Global Markets Research
Daily Market Highlights

28 July: ECB delivered a dovish 25bps rate hike

Lagarde: "Open mind" on what the decisions will be in September; EUR weakened
US data beat estimates; 2Q GDP accelerated to +2.4% despite softer consumption
Tokyo's inflation rate topped estimates; focus on BOJ's YYC decision today

- The Dow Jones Industrial Average snapped its longest winning streak since 1987, ending its 13 days of rally and closed Thursday lower by more than 200 points or 0.7% d/d. The S&P 500 and Nasdaq also lost 0.6% d/d each as a slew of better-than-expected data from the US boosted risks for a September rate hike. European equities markets, meanwhile, closed higher as investors cheered the prospect of the European Central Bank (ECB) nearing the end of its tightening cycle. Stoxx Eur 600 jumped 1.4% d/d, while FTSE100 added 0.2% d/d. In Asia, Nikkei 225 climbed 0.7% d/d, while Hang Seng traded 1.4% d/d higher.

- UST yields closed sharply higher with the 2Y jumping 8bps to 4.93%, while the 10Y surged 13bps to close at 4.00%. 10Y European bond yields saw modest declines between 1-3bps except for the 10Y UK gilts, where yields rose 3bps to 4.30%.

- DXY turned around to close near its high of the day, jumping 0.9% d/d to close at 101.77 after the slew of upbeat US economic data was released. EUR weakened 1.0% d/d against USD off the back of ECB's announcement, while GBP depreciated by 1.1% d/d, leading losses amongst the G10 peers. JPY strengthened 0.5% d/d after a Nikkei report that the Bank of Japan (BOJ) is planning to discuss a tweak to its YYC. Other regional currencies closed mixed, with the CNH and SGD weaker between 0.2-0.5% d/d, but MYR strengthened 0.6% d/d to 4.5238, amid positive vibes from the MADANI 10-year roadmap which could address some structural issues and promote Malaysia's presence in the world if implemented appropriately.

- Oil prices rallied to their highest levels since April, with Brent gaining 1.6% d/d, while the West Texas Intermediate jumped 1.7% d/d to above $80/barrel as the upbeat US economic data lifted risk-on sentiment and boosted demand outlook.

ECB raised rates by 25bps to 4.25%

- As widely expected, ECB raised the interest rates on the main refinancing operations, marginal lending facility and the deposit facility by 25bps to 4.25%, 4.50% and 3.75% respectively wef 2 August. ECB also announced that it will set the remuneration of minimum reserves to 0% to preserve the efficacy of monetary policy.
- Key highlights of the statement and press conference includes: 1) President Christine Lagarde said that officials have an "open mind" on what the decisions will be in September and in subsequent meetings and added that

Key Market Metrics

	Level	d/d (%)
Equities		
Dow Jones	35,282.72	-0.67
S&P 500	4,537.41	-0.64
NASDAQ	14,050.11	-0.55
Stoxx Eur 600	471.74	1.35
FTSE 100	7,692.76	0.21
Nikkei 225	32,891.16	0.68
Hang Seng	19,639.11	1.41
Straits Times	3,337.42	0.98
KLCI 30	1,451.27	0.14
FX		
Dollar Index	101.77	0.88
EUR/USD	1.0979	-0.97
GBP/USD	1.2796	-1.12
USD/JPY	139.48	-0.54
AUD/USD	0.6709	-0.73
USD/CNH	7.1705	0.24
USD/MYR	4.5238	-0.55
USD/SGD	1.3315	0.46
Commodities		
WTI ($/bbl)	80.09	1.66
Brent ($/bbl)	84.24	1.59
Gold ($/oz)	1,945.70	-1.24
Copper ($$/MT)	8,569.00	-0.56
Aluminum($/MT)	2,205.00	-0.36
CPO (RM/tonne)	4,033.00	-0.70

urce: Bloomberg, HLBB Global Markets Research
** Dated as of 26th July for CPO*

even if ECB pauses, it might not be necessarily for an extended period. 2) In terms of inflation outlook, Lagarde said that "Do we have more ground to cover? At this point in time, I wouldn't say so" suggesting the rate has peaked or is near its peak. 3) The statement said that the "Governing Council's future decisions will ensure that the key ECB interest rates will be set at sufficiently restrictive levels" instead of "interest rates will be brought to levels" previously.

US 2Q GDP surprised on the upside at +2.4%: Other economic indicators came in stronger than expected

- US GDP unexpectedly accelerated to 2.4% q/q in 2Q (1Q: +2.0% q/q). Compared to the previous quarter, the acceleration largely reflected an upturn in private inventory investment and an acceleration in non-residential fixed investment, which partly offset the downturn in exports and imports as well as decelerations in consumer (+1.6% vs 1Q: +4.2%) and government spending. This further bolstered expectations that the US economy is heading towards a soft landing and would be able to avoid a recession for now.
- Orders for durable goods increased for the fourth month, unexpectedly jumping by 4.7% m/m in June (May: +2.0% m/m), while new orders for nondefense capital goods excluding the volatile aircraft, a proxy for business investment, rose 0.2% m/m (May: +0.5% m/m). This suggests that businesses are still moving forward with their longer-term investments, albeit at a slower pace. Core capital goods shipment, which excludes defense and aircraft, used to calculate GDP was flat (May: +0.3% m/m).
- Trade deficit unexpectedly narrowed to $87.8bn in June (May: $91.9bn) as exports rebounded to grow by 0.2% m/m while imports remained contractionary at 1.4% m/m (May: -0.9% m/m and -2.7% m/m). Of note, the turnaround in exports was led by food & beverages, capital goods and notably other goods, while imports were dragged lower by capital goods.
- Pending home sales surprised with its first gain in 4 months, increasing a modest 0.3% m/m in June (May: -2.5% m/m). In tandem with this, the National Association of Realtors unveiled its projections for 2023-2024, expecting the 30Y fixed mortgage rate to hit 6.4% in 2023 and 6.0% in 2024, while median home sales will decrease 12.9% y/y in 2023 before climbing 15.5% in 2024
- Initial jobless claims unexpectedly fell 7k to its lowest level since February at 221k for the week ended July 22 (Jul 15: -9k to 238k), while continuing claims plunged 59k to 1690k for the week ended July 15 (Jul 8: +28k to 1749k), suggesting a resilient labour market.
- The contraction in Kansas City Fed Manufacturing Activity index improved in July, albeit less than expected at -11 (June: -12), while expectations for future activity stayed mostly flat. Of note, a majority of firms reported that profit margins decreased significantly (11%) or decreased slightly (45%) since the beginning of the year, while 17% of firms reported no change in profit margins. 23% reported a slight increase, and 4% reported a significant increase.

German's GfK consumer sentiments improved more than expected in August

- After a slight dip the previous month, Germany's GfK consumer sentiment index improved more than expected to -24.4 in August (Jul: -25.2). However, only income expectations contributed to the improvement, and as such, sentiment is expected to remain low in the coming months.

Australia's export price fell sharper than expected on energy

- Australia's Export Price Index fell sharper than expected by 8.5% q/q in 2Q (1Q: +1.6% q/q). This is the largest quarterly fall since 2009 largely due to a strong drop in energy prices and will continue to dampen RBA rate hike expectations.

Tokyo's inflation rate topped estimates; headline stable but core moderated

- Inflation in the Tokyo area topped estimate for the month of July, with headline stable at +3.2% y/y but core excluding fresh food, moderated less than expected to +3.0% y/y (June: +3.2% y/y). BOJ is set to meet today, and Nikkei reported that board members will discuss whether to tweak its YYC to let its long-term interest rates rise above 0.5% by a "certain degree." As it is, the majority of economists are expecting no changes its ultra-loose policy during this meeting.

China's industrial profits fell at a slower pace of 8.3%

- China's industrial profits dropped at a slower pace of 8.3% y/y in June (May: -12.6% y/y) as growing profits for automobile and electrical machinery helped offset the plunge in metal producers due to the property slump. The National Bureau of Statistics, however, expects profits to recover underpinned by continued recovery in the economy, impact from the various policies kicking in as well as a rebound in industrial production.

Singapore's unemployment rate held low at 1.9%

- Singapore's employment levels expanded in the 2Q, but at a much slower pace than before at 23.7k. in signs that labour demand is cooling. At the same time, retrenchments declined after three consecutive quarters of increases, and unemployment rates remained low and stable at 1.9% (May: 1.9%, March: 1.8%).
- Labour market is expected to soften in the coming quarters in tandem with the moderation in economic growth and as firms adopt a more cautious stance towards hiring. In this context, the proportion of firms which indicated an intention to hire in the next three months declined from 64.8% to 58.2%. Similarly, the proportion of firms with intention to raise wages also fell from 38.2% to 28.0%.

Malaysia unveiled 10Y MADANI Economy roadmap

- First mooted during the retabling of Budget in February, the Prime Minister unveiled more targets and details on the MADANI Economy yesterday. Key initiatives from Madani Economy include: 1) Taking Malaysia into one of the top 30 economies in the world over the next decade. 2) Target to improve Malaysia's standing in the Global Competitiveness Index to 12th, Human Development Index to 25th, and female labour force participation to 60.0% from the current 55.5%. 3) Targeting a yearly GDP expansion rate of 5.5% to 6.0%. 4) Target 3.0% deficit of GDP of lower. 5)To improve wage levels, the government is hauling the country's Compensation of Employees to GDP ratio up from 35% to 45%. 6) The administration has allocated RM100m to complete the infrastructure at various industrial zones and an additional RM100m to enhance the research, development, commercialisation and innovation ecosystem. The focus will be on industrial needs, renewable energy and new growth activities. 7) Reduce share-lot size and enable fractional trading. 8) Loosen MM2H visa programme rules and visa on arrival rules for tourists. 9) Allocate RM5bn to as financing guarantees to first time buyers of home worth up to RM300k. 10) Adults earning below RM100k per annum to receive RM100 e-cash credits.

House View and Forecasts

FX	This Week	3Q-23	4Q-23	1Q-24	2Q-24
DXY	98-103	102	101	100	99
EUR/USD	1.09-1.13	1.11	1.12	1.14	1.12
GBP/USD	1.26-1.31	1.29	1.31	1.33	1.30
USD/JPY	137-142	141	139	136	133
AUD/USD	0.66-0.70	0.67	0.68	0.68	0.69
USD/MYR	4.48-4.58	4.69	4.64	4.60	4.55
USD/SGD	1.31-1.35	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	5.00	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
28-Jul	JN Tokyo CPI YoY (Jul)	3.10%
	AU PPI YoY (2Q)	5.20%
	AU Retail Sales MoM (Jun)	0.70%
	EC Consumer Confidence (Jul F)	-15.1
	US Employment Cost Index (2Q)	1.20%
	US Personal Income (Jun)	0.40%
	US Real Personal Spending (Jun)	0.00%
	US PCE Core Deflator YoY (Jun)	4.60%
	US U. of Mich. Sentiment (Jul F)	72.6
	US Kansas City Fed Services Activity (Jul)	14
31-Jul	JN Retail Sales MoM (Jun)	1.30%
	JN Industrial Production MoM (Jun P)	-2.20%
	AU Melbourne Institute Inflation YoY (Jul)	5.70%
	AU Private Sector Credit MoM (Jun)	0.40%
	CH Manufacturing PMI (Jul)	49
	CH Non-manufacturing PMI (Jul)	53.2
	JN Consumer Confidence Index (Jul)	36.2
	JN Housing Starts YoY (Jun)	3.50%
	UK Net Consumer Credit (Jun)	1.1b
	UK Mortgage Approvals (Jun)	50.5k
	HK GDP YoY (2Q A)	2.70%
	HK GDP SA QoQ (2Q A)	5.30%
	EC CPI Estimate YoY (Jul)	5.50%
	US MNI Chicago PMI (Jul)	41.5
	AU CoreLogic House Px MoM (Jul)	1.20%
	US Dallas Fed Manf. Activity (Jul)	-23.2

Source: Bloomberg

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