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Global Markets Research

Daily Market Highlights

7 Sep: Upbeat US ISM services reignited rate hike fears

Wall Street in the red; 2Y UST yields topped 5.00%; DXY rallied to a 6-month high

JPY hit 147.82 – its weakest in 10 months prompting verbal warning from officials

GBP weakened after BOE Governor Bailey said interest rates are “near the top of the cycle”

- A much stronger than expected ISM Services and trade data revived Fed rate hike fears, sending UST yields and DXY higher. US equities settled another day in the red. The Dow Jones Industrial Average sank 0.6% d/d, the S&P 500 fell 0.7% d/d while Nasdaq shed 1.1% d/d. Large tech stocks, including Nvidia and Apple lost grounds, with the latter also weighed down by new Chinese government’s restrictions on the use of Apple devices.
- European markets extended its losing streak as investors stayed cautious after its series of weak economic data recently. Stoxx Eur 600 ended 0.6% d/d lower, while FTSE 100 dipped 0.2% d/d. Asian markets closed mixed with Nikkei 225 closing 0.6% d/d higher, but Hang Seng and CSI 300 fell in tune to 0.1%-0.2% d/d each. Nonetheless, Chinese property stocks surged after Country Garden dodged a default with overdue payment, with Evergrande leading the charge at +82.9% d/d.
- 2Y UST yields rose 6bps to 5.02% as traders fretted over the potential for more Fed rate hikes. The 10Y edged up by 2bps to 4.28%. 10Y European bond yields increased between 1-6bps.
- USD climbed to a 6-month high, with the DXY last up 0.1% d/d to 104.86 after hitting 105.02 earlier. EUR and GBP fell to their three-month lows, with the former closing up 0.1% d/ but the latter down 0.5% d/d respectively. GBP was weighed down by BOE governor Andrew Bailey’s comments that the interest rates are probably “near the top of the cycle.” In Asia, JPY closed flattish at 147.66 after hitting 147.82, its lowest since Nov 4, prompting Masato Kanda, vice finance minister for international affairs warning that Japan won’t rule out any options if FX moves continue. CNH, MYR and SGD depreciated 0.2% d/d each to close at 7.3208, 4.6757 and 1.3636.
- Crude oil hovered around their 10-months highs, with the West Texas Intermediate gaining 1.0% d/d to \$87.54/barrel and Brent up 0.6% d/d to \$90.60/barrel after OPEC+ leaders extended supply cuts.

US ISM Services Index improved to 54.5; Mortgage applications fell to its lowest since 1996

- The ISM Services Index unexpectedly improved to 54.5 in August (July: 52.7). This, coupled with accelerated expansion in the new orders, employment sub-indices as well as positive sentiment amongst the majority of panellists suggests sustained growth for this sector. Of note, the price index also picked up during the month by 2.1ppts. The ISM Services Index is in contrast with the

Key Market Metrics

| | Level | d/d (%) |
|--------------------|-----------|---------|
| Equities | | |
| Dow Jones | 34,443.19 | -0.57 |
| S&P 500 | 4,465.48 | -0.70 |
| NASDAQ | 13,872.47 | -1.06 |
| Stoxx Eur 600 | 454.30 | -0.57 |
| FTSE 100 | 7,426.14 | -0.16 |
| Nikkei 225 | 33,241.02 | 0.62 |
| Hang Seng | 18,449.98 | -0.04 |
| Straits Times | 3,222.88 | -0.12 |
| KLCI 30 | 1,460.62 | 0.40 |
| FX | | |
| Dollar Index | 104.86 | 0.05 |
| EUR/USD | 1.0727 | 0.05 |
| GBP/USD | 1.2507 | -0.45 |
| USD/JPY | 147.66 | -0.04 |
| AUD/USD | 0.6382 | 0.05 |
| USD/CNH | 7.3208 | 0.21 |
| USD/MYR | 4.6757 | 0.23 |
| USD/SGD | 1.3636 | 0.17 |
| Commodities | | |
| WTI (\$/bbl) | 87.54 | 0.98 |
| Brent (\$/bbl) | 90.60 | 0.62 |
| Gold (\$/oz) | 1,925.80 | -0.44 |
| Copper (\$\$/MT) | 8,371.50 | -1.36 |
| Aluminum(\$/MT) | 2,193.50 | 0.02 |
| CPO (RM/tonne) | 3,844.50 | -0.68 |

Source: Bloomberg, HLBB Global Markets Research

* Dated as of 5th Sept for CPO

0.5ppts downwards revision in the final S&P Global Services PMI to 50.5 for the same month (July: 52.3).

- Trade deficit widened less than expected to \$65.0bn in July (June: \$63.7bn), as both exports and imports registered positive growths of 1.6% m/m and 1.7% m/m respectively (June: 0 and -1.0% m/m). The former was supported by demand for industrial supplies and autos, while imports gained on consumer goods, especially for cell phones and household goods, as well as capital equipment. Of note, July marks the second consecutive month of improvement for imports of consumer goods (+4.1% m/m and July: +0.7% m/m), an encouraging sign for consumer spending.
- Mortgage applications declined 2.9% w/w for the week ended Sep 1 (Aug 25: +2.3% w/w) to its lowest level since December 1996. This is despite a drop in mortgage rates. Both purchase and refinance applications fell, with the purchase index hitting a 28-year low, as prospective buyers remain on the sidelines due to low housing inventory and elevated mortgage rates. The 30Y fixed mortgage rate decreased to 7.21% last week, but remained more than 1ppts higher y/y.
- Key highlights from the Beige Book include: 1) Economic growth was modest in Jul-Aug, with consumer spending on tourism stronger than expected. 2) Retail spending continued to slow, especially on non-essential items. Some districts reported that consumers may have exhausted their savings and are relying more on borrowing to support spending. 3) Most consumer loan balances rose and some Districts reported higher delinquencies. 4) New orders were stable or declined as demand for manufactured goods waned. 4) Inventory of homes for sale remained constrained, but multiple districts noted that construction of affordable housing units was challenged by higher financing costs and rising insurance premiums.

Eurozone's retail sales recorded first m/m contraction in 4 months

- Retail sales contracted by 1.0% y/y in July (June: downwardly revised -1.0% y/y), marking a poor start for 3Q. Qn a m/m basis, sales matched expectations and recorded its first contraction since March at 0.2%, driven by sales of automotive fuel. By region, the decline was mainly driven by northern economies such as Germany, Netherlands, Belgium and Ireland, while France and Spain saw improved sales.

Australia's economy grew by 2.1% y/y and 0.4% q/q in 2Q

- 2Q GDP decelerated less than expected to +2.1% y/y (1Q: upwardly revised +2.4% y/y) and growth held steady at +0.4% q/q. This marks the 7th consecutive quarterly increase in growth, while the year-on-year growth remained above trend. Exports and investment were the primary contributors to q/q growth, partly offset by changes in inventories, with easing supply chain constraints and improved weather driving trade in goods and changes in inventories. Household spending slowed further to +0.1% q/q, as higher inflation and interest rates saw consumers shifting away from discretionary spending towards essentials. The exception was spending on vehicles which rose 5.8% q/q as supply bottlenecks eased.

House View and Forecasts

| FX | This Week | 3Q-23 | 4Q-23 | 1Q-24 | 2Q-24 |
|---------|-----------|-------|-------|-------|-------|
| DX | 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 |
|-------|---|----------|
| 7-Sep | 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 |
| 8-Sep | CH Exports YoY (Aug) | -14.50% |
| | JN Real Cash Earnings YoY (Jul) | -1.60% |
| | JN GDP Annualized SA QoQ (2Q F) | 6.00% |
| | JN Bank Lending Ex-Trusts YoY (Aug) | 3.30% |
| | JN Eco Watchers Survey Outlook SA (Aug) | 54.1 |
| | US Wholesale Trade Sales MoM (Jul) | -0.70% |

Source: Bloomberg

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