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Global Markets Research

Daily Market Highlights

17 Aug: FOMC minutes still flagged upside inflation risks

Hawkish Fed minutes sent Wall Street lower; 10 UST yields and DXY closed higher
US manufacturing output rose for the first time in 3 months; mixed bag of housing data
UK inflation eased less than expected; GBP and yields on 10Y Gilts advanced

- Stocks dipped, while the 10Y UST yield touched a 15Y high after minutes from the latest FOMC meeting showed that Fed officials remain worried over an upside risk in inflation and thus, the end of the tightening cycle may not be over yet. The Dow Jones Industrial Average fell 0.5% d/d, the S&P 500 lost 0.8% d/d while Nasdaq Composite plunged 1.2% d/d. On the corporate front, Target and Progressive shares rose 3.0% and 8.9% d/d respectively after the retail giant and insurer reported stronger than expected earnings.
- European and Asian markets also closed mostly lower amidst growing pessimism over China's economic outlook. Stoxx Eur 600 closed down by 0.1% d/d while FTSE 100 lost 0.4% d/d in Europe, while Nikkei 225 and Hang Seng slid between 1.4%-1.5% d/d each in Asia.
- In the Treasuries market, the 10Y UST yields rose 4bps to 4.25%, its highest since June 2008, while the 2Y edged up slightly by 1bps to 4.97%. 10Y European bond yields saw modest declines of 0-3 bps except for the 10Y UK gilts, where yields rose 6bps to 4.64% after the stronger-than-expected wage and CPI data heightened BOE rate hike fears.
- DXY found support on the hawkish lean from the minutes, sending the index up by 0.2% d/d to close at 103.43, just off the day's high of 103.53. While EUR weakened 0.2% d/d, GBP strengthened 0.2% d/d after the inflation numbers. Regional currencies were generally weaker between 0.1%-0.5% d/d with the exception of MYR, which appreciated by 0.1% d/d to 4.6293.
- Oil prices fell between 1.7%-2.0% d/d as China fears overshadowed tight US supply. The Energy Information Administration reported that US crude oil inventories fell by nearly 6m barrels last week.

Key Market Metrics

	Level	d/d (%)
Equities		
Dow Jones	34,765.74	-0.52
S&P 500	4,404.33	-0.76
NASDAQ	13,474.63	-1.15
Stoxx Eur 600	455.29	-0.06
FTSE 100	7,356.88	-0.44
Nikkei 225	31,766.82	-1.46
Hang Seng	18,329.30	-1.36
Straits Times	3,213.58	-0.59
KLCI 30	1,463.51	0.22
FX		
Dollar Index	103.43	0.22
EUR/USD	1.0879	-0.24
GBP/USD	1.2732	0.21
USD/JPY	146.35	0.54
AUD/USD	0.6424	-0.48
USD/CNH	7.3363	0.17
USD/MYR	4.6293	-0.14
USD/SGD	1.3598	0.11
Commodities		
WTI (\$/bbl)	79.38	-1.99
Brent (\$/bbl)	83.45	-1.70
Gold (\$/oz)	1,896.10	-0.34
Copper (\$\$/MT)	8,167.00	-0.40
Aluminum(\$/MT)	2,143.00	0.02
CPO (RM/tonne)	3,788.00	2.31

Source: Bloomberg, HLBB Global Markets Research

* Dated as of 15 Aug for CPO

Fed rate hike decision was unanimous; Reiteration of upside inflation risks revived chatter the Fed is not done yet

- Key highlights from the minutes to the latest FOMC meeting include: 1) A couple of participants favored leaving the target range for the Fed funds rate unchanged. 2) Acknowledging the lagged impacts of monetary policy, participants commented that monetary policy tightening appeared to be working broadly as intended, while noting downside risks to economic activity and upside risks to the unemployment rate. 3) While consumer spending has remained resilient, excess savings, softening labor market conditions and increased price sensitivity could result in a spending slowdown. 4) Most

participants continued to see significant upside risks to inflation, which could require further tightening of monetary policy. Several commented that significant disinflationary pressures had yet to become apparent in the prices of core services excluding housing. 5) Risks of a potential sharp decline in CRE valuations that could adversely affect some banks and other financial institutions.

Mixed bag of housing data from the US; manufacturing output rose on autos

- Housing starts rebounded more than expected to +3.9% m/m in July led by single-family homes (June: -11.7% y/y), but building permits came below expectations at +0.1% m/m (June: -3.7% m/m). Mortgage applications, meanwhile, fell for the fourth week, contracting by 0.8% w/w for the week ended Aug 11 (Aug 4: -3.1% w/w) as the 30Y fixed mortgage rate climbed to its highest since 2001 at 7.16%. Higher mortgage rates and lack of inventory pushing home prices higher remained the largest headwind to the housing market.
- Manufacturing output rose for the first time in three months in July, beating consensus estimates at +0.5% m/m (June: -0.5% m/m). The surprised uptick was underpinned by a 5.2% m/m surge in motor-vehicles, and was also partially supported by the downward revision in June's data. Production of business equipment also rose the most in three months, while consumer goods logged its biggest gain since the end of 2020. Overall IPI shot up by 1.0% m/m (June: -0.8% m/m), with utilities production soaring 5.4% m/m as the heat-wave increased demand for air conditioning.
- The New York Fed Services Business Activity improved slightly to 0.6 in August (July: 0) supported by the continuous increase in its employment sub-index as well as prices. The business climate also rose but remained negative, suggesting that the business climate remains worse than normal. Looking ahead, firms remained relatively optimistic that conditions will improve over the next six months.

Eurozone 's GDP and employment generally stable at +0.3% q/q and +0.2% q/q

- Economic growth in the Eurozone remained stable in 2Q, with its preliminary GDP matching expectations to expand by 0.3% q/q (1Q: 0). Growth was skewed by the 3.3% q/q surge in Ireland where many multinationals are based, while France and Spain grew between 0.4%-0.5% q/q. Germany stagnated while Italy turned contractionary at -0.3% q/q. Data also showed that employment expanded at a softer pace of 0.2% q/q for the same quarter (1Q: +0.5% q/q).

UK's inflation rate eased less than expected to 6.8%

- Inflation decelerated less than expected to +6.8% y/y in July (June: +7.9% y/y). Although off from its peak of 11.1% y/y in October 2022, this still leaves inflation well over the Bank of England's target of 2% and as such, there is no change in our view that the central bank will raise its policy rate by another 25bps when they next meet in September. The easing in inflation largely reflected softer prices for housing and household services, particularly for gas and electricity. There were also notable downward effects from food and non-alcoholic beverages, but these were offset by higher price pressure for hotels and passenger transport.
- Separate data also showed that producer price inflation (PPI) fell 3.3% y/y for the same month (June: -3.3% y/y) weighed down by lower crude oil prices. This is the lowest annual rate since May 2020 while PPI-output registered its first contraction since December 2020 at -0.8% y/y (June: +0.3% y/y) due to refined

petroleum products. The House Price Index also slowed for the eight consecutive months to +1.7% y/y in June (May: +1.8% y/y).

Australia Westpac Leading Index took a turn lower and fell

- Australia's Westpac Leading Index turned around and edged down slightly by less than 0.1% m/m in August (July: +0.1% m/m). Overall headline was weighed down by a contractionary S&P/ASX 200, US IPI, RBA Commodity Prices as well as dwelling approvals sub-indices.

China new home prices fell further

- New home prices contracted for the second month, worsening to -0.2% m/m in July (June: -0.1% m/m), with prices rising in only 20 cities as compared to 31 previously, adding to worries on the China real estate sector.

Japan's exports shrank for the first time in 2 years; core machinery orders rebounded on non-manufacturing

- Japan's exports shrank for the first time in 2 years and by a more than expected 0.3% y/y in July (June: +1.5% y/y), while imports registered its steepest decline since September 2022 at -13.5% y/y (June: -12.9% y/y). As it is, weaker demand from its several key export markets signals prevailing headwinds for the economic recovery going forward. Separate data showed that core machinery orders rebounded in June, albeit less than expected by 2.7% m/m (May: -7.6% m/m) driven by the non-manufacturing sector while manufacturing recorded softer but still positive growth.

House View and Forecasts

FX	This Week	3Q-23	4Q-23	1Q-24	2Q-24
DXY	100-104	102	101	100	99
EUR/USD	1.08-1.12	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	0.64-0.67	0.67	0.68	0.68	0.69
USD/MYR	4.50-4.60	4.69	4.64	4.60	4.55
USD/SGD	1.33-1.36	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
17-Aug	SI Electronic Exports YoY (Jul)	-15.90%
	AU Employment Change (Jul)	32.6k
	AU Unemployment Rate (Jul)	3.50%
	HK Unemployment Rate SA (Jul)	2.90%
	EC Trade Balance NSA (Jun)	-0.3b
	US Initial Jobless Claims	248k
	US Philadelphia Fed Business Outlook (Aug)	-13.5
	US Leading Index (Jul)	-0.70%
18-Aug	UK GfK Consumer Confidence (Aug)	-30
	JN Natl CPI YoY (Jul)	3.30%
	MA GDP YoY (2Q)	5.60%
	MA Exports YoY (Jul)	-14.10%

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UK Retail Sales Inc Auto Fuel MoM (Jul)
EC CPI YoY (Jul F)

0.70%
5.50%

Source: Bloomberg

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