation that would allow the RBA to stay pat today.
- May building approvals rebounded sharply by 20.6% m/m in May (Apr: -6.8% m/m), marking its biggest gain since August last year, driven by apartment approvals in New South Wales. Private sector home approvals turned around to increase 0.9% m/m during the month (Apr -3.0%). We caution reading too much into single-month data, especially approval numbers which have usually been volatile.

Hong Kong retail sales saw extended gains a sign of further recovery

- Retail sales growth picked up less than expected in May, from 14.9% to 18.4% y/y. This was driven by quicker growth in food, alcohol & tobacco, clothing & footwear, and motor vehicles. This marked its 6th straight month of expansion, as a return of tourists spurred consumption and retail sales. Further recovery in tourism activities will continue to spur retail sales and economic growth in the months ahead.

House View and Forecasts

FX	This Week	3Q-23	4Q-23	1Q-24	2Q-24
DXY	102-105	102	101	100	99
EUR/USD	1.07-1.10	1.11	1.12	1.14	1.12
GBP/USD	1.24-1.28	1.29	1.31	1.33	1.30
USD/JPY	143-147	141	139	136	133
AUD/USD	0.64-0.68	0.67	0.68	0.68	0.69
USD/MYR	4.65-4.72	4.69	4.64	4.60	4.55
USD/SGD	1.34-1.38	1.35	1.34	1.33	1.33

Rates, %	Current	3Q-23	4Q-23	1Q-24	2Q-24
Fed	5.00-5.25	5.25-5.50	5.25-5.50	5.00-5.25	4.50-4.75
ECB	4.00	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	4.10	4.10	4.10	4.10
BNM	3.00	3.00	3.00	3.00	3.00

Source: HLBB Global Markets Research

Up Next

Date	Events	Prior
4-Jul	RBA cash target rate (Jul)	4.10%
5-Jul	AU Judo Bank Australia PMI Services (Jun F)	50.7
	JN Jibun Bank Japan PMI Services (Jun F)	54.2
	SI S&P Global Singapore PMI (Jun)	54.5
	HK S&P Global Hong Kong PMI (Jun)	50.6
	CH Caixin China PMI Services (Jun)	57.1
	SI Retail Sales YoY (May)	3.60%
	EC HCOB Eurozone Services PMI (Jun F)	52.4
	UK S&P Global/CIPS UK Services PMI (Jun F)	53.7
	EC PPI YoY (May)	1.00%
	US Factory Orders (May)	0.40%
	US Durable Goods Orders (May F)	1.70%

Source: Bloomberg

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