4 August 2023

Global Markets Research

Daily Market Highlights

4 Aug: US downgrade continued to rattle markets

Equities and bonds saw extended declines; DXY fell

Services prints broadly weaker; US job cuts plunged to its lowest level in 11 months

BOE hiked bank rate by 25bps to 5.25% as expected; expect another 25bps hike ahead

- Wall Street closed lower as investors awaited the latest earnings reports from two mega tech companies after the closing bell as well as the non-farm payroll data on Friday. Jittery over Fitch's downgrade of US credit rating also weighed on sentiment, sending the US equities down 0.1-0.3% d/d. In after-hours moves, Amazon reported 2Q results that beat expectations and issued an optimistic guidance. Shares of Apples fell after its iPhone sales missed estimates, offsetting services. The downgrade also rattled the European and Asian markets for the second day, sending Stoxx Eur 600 0.6% d/d lower and FTSE 100 sliding 0.4% d/d. Hang Seng dropped 0.5% d/d, while Nikkei 225 tumbled 1.7% d/d.

- The Treasuries markets continued to feel the brunt of the downgrade, pushing yields sharply higher led by the long end. The 30Y rose 12bps to 4.29%, while the 10Y jumped 10bps to 4.18%. Yields on the 2Y inched up by less than 1bps to 4.88%. 10Y European bond yields rose in tune of 6-9bps.

- DXY fell from its 4-week peak on Thursday, slipping 0.1% d/d to 102.54. GBP closed just below the flatline at 1.2709 after the BOE downshifted to a smaller 25bps rate hike. EUR gained slightly by 0.1% d/d. Regional currencies closed mixed, with the safe haven JPY strengthening 0.5% d/d. CNH also appreciated by 0.3% d/d after its PMI services activity expanded slightly faster in July. SGD closed flat at 1.3410, while MYR weakened 0.3% d/d to 4.5553.

- Oil prices gained by more than 2% d/d after Saudi Arabia extended its output cut by another month to September, and hinted at a deeper cut.

BOE hiked bank rate by 25bps to 5.25%

- Matching consensus expectations and ours, the Bank of England's (BOE) Monetary Policy Committee voted by a majority of 6–3 to increase the bank rate by 25bps to 5.25%. Two members preferred to increase the bank rate by 50bps, while one preferred to leave it unchanged at 5.00%.
- Highlights from the accompanying statement include: 1) The updated projections for GDP and CPI are conditioned on a market-implied path for bank rate that rises to a peak of just over 6.00% and averages just under 5.50% over the three-year forecast period (Previous: 4.00%). 2) Inflation to fall to around 5.00% by the end of the year due to energy, only returning to the 2.0% target by 2Q of 2025. 3) Quarterly GDP growth of 0.2% in 2Q and 3Q, consistent with earlier expectations. 4) BOE added the language "the MPC will ensure that bank rate is sufficiently restrictive for sufficiently long to return inflation to the

Key Market Metrics

	Level	d/d (%)
Equities		
Dow Jones	35,215.89	-0.19
S&P 500	4,501.89	-0.25
NASDAQ	13,959.71	-0.10
Stoxx Eur 600	457.93	-0.63
FTSE 100	7,529.16	-0.43
Nikkei 225	32,159.28	-1.68
Hang Seng	19,420.87	-0.49
Straits Times	3,304.06	-0.63
KLCI 30	1,441.85	-0.19
FX		
Dollar Index	102.54	-0.05
EUR/USD	1.0949	0.10
GBP/USD	1.2709	-0.02
USD/JPY	142.58	-0.52
AUD/USD	0.6551	0.20
USD/CNH	7.1820	-0.26
USD/MYR	4.5553	0.28
USD/SGD	1.3410	0.00
Commodities		
WTI ($/bbl)	81.55	2.59
Brent ($/bbl)	85.14	2.33
Gold ($/oz)	1,932.00	-0.28
Copper ($$/MT)	8,611.00	1.19
Aluminum($/MT)	2,230.00	0.95
CPO (RM/tonne)	3,846.50	0.85

Source: Bloomberg, HLBB Global Markets Research
** Dated as of 2 Aug for CPO*

2% target," signalling a possibility that the UK may face a long period of higher rates.

Broadly softer PMI services print

- US' final S&P Global Services PMI was revised downwards by 0.1ppts to 52.3 in July (June: 54.4). The rate of growth was the softest since February and weaker than the long-run average. Nonetheless, sustained increase in new orders and continued demand from existing customers boosted output during the month.
- Eurozone's final HCOB Services PMI was revised downwards by 0.2ppts to 50.9 in July (June: 52.0). This marks the third month that the index has dropped and signalled a near-stalling of activities. July data showed a renewed reduction in new business intakes, the first contraction in demand since the end-2022. Orders received from export markets also slumped further.
- UK's final S&P Global/CIPS Services PMI was left unchanged at 51.5 in July (June: 53.7). This is the slowest in the currency cycle of expansion and signalled a loss of momentum for business activity growth in each of the past three months. Companies reporting a rise in output typically attributed this to resilient household spending on travel and leisure services.
- Japan's final au Jibun Bank Services PMI was revised downwards by 0.1ppts to 53.8 in July (June: 54.0). This marked the eleventh consecutive improvement, though the rate has slowed to its lowest since January. Firms attributed the uplift to increased sales.
- Caixin China Services PMI unexpectedly rose to 54.1 in July (June: 53.9). That said, the upturn was softer than the 1H average and companies signalled softer rises in both input costs and output charges.
- Hong Kong's composite PMI fell below the 50-threshold for the first time in 2023, sliding to 49.4 in July (June: 50.3) as the reopening boost seemed to be tapering off. Of note, a renewed decline in new orders dragged activity but the rate of contraction was mild.
- Singapore's composite PMI fell to 51.3 in July (June: 54.1), the fifth monthly expansion albeit the slowest. A sharp deceleration of new order growth led to a slower growth. Employment and inventory levels both declined, while price pressures remained steep. Business confidence moderated in July.

US ISM Services slipped further; Job cuts plunged to its lowest level in 11 months

- The ISM Services pulled back more than expected to 52.7 in July (June: 53.9), mostly due to declines in the business activity, new orders and employment sub-indices as well as ongoing faster delivery times. Nonetheless, the majority of respondents were cautiously optimistic about business conditions and the economy.
- Matching expectations, factory orders accelerated to +2.3% m/m in June (May: +0.4% m/m). Orders have increased in six of the last seven months, with June data boosted by orders for transportation equipment as well as computers and electronic products. Machinery orders fell.
- According to Challenger, Gray & Christmas, Inc, job cuts plunged 41.8% m/m and 8.2% y/y to 23,697 in July (June: +25.2% y/y). This marks the first y/y contraction in 2023 and the lowest level in 11 months. Again, the technology sector led all industries in job cuts, followed by healthcare/products, retail and media. All in, the job market remained resilient despite a slower pace of hiring recently, but wages continued to rise, particularly for the lowest-wage earners.

- Jobless claims rose more than expected by 6k to 227k for the week ended July 29 (July 22: -7k), while continuing claims rose 21k to 1700k the prior week (June 15: -70k). Nonetheless, continuing claims at this level remained low by historical standards, indicating that some laid-off workers are experiencing short spells of unemployment.
- Nonfarm productivity logged its biggest gain in nearly 3 years and more than expected by +3.7% q/q in 2Q (1Q: -1.2% q/q), helping to offset the inflationary impact from the 1.6% q/q increase in unit labour costs (1Q: +3.3% q/q)

Eurozone's PPI continued to fall

- Producer prices (PPI) fell more than expected by 3.4% y/y and 0.4% m/m in June (May: -1.6% y/y and -1.9% m/m). On a m/m basis, the softer pace of contraction was primarily energy driven.

Australia's retail sales and exports fell

- Matching expectations, retail sales fell at a slower pace of 0.5% q/q in 2Q (1Q: -0.8% q/q). That said, this is the first time since 2008 that volumes have recorded three consecutive quarterly falls as consumers pulled back on spending given the higher cost of living. The widespread fall in volumes also signalled that consumers are focusing on essentials, buying less or switching to cheaper brands.
- Trade surplus widened to $11.3bn in June (May: downwardly revised $10.5bn) as exports contracted less than imports at -1.2% m/m and -3.9% m/m respectively. The decline in exports were primarily due to metal ores and minerals, while exports and imports of services remained resilient due to strong inbound and outbound tourism as well as international student arrivals for the former.

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	5.25	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
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
7-Aug	JN Leading Index CI (Jun P)	109.2
	MA Foreign Reserves	$111.8b
	EC Sentix Investor Confidence (Aug)	-22.5

Source: Bloomberg

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