4 September 2023

Global Markets Research

Daily Market Highlights

4 Sep: US NFP points to moderate job gains

US equities, UST yields and USD closed higher on Fed rate pause expectations

China cut forex RRR to defend the yuan; Caixin manufacturing PMI rebounded above 50

Malaysia's NIMP aimed to raised value-added in the manufacturing sector by 61% by 2030

- The Dow Jones Industrial Average ticked up by 0.3% d/d, the S&P 500 added 0.2% d/d but the Nasdaq Composite closed just below the flatline on Friday after the latest non-farm payroll data (NFP) suggests that the labour market may be cool enough for the Federal Reserve to hold off further interest rate hikes when the FOMC meet later in the month. Nevertheless, the indices were off intraday highs as mega cap tech stocks weighed on performances, and consumer staples were also amongst the worst performing sectors for S&P 500. Tonight, the US market will be closed for Labour Day.

- In Europe, Stoxx Eur 600 closed just below the flatline while FTSE 100 traded up 0.3% d/d. Asian markets largely traded higher after data showed that China's factory activity expanded in August and after the PBoC slashed its foreign exchange RRR to defend the yuan. CSI 300 gained 0.7% d/d while Nikkei 225 was up 0.3% d/d. Hong Kong's financial markets were closed due to Super Typhoon Saola.

- In the bond market, 10Y UST yields swung from its opening level of 4.11% to as low as 4.05% post NFP release but closed at 4.18% (+7bps). The 2Y closed 2bps higher at 4.88% after plunging to as low as 4.75% after the NFP report. 10Y European bond yields rose between 3-12bps.

- DXY jumped back above the 104-handle, hitting its high of 104.29 from early low of 103.27 before closing at 104.24 (+0.6% d/d). European and Asian currencies closed mainly weaker against USD, with the latter weakening between 0.1%-0.5% d/d and the former in tune of 0.2%-0.8% d/d. CNH was one of the outliers (besides KRW and INR), strengthening 0.1% d/d as the central bank rolled out measures to defend its currency.

- In the oil market, the West Texas Intermediate jumped 2.3% d/d, while Brent gained 2.0% d/d on expectations that Saudi Arabia will extend its voluntary oil production cut of 1m barrels per day into October. Prices were also supported by China's series of stimulus measures which allayed concerns over demand.

China cut forex RRR to defend the yuan

- The People's Bank of China (PBoC) will reduce the foreign exchange reserve requirement ratio (RRR) for financial institutions by 200bps to 4.00% wef Sept. 15. The change will reduce the ratio to the same level since 2006 and is one of the tools that the central bank can use to defend the yuan. The move is expected to release $16bn into the market.

Key Market Metrics

	Level	d/d (%)
Equities		
Dow Jones	34,837.71	0.33
S&P 500	4,515.77	0.18
NASDAQ	14,031.81	-0.02
Stoxx Eur 600	458.13	-0.01
FTSE 100	7,464.54	0.34
Nikkei 225	32,710.62	0.28
Hang Seng	18,382.06	-0.55
Straits Times	3,233.30	0.41
KLCI 30	1,463.43	0.79
FX		
Dollar Index	104.24	0.60
EUR/USD	1.0780	-0.58
GBP/USD	1.2590	-0.65
USD/JPY	146.22	0.47
AUD/USD	0.6456	-0.43
USD/CNH	7.2703	-0.07
USD/MYR	4.6462	0.17
USD/SGD	1.3527	0.11
Commodities		
WTI ($/bbl)	85.55	2.30
Brent ($/bbl)	88.55	1.95
Gold ($/oz)	1,948.40	0.07
Copper ($$/MT)	8,500.50	0.93
Aluminum($/MT)	2,237.00	1.31
CPO (RM/tonne)	3,797.50	1.81

Source: Bloomberg, HLBB Global Markets Research
** Dated as of 30th Aug for CPO, 31st Aug for Straits Times and Hang Seng*

US added 187k jobs as expected but unemployment rate unexpectedly rose; ISM-Manufacturing improved but still contracting

- Nonfarm payrolls (NFP) added 187k jobs in August as expected, although July's gain was cut by 30k to 157k and the two-month payroll (June and July) was revised downwards by 110k in total, adding to signs of a softening labour market. On top of this, unemployment rate unexpectedly increased to 3.8% in August (July: 3.5%) as the labour force participation rate increased to 62.8% (Jul: 62.6%). Employment continued to trend up in health care, leisure and hospitality, social assistance, and construction.
- Average hourly earnings, meanwhile, slowed more than expected to just +0.2% m/m (July: +0.4% m/m), but average hours worked increased to 34.4 (July: 34.3), driving the 0.5% m/m acceleration in weekly earnings. While the unemployment rate remained low, the surprised uptick in unemployment rate as well as slower earnings growth signal a downshift in the labour market and reiterate our expectations that the Fed will hold its policy rates steady in the next FOMC meeting.
- The ISM manufacturing index surprised on the upside at 47.6 in August (Jul: 46.4), but with the sub-indices showing that companies are managing outputs according to the softer demand. New orders contracted at a slightly faster rate; new export orders remained in contractionary mode while the backlog of order improved for the third month but remained at low levels. Suppliers continue to have capacity, while prices are generally stable. On the contrary, a similar gauge by S&P Global PMI manufacturing confirmed a pullback from 49.0 in July to 47.9 in August, although this has been revised upwards by 0.9ppt from the preliminary reading. Sharper contraction for the sector was due to faster decline in new orders which dampened output, and slower rise in employment.

Eurozone and UK PMI manufacturing stayed contractionary; China's Caixin manufacturing PMI rebounded above 50

- The final Eurozone Manufacturing PMI was revised downwards by 0.2ppts to 43.5 in August (Jul: 42.7), driven by the destocking cycle but there are tentative signs that this process is nearing its end. Performance was varied across the various economies, with Greece and Ireland the only two countries to record an improvement since July. The four largest economies all remained in contraction territory.
- Although the final UK Manufacturing PMI was revised upwards by 0.5ppts to 43.0 in August (Jul: 45.3), this is the lowest level since May 2020 as demand was hit by weaker domestic and export conditions. On a positive note, purchase prices fell at the quickest pace since January 2016.
- Caixin China Manufacturing PMI unexpectedly rose above the 50-threshold to 51.0 in August (Jul: 49.2). Though only mild expansion, the rate of growth was the best since February. Going forward, we believe that insufficient internal demand and uncertainty in external demand will continue to put downward pressure on the economy and thus, the government has and is expected to roll out more supportive policies to support domestic consumption.
- The S&P Global Malaysia Manufacturing PMI was unchanged at 47.8 in August, signalling that business conditions remained challenging. Evidence points to subdued demand going forward given the moderations in production and new business inflows, as well as a steeper scaling back of employment levels.
- Singapore's PMI improved for the third month to 49.9 in August (July: 49.8), driven by the electronics PMI which rose by 0.2ppts to 49.5. Most sub-indices

registered m/m improvement, albeit still contractionary. The improved readings in recent months suggests possible recovery of the manufacturing sector despite several uncertainties in the macroeconomic environment and geopolitical development.

Malaysia unveiled the New Industrial Master Plan (IMP) 2030

- The New Industrial Master Plan 2030 (NIMP 2030), unveiled on Friday, is an industrial policy for the manufacturing and manufacturing-related services sector aimed to increase the value added of the manufacturing sector by 61% to RM587.5bn by 2030 (2022: RM364.1bn), to grow employment to 3.3m persons by 2030 (2022: 2.7m) and to grow the median salary to RM4,510 in 2030 (2021: RM1,976)
- To achieve the goals and targets of NIMP 2030, 4 key missions and 4 enablers have been identified, with the latter meant to address systemic and institutional issues that the nation is facing. More importantly, the missions include: 1) To advance economic complexity. 2) To tech up for a digitally vibrant nation. 3) To push for Net Zero carbon emission. 4) To safeguard economic security and inclusivity.
- Key beneficiaries from the master plan will include the electronics and electrical sector (E&E), chemical, electronics vehicles (EV), aerospace, pharmaceutical and advanced materials, such as minerals and metal sectors, with each state having its own niche.

House View and Forecasts

FX	This Week	3Q-23	4Q-23	1Q-24	2Q-24
DXY	101-105	102	101	100	99
EUR/USD	1.07-1.10	1.11	1.12	1.14	1.12
GBP/USD	1.25-1.29	1.29	1.31	1.33	1.30
USD/JPY	142-147	141	139	136	133
AUD/USD	0.63-0.67	0.67	0.68	0.68	0.69
USD/MYR	4.57-4.66	4.69	4.64	4.60	4.55
USD/SGD	1.33-1.37	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
4-Sept	AU Melbourne Institute Inflation YoY (Aug)	5.40%
	EC Sentix Investor Confidence (Sep)	-18.9
5-Sept	AU Judo Bank Australia PMI Services (Aug F)	46.7
	JN Household Spending YoY (Jul)	-4.20%
	JN Jibun Bank Japan PMI Services (Aug F)	54.3
	SI S&P Global Singapore PMI (Aug)	51.3
	VN S&P Global Vietnam PMI Mfg (Aug)	48.7
	HK S&P Global Hong Kong PMI (Aug)	49.4
	CH Caixin China PMI Services (Aug)	54.1
	AU RBA Cash Rate Target	4.10%
	SI Retail Sales SA MoM (Jul)	-0.80%
	EC ECB 1 Year CPI Expectations (Jul)	3.40%
	EC ECB 3 Year CPI Expectations (Jul)	2.30%
	EC HCOB Eurozone Services PMI (Aug F)	48.3

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UK S&P Global/CIPS UK Services PMI (Aug F)	48.7
EC PPI YoY (Jul)	-3.40%
US Factory Orders (Jul)	2.30%
US Durable Goods Orders (Jul F)	-5.20%
US Cap Goods Orders Nondef Ex Air (Jul F)	0.10%

Source: Bloomberg