

2 August 2024

## Global Markets Research

### Daily Market Highlights

## 2 Aug: Investors turned risk averse after weak US data

**Sell-off in risky assets; bonds and haven currencies gained as investors pared down risks**

**GBP weakened after BOE delivered a 25bps rate cut; expect gradual cuts going forward**

**Weaker than expected manufacturing and employment data in the US; all eyes on US NFP today**

- The weaker US employment and manufacturing data overnight raised concerns over the health of the US economy, pushing the 10Y UST yield below 4.00% for the first time since February and prompted a sell-off in the US equity markets and risky assets. The three major indices closed 1.2-2.3% lower led by Nasdaq, while the Russell 2000, the small-cap benchmark, also retreated 3.0% d/d. Tech stocks were amongst the hardest hit amid mixed corporate earnings from Meta to Apple, while utilities, consumer staples and real estate were notable gainers.
- Across the Atlantic, European markets retreated overnight following a slate of disappointing corporate earnings and weak US economic prints. Stoxx 600 slid 1.2% d/d, with banking stocks the hardest hit while the retail stocks outperformed. Asian stocks also broadly closed in the red and are expected to echo Wall Street's overnight decline today.
- Treasury yields plunged 3-11 bps across the curve led by the front-end. The 2Y yield fell 11bps to 4.15% while the 10Y slid 5bps to 3.98%. In the UK, the yield on the 2Y gilts fell 10bps to 3.68%, while the 10Y slid 9bps to 3.88% as markets digested BOE's decision and the outlook for interest rates. 10Y bond yields for the rest of Europe fell in tune to 1-6bps.
- Haven currencies were key beneficiaries after the bout of weak US economic data and in a risk-off environment. DXY rebounded 0.3% d/d to 104.42 and the Dollar strengthened against all its G10 peers save for the CHF and JPY (0.4-0.6% d/d). GBP weakened 0.9% d/d after the BOE cut its Bank Rate, while regional currencies closed mixed against greenback. CNH (-0.3% d/d) and SGD (-0.1% d/d) were the notable laggards, while MYR strengthened a whopping 0.5% d/d to 4.5693 and led gains against USD amongst its regional peers, boosted by foreign buying interests in Malaysian bonds.
- In the commodity markets, crude oil prices slid 1.5-2.1% d/d after the weak US manufacturing data stoked demand concerns, although investors remained slightly unnerved by the escalating tension in the Middle East.

### BOE delivered a 25bps rate cut as expected

- As per consensus and our forecast, the Bank of England (BOE) lowered its Bank Rate by 25bps to 5.00%. The vote split was tight at 5-4, with four members preferring to maintain status quo. The decision was finely balanced for some members. According to the statement, the decision to cut was to "reduce slightly the degree of policy restrictiveness."
- Officials provided no guidance going forward, but the committee will continue to monitor closely the risks of inflation persistency and policy restrictiveness at each meeting, suggesting that further cuts may be gradual. As it is, the OIS is pencilling in no rate cut in the September

### Key Market Metrics

	Level	d/d (%)
<b>Equities</b>		
Dow Jones	40,347.97	-1.21
S&P 500	5,446.68	-1.37
NASDAQ	17,194.14	-2.30
Stoxx Eur 600	511.83	-1.23
FTSE 100	8,283.36	-1.01
Nikkei 225	38,126.33	-2.49
CSI 300	3,419.27	-0.66
Hang Seng	17,304.96	-0.23
Straits Times	3,419.84	-1.04
KLCI 30	1,624.25	-0.08
<b>FX</b>		
Dollar Index	104.42	0.31
EUR/USD	1.0791	-0.32
GBP/USD	1.2739	-0.91
USD/JPY	149.36	-0.41
AUD/USD	0.6501	-0.63
USD/CNH	7.2513	0.34
USD/MYR	4.5693	-0.46
USD/SGD	1.3367	0.05
<b>Commodities</b>		
WTI (\$/bbl)	76.31	-2.05
Brent (\$/bbl)	79.52	-1.49
Gold (\$/oz)	2,435.00	0.35
Copper (\$\$/MT)	9,052.50	-1.87
Aluminum(\$/MT)	2,296.00	0.24
CPO (RM/tonne)	4,050.00	0.17

Source: Bloomberg, HLBB Global Markets Research  
\* Dated as of 31 July for CPO

meeting, and another 25bps in 4Q in line with our expectations.

- The BOE is also expecting quarterly GDP growth to ease from 0.7% in 2Q to 0.4% in 3Q and 0.2% in 4Q. Risks to domestic demand are skewed to the upside, with the impact of higher interest rates on spending may be more modest than expected. Inflation is expected to increase to around 2.8% over the 2H, owing largely to a smaller expected drag from domestic energy bills. In fact, data overnight showed that DMP 1Y inflation expectations eased 0.3ppts to 2.5% in July.

#### **Slight upward revisions to S&P PMIs for the majors; contractionary for China and Malaysia**

- The final US manufacturing PMI was revised up 0.1ppts to 49.6 in July (June: 51.6). This marks the first contraction in 7 months but many firms are expecting the weakness to be temporary, linked to paused spending and investment ahead of the Presidential Election. The gloomy growth picture, nonetheless, was accompanied by a marked cooling of inflation as well as slower employment growth.
- Although the final HCOB Eurozone Manufacturing PMI was revised up 0.2ppts to 45.8 in July, this was unchanged m/m and marked a contraction in the health of the bloc. Most of the 8 monitored eurozone nations saw m/m falls led by Germany and France. Moving forward, we do not expect demand to recover soon given that incoming orders have fallen for 27 months straight and at a wider pace in July.
- The final UK Manufacturing PMI rose to a 2Y high of 52.1 in July, up from 50.9 in June and the earlier flash estimate of 51.8. July saw growths in production and new orders strengthening and staffing levels rising for the first time since September 2022, a solid start to 2H. Nonetheless, inflationary pressures remain a pain, with both input and output costs rising to its highest in at least a year.
- The final Jibun Bank Japan Manufacturing PMI was revised down 0.1ppts to 49.1 in July (June: 50.0), but still a deterioration in the health of the sector for the first time since April. The near-term outlook appears muted given the lack of new orders, but firms were optimistic that this period would pass over the coming year driven by business expansion and new product plans, in line with broad-based economic and demand recovery.
- The Caixin China Manufacturing PMI fell more than to 49.8 in July (June: 51.8), its first contraction in 9 months as domestic demand declined, while external demand and job market held steady. While market optimism improved slightly, it remains weak thus, policy efforts should continue to focus on stabilizing growth, improving employment, intensifying and ensuring effective implementation of policy stimulus.
- The Manufacturing PMI for Malaysia dipped slightly to 49.7 in July from 49.9 in June. New orders, output and employment all softened, with incoming new business falling for the first time in 3-months. According to the survey, the subdued environment was largely limited to the domestic economy, as new export orders rose for the fourth month and at its joint-fastest pace since April 2021.
- The Vietnam Manufacturing PMI was unchanged at 54.7 in July, as improvements were seen across board from consumers to intermediate and investment goods. The sustained momentum adds to optimism that the good spell could widen across the economy, but manufacturers will need to expand the workforce and secure additional resources quickly to match this demand.

### Weak ISM-manufacturing and labour data for the US

- The US manufacturing sector unexpectedly deepened into the contraction zone, with the ISM-Manufacturing index sliding to 46.8 in July from 48.5 previously. Demand remains subdued, as reflected by the new orders index sliding (47.4 vs 49.3), and firms were unwilling to invest in capital and inventory due to amongst others, the elevated borrowing rates. The Prices Index rose 0.8ppts to 52.9, while the Employment Index slipped 5.9ppts to 43.4. Notably, all 6 of the largest manufacturing industries contracted during the month.
- Labour market indicators were equally cooler. Jobless claims rose more than expected by 14k to 249k for the week ended July 27 (prior: -10k), its highest in a year amid slower pace of hiring and also partially due to seasonal volatility. The Challenger, Gray & Christmas report showed that US employers announced plans to hire only 3.7k workers in July, its lowest since December 2023, and announced 25.9k job cuts in July (-46.9% m/m/+9.2% y/y vs -23.6% m/m/+19.8% y/y). Job cuts increased in the manufacturing sectors, but both consumer and industrial, as well as most industries were cutting below last year's levels. Unit labour costs also eased more than expected to +0.9% in 2Q from +3.8% previously, in a sign of a more balanced labour market.

### Eurozone's unemployment rate unexpectedly rose to 6.5%

- The bloc's unemployment rate unexpectedly inched up to 6.5% in June from 6.4% previously, its first uptick in 3 months. The rate at this level remains low by historical standard as the labour market remains tight.

### Australia's exports recorded steady growth on commodities, while imports decelerated on consumer goods

- Australia's trade balance came a tad better than expected at A\$5.6bn in June (May: A\$5.1bn) aided by a steady increase in exports (+1.7% m/m vs +1.3% m/m), especially for iron ore and other key commodities, while imports grew at more paced rate of +0.5% m/m (May: +3.3% m/m), supported by higher shipments of capital goods, while cooling retail demand saw consumption goods drop.

### Hong Kong's retail sales fell a narrower pace

- Retail sales fell at a narrower than expected pace by 11.2% y/y in June (May: -12.7% y/y), continued to be weighed down by slower spending from both residents and visitors. Nonetheless, there are signs of stability in retail activities amid the m/m increase in sales and as the Government intensified efforts to support the retail sector through mega events and measures to support SMEs, like the recent "E-commerce Easy" under the BUD Fund.

### House View and Forecasts

FX	This Week	3Q-24	4Q-24	1Q-25	2Q-25
DX	102-106	104.28	102.71	101.69	100.67
EUR/USD	1.07-1.10	1.08	1.09	1.08	1.06
GBP/USD	1.26-1.30	1.28	1.29	1.28	1.28
USD/JPY	148-154	158	155	151	148
AUD/USD	0.64-0.67	0.67	0.68	0.69	0.69
USD/MYR	4.56-4.64	4.66	4.60	4.54	4.50
USD/SGD	1.33-1.36	1.34	1.33	1.32	1.30

Rates, %	Current	3Q-24	4Q-24	1Q-25	2Q-25
Fed	5.25-5.50	5.00-5.25	4.50-4.75	4.25-4.50	4.00-4.25
ECB	3.75	3.50	3.25	3.00	2.75
BOE	5.00	5.00	4.75	4.50	4.25
BOJ	0.25	0.25	0.25	0.40	0.40
RBA	4.35	4.35	4.35	4.10	3.85
BNM	3.00	3.00	3.00	3.00	3.00

Source: HLBB Global Markets Research

## Up Next

Date	Events	Prior
2-Aug	AU PPI YoY (2Q)	4.30%
	AU Home Loans Value MoM (Jun)	-1.70%
	US Change in Nonfarm Payrolls (Jul)	206k
	SI Purchasing Managers Index (Jul)	50.4
	US Factory Orders (Jun)	-0.50%
5-Aug	AU Judo Bank Australia PMI Services (Jul F)	50.8
	HK S&P Global Hong Kong PMI (Jul)	48.2
	JN Jibun Bank Japan PMI Services (Jul F)	53.9
	SI S&P Global Singapore PMI (Jul)	55.2
	AU Melbourne Institute Inflation YoY (Jul)	3.20%
	CH Caixin China PMI Services (Jul)	51.2
	SI Retail Sales SA MoM (Jun)	2.40%
	EC HCOB Eurozone Services PMI (Jul F)	51.9
	EC Sentix Investor Confidence (Aug)	-7.3
	UK S&P Global UK Services PMI (Jul F)	52.4
	EC PPI YoY (Jun)	-4.20%
	US S&P Global US Services PMI (Jul F)	56
	US ISM Services Index (Jul)	48.8

Source: Bloomberg

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