6 September 2023

Global Markets Research

Daily Market Highlights

6 Sep: RBA maintained cash rate target at 4.10%

Equities closed in the red on growth fear; UST yields and DXY rallied on safety bids

AUD led losses as RBA highlighted growth uncertainties; China services PMI at 8-month low

Brent crude oil topped $90/barrel after Saudi and Russia extended production cuts

- US stock market reopened and kicked off the week in red as a jump in crude oil prices and a weak China data heightened fears over slow global growth. The Dow Jones Industrial Average lost 0.6% d/d, the S&P 500 dropped 0.4% d/d while Nasdaq edged down 0.1% d/d. Oil prices rose after Saudi Arabia and Russia extended their supply cuts for the rest of 2023, lifting energy stocks but dampened appetite for airline and cruise stocks.

- Stoxx Eur 600 closed 0.2% d/d lower as the boost from Chinese stimulus measures faded and after Eurozone's final Composite PMI recorded its steepest fall in 33 months. FTSE100 also dipped 0.2% d/d. Hang Seng led losses in Asia, falling 2.1% d/d dragged by health-care and real estate stocks. CSI 300 was also in negative territory at 0.7% d/d, but Nikkei 225 reversed losses and gained 0.3% d/d. This is the first time the Nikkei has crossed the 33k mark since Aug. 1.

- Treasury yields also popped, straining risk assets. The yield on the 10Y Treasury surged 8bps to 4.26%, while the 2Y climbed 8bps to 4.96%. 10Y European bond yields saw increases in tune of 2-8bps.

- DXY rallied to an intraday high of 104.91 before closing at 104.81 (+0.6% d/d), as jitters over global growth, particularly in China, caused investors to flock to safe-haven USD. AUD slumped 1.3% d/d, one of the weakest currencies against USD, hit by a double whammy of RBA keeping its rates steady and Australia's high exposure to China. European currencies depreciated between 0.5%-0.7% d/d/, while JPY led losses in the Asian region by weakening 0.9% d/d. CNH, MYR and SGD depreciated between 0.2%-0.5% d/d to close at 7.3055, 4.6652 and 1.3613 against the USD.

- Brent scaled above $90/barrel for the first time since November, or up 1.2% d/d, while the West Texas Intermediate gained 1.3% d/d after Saudi Arabia extended its 1m barrel per day voluntary oil production cut until the end of the year. This will put Saudi crude output near 9m barrels per day, the lowest levels in several years. Fellow heavyweight oil producer Russia also announced separately that Russia will reduce its exports by 300k barrels per day for the same duration. Despite this, oil price gains could be short lived given limited upside for Chinese demand.

RBA maintained cash rate target at 4.10%

- As widely expected, the Reserve Bank of Australia (RBA) left the cash rate target unchanged at 4.10%. Key highlights from the statement include: 1)

Key Market Metrics

	Level	d/d (%)
Equities		
Dow Jones	34,641.97	-0.56
S&P 500	4,496.83	-0.42
NASDAQ	14,020.95	-0.08
Stoxx Eur 600	456.90	-0.23
FTSE 100	7,437.93	-0.20
Nikkei 225	33,036.76	0.30
Hang Seng	18,456.91	-2.06
Straits Times	3,226.83	-0.37
KLCI 30	1,454.83	-0.54
FX		
Dollar Index	104.81	0.55
EUR/USD	1.0722	-0.69
GBP/USD	1.2564	-0.48
USD/JPY	147.72	0.85
AUD/USD	0.6379	-1.27
USD/CNH	7.3055	0.41
USD/MYR	4.6652	0.20
USD/SGD	1.3613	0.47
Commodities		
WTI ($/bbl)	86.69	1.33
Brent ($/bbl)	90.04	1.17
Gold ($/oz)	1,934.30	-0.72
Copper ($$/MT)	8,487.00	0.41
Aluminum($/MT)	2,193.00	-0.88
CPO (RM/tonne)	3,871.00	-0.79

Source: Bloomberg, HLBB Global Markets Research
** Dated as of 4th Sept for CPO*

Returning inflation to target within a reasonable timeframe remains the board's priority and the central forecast is for CPI to be back within the 2-3% target in late 2025. 2) The central bank continues to forecast below trend growth for the economy and employment, with the unemployment rate expected to rise gradually to around 4.5% late next year. 3) No change in the statement that some further tightening of monetary policy may be required. 5) The central bank highlighted uncertainties to its outlook - services price inflation, household consumption, lags in the effect of monetary policy, still tight labour market and increased uncertainty for the Chinese economy due to the property market.

China Caixin Services PMI fell to its lowest reading in 8 months; Eurozone's final Services PMI revised downwards

- The Eurozone Services PMI was revised downwards by 0.4ppts to 47.9 In Aug (Jul: 50.9). This marks the first decline since Dec 2022 and fastest contraction since Feb 2021. The four largest Eurozone economies all posted declines. Looking ahead, expectations for business activity remained stable and positive.
- In contrast, the UK Services PMI was revised upwards by 0.8ppts to 49.5 in Aug (Jul: 51.5). Nevertheless, the index at this level is the lowest since January. While the contraction was mild, businesses' hesitation to commit will likely be a drag to economic activity going forward. Key data to watch in the coming months will be the employment trends and potentially, softer demand translating into falling domestic inflation.
- Japan Services PMI was left unchanged at 54.3 in Aug (Jul: 53.8), suggesting solid growth and the strongest in 3 months. Key findings include sharper growth in new business, operating expenses rising at quickest pace for 6 months and elevated business confidence.
- The Caixin China General Services Business Activity Index fell more than expected to 51.8 in Aug (Jul: 54.1), its lowest reading 8 months. Interestingly, service providers remained optimistic, expressing confidence in the market outlook although overall optimism was limited.
- Although the S&P Global Hong Kong SAR PMI (Composite) rose to 49.8 in Aug (Jul: 49.4), the sustained decline in new orders signals that output may remain subdued in the coming months, especially in view of the contraction in new business from Mainland China. The one positive news is that cost inflation has eased further.
- The S&P Global Vietnam Manufacturing PMI moved back above the 50-threshold for the first time in 6 months to 50.5 in Aug (Jul: 48.7). Output, new orders, exports and purchasing sub-indices all returned to growth but were generally muted, as such, it is too early to conclude that that the sector is in full recovery mode.

Pullback in US factory orders dragged by durable goods

- Factory orders fell less than expected to 2.1% y/y in July (June: +2.3% y/y). The sharp pullback in factory orders came as durable goods orders plummeted by 5.2% y/y (June: +4.3% y/y). Orders for transportation equipment plunged by 14.3% y/y.

Bigger contraction in Eurozone's; inflationary expectations were stable

- ECB's 1Y CPI expectations were unchanged at 3.4% y/y in July, while the 3Y unexpectedly edged up to 2.4% y/y (June: +2.3%). These remained well below the perceived past inflation rates, while uncertainty about inflation expectations over the next 12 months was stable for the second month.

- Matching expectations, the contraction in producer prices (PPI) widened to -7.6% y/y in July (June: -3.4% y/y) mainly due to lower energy prices. The decline in prices of intermediate goods also worsened, offsetting easing PPI for other sub-components. Lower PPI, coupled with lower inflationary expectations, reaffirms a downward trend in inflation prints going forward. These results are the last price prints before ECB's monetary policy meeting on Sept 14 and thus, we expect the central bank to stay pat at this meeting.

Singapore's retail sales rose less than forecast on petrol prices

- Retail sales rose less than forecast by +1.1% y/y in July (June: downwardly revised +1.0% y/y). The biggest y/y increase came from the food and alcohol industry, mainly due to the latter. Sales at mini-marts & convenience stores as well as motor vehicles also increased but petrol service stations recorded a plunge of 16.1% y/y due partly to lower petrol prices. Sales of recreational goods, supermarkets & hypermarkets as well as department stores also fell.

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	4.10	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
6-Sept	AU GDP SA QoQ (2Q)	0.20%
	EC Retail Sales MoM (Jul)	-0.30%
	US MBA Mortgage Applications	2.30%
	US Trade Balance (Jul)	-$65.5b
	US S&P Global US Services PMI (Aug F)	51
	US ISM Services Index (Aug)	52.7
7-Sept	US Federal Reserve Releases Beige Book	
	AU Exports MoM (Jul)	-2%
	JN Leading Index CI (Jul P)	108.9
	MA BNM Overnight Policy Rate	3.00%
	MA Foreign Reserves	$112.2b
	EC GDP SA QoQ (2Q F)	0.30%
	EC Employment QoQ (2Q F)	0.20%
	US Initial Jobless Claims	228k
	CH Exports YoY (Aug)	-14.50%

Source: Bloomberg

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