21 August 2023

Global Markets Research

Daily Market Highlights

21 Aug: Higher bond yields and China dented sentiment

Equities and Dollar Index fell; long term USTs halted losing streaks pushing yields down

UK retail sales contracted as wet weather and higher cost of living dampened spending

Malaysia's 2Q GDP growth tapered off to 2.9% y/y, its slowest since 3Q21

- Concerns over China's real estate and rising UST yields, although eased slightly d/d, weighed down on the equity markets on Friday. Wall Street was generally in the red, with the S&P 500 finishing just below the flatline while Nasdaq fell 0.2% d/d. Dow Jones Industrial Average added 0.1% d/d but ended the week 2.2% d/d lower, its worst since March. S&P 500 and Nasdaq also closed the week lower for the third straight week, a first since February and December 2022 respectively.

- Following their counterparts in Asia earlier in the day, Stoxx Eur 600 also closed the day 0.6% d/d weaker, while FTSE100 lost 0.7% d/d. Hang Seng slid 2.1% d/d, while CSI 300 lost 1.2% d/d after Chinese real estate giant Evergrande filed for Chapter 15 bankruptcy protection in New York. Japan's Nikkei 225 slipped 0.6%.

- 10Y UST broke its 6-day losing streak with yields finishing 2bps lower at 4.26%. 30Y yield also edged down by 1bps to 4.38%, while 2Y was up marginally by 1bps to 4.94%. 10Y European bond yields saw a decline between 1 to 10bps.

- DXY closed 0.2% d/d lower at 103.38, challenging its day high of 103.68 and day low of 103.23. Nonetheless, this marks the first time the DXY has held over 103 for 5 straight days, last seen in June, supported by demand for safer assets. EUR closed flattish while GBP weakened 0.1% d/d after British retailers reported a bigger-than-expected drop in sales. JPY strengthened 0.3% d/d to 145.39, while CNH closed just below the flatline at 7.3064. Both the SGD and MYR closed stronger by 0.1% d/d each at 1.3572 and 4.6488, with the latter minimally impacted by the disappointing 2Q GDP.

- Oil prices gained between 0.8%-1.1% d/d after industry data showed that the US oil and natural gas rig count, an early indicator of future output, fell at a faster pace last week.

Eurozone's final CPI was maintained at 5.3%

- Eurozone's July final CPI data was maintained at +5.3% y/y and 5.5% y/y for headline and core respectively (June: +5.5% y/y for both), with the highest contribution coming from services. July data reaffirmed a downward trend in price pressures and will give ECB leeway to maintain its key policy rates going forward. Separate data also showed that construction output fell 1.0% m/m and 0.3% y/y in June (May: +0.2% m/m and +0.3% y/y).

Key Market Metrics

	Level	d/d (%)
Equities		
Dow Jones	34,500.66	0.07
S&P 500	4,369.71	-0.01
NASDAQ	13,290.78	-0.20
Stoxx Eur 600	448.44	-0.61
FTSE 100	7,262.43	-0.65
Nikkei 225	31,450.76	-0.55
Hang Seng	17,950.85	-2.05
Straits Times	3,173.93	-0.71
KLCI 30	1,446.09	-0.13
FX		
Dollar Index	103.38	-0.19
EUR/USD	1.0873	0.01
GBP/USD	1.2734	-0.10
USD/JPY	145.39	-0.31
AUD/USD	0.6406	0.03
USD/CNH	7.3064	0.03
USD/MYR	4.6488	-0.12
USD/SGD	1.3572	-0.09
Commodities		
WTI ($/bbl)	81.25	1.07
Brent ($/bbl)	84.80	0.81
Gold ($/oz)	1,886.10	0.11
Copper ($$/MT)	8,240.50	0.06
Aluminum($/MT)	2,137.00	-0.40
CPO (RM/tonne)	3,862.00	1.67

Source: Bloomberg, HLBB Global Markets Research
** Dated as of 17 Aug for CPO*

UK retail sales contracted more than expected on clothing and food

- Retail sales worsened more than expected by -1.2% m/m in July (June: +0.6% m/m) with retailers blaming the wet weather for reduced clothing sales and increased cost of living and prices for slower food sales volume. While consumer spending will remain under pressure given the lagged impact from the higher interest rates, a still strong labour market and wage growth will help ease the pressure from the higher cost of living.
- The contraction in Rightmove House Prices worsened to -1.9% m/m in August (July: -0.2% m/m). On a y/y basis, prices edged down by 0.1% y/y (July: +0.5% y/y), its first contraction since 2019.

Inbound FDI into China contracted 4.0%

- Inbound foreign direct investment worsened to -4.0% y/y for the period Jan-July (1H: -2.7% y/y).

Malaysia's 2Q GDP growth tapered off to 2.9% y/y, its slowest since 3Q21; exports saw extended declines

- The Malaysian economy expanded at a slower pace for the 3rd straight quarter, by 2.9% y/y in 2Q. This marked a massive slowdown from the 5.6% y/y increase registered in 1Q, and was the slowest gain in seven quarters. The slower growth was slightly above our expectations (+2.6% y/y) but below consensus estimate of +3.3% y/y. Economic activities were seen slowing from all fronts, but sustained domestic demand remained the main growth pillar nonetheless, supported by a healthy labour market and hence continuous improvement in household spending, as well as higher tourism activities. This cushioned the drag from negative net exports.
- Separate data showed that exports fell more than expected by 13.1% y/y in July (Jun: -14.1% y/y), extending its negative prints into a 5th straight month reaffirming protracted weakness in global demand and international trade. Imports also fell for the 5th straight month, albeit at a slightly slower pace of 15.9% y/y (Jun: -18.7% y/y revised). Trade surplus narrowed to RM17.1bn in July (Jun: RM25.6bn), amid a m/m decline in exports (-5.8%) and a 1.3% m/m increase in imports.
- Moving forward, the Malaysian economy would be susceptible to external headwinds caused by lagged effects from policy tightening, tightened financial conditions, elevated inflation, ongoing geopolitical standoffs, and faltering growth outlook in the China economy. While continuous improvement in labour market condition and speedy implementation of investment projects could serve as a "shock absorber", we opine the high base effect in 3Q22 (+14.1% y/y) and 4Q22 (+7.1% y/y), would skew the GDP print for 2H23, (+2.0% vs +10.7% in 2H22). This suggests full year 2023 GDP growth could potentially moderate to 3.0%, after having expanded 4.3% y/y in 1H23, falling short of the official forecast range of 4.0-5.0%.

House View and Forecasts

FX	This Week	3Q-23	4Q-23	1Q-24	2Q-24
DXY	101-105	102	101	100	99
EUR/USD	1.07-1.11	1.11	1.12	1.14	1.12
GBP/USD	1.26-1.30	1.29	1.31	1.33	1.30
USD/JPY	143-148	141	139	136	133
AUD/USD	0.63-0.66	0.67	0.68	0.68	0.69
USD/MYR	4.58-4.68	4.69	4.64	4.60	4.55
USD/SGD	1.34-1.37	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
21-Aug	CH 5-Year Loan Prime Rate	4.20%
	CH 1-Year Loan Prime Rate	3.55%
	HK CPI Composite YoY (Jul)	1.90%
22-Aug	MA Foreign Reserves	$112.9b
	UK CBI Trends Total Orders (Aug)	-9
	US Philadelphia Fed Non-Manufacturing Activity (Aug)	1.4
	US Existing Home Sales MoM (Jul)	-3.30%
	US Richmond Fed Manufact. Index (Aug)	-9
	US Richmond Fed Business Conditions (Aug)	-8

Source: Bloomberg

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