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Global Markets Research

Daily Market Highlights

4 June: Deeper contraction in ISM-Manufacturing

UST yields and DXY fell as weaker than expected ISM manufacturing spurred rate cut bets

Mixed China PMIs; Eurozone's inflation accelerated but unlikely to thwart ECB's rate cute

OPEC+ rolled out plans to unwind its output cuts starting in October; WTI & Brent prices fell

- The Dow Jones began June's trading in the red after the weaker than expected ISM-Manufacturing reading raised concerns over the strength of the economy and consequently, saw banks, industrials and other cyclical stocks leading the pullback. While the 30-stock Dow slipped 0.3% d/d, S&P 500 and Nasdaq however closed up 0.1%-0.6% d/d as the broadly cautious sentiment was eclipsed by a return in the meme-stock mania and an upgrade in Nvidia price target by Bank of America, A technical glitch at the NYSE also affected price quotes for several stocks and halted trading for a bit.
- European markets, meanwhile, closed higher ahead of the ECB decision later this week, with most major bourses and sectors trading in the green. Real estate sector led gains for Stoxx Eur 600, while health care led losses. In Asia, sentiment in the equity markets was lifted by strong China's Caixin Manufacturing PMI but the Asian markets are poised for a fall today, following the futures.
- Treasuries posted strong gains after the weaker than expected ISM-manufacturing reading supported expectations of a rate cut this year. Led by the longer-ends, yields fell 7-11bps across the curve and the 2Y and 10Y yields closed at 4.81% and 4.39% respectively. Similarly, 10Y European bond yields also slipped between 6-10bp.
- The Dollar weakened against all its G10 peers amidst the weak ISM reading and lower Treasury yields, sending DXY sliding 0.5% d/d to 104.14. Leading gains against the greenback were SEK, NZD and JPY, while regional currencies also mostly appreciated against the Dollar in tune to 0-0.8% d/d. MYR, meanwhile, closed just below the flatline at 4.7065 last Friday.
- Oil slumped 3.6-4.0% d/d after OPEC+ unexpectedly rolled out plans to gradually unwind some of its production cuts starting in October, sparking concerns if the market can absorb the extra supply.

ISM-Manufacturing slipped deeper into contraction; Stable PCE prices

- Manufacturing activity continued in contraction for the second month, with the ISM-Manufacturing index unexpectedly worsening to 48.7 in May from 49.2 previously. The downtick was driven by the new orders which slipped deeper into contraction, as companies were unwilling to invest under the current monetary policy condition. Prices eased but remained strong as most commodity driven costs continue to climb. On the flip side, the new export orders and employment sub-indices edged back into expansion territory. The restrictive monetary policy also weighed on construction spending, which unexpectedly declined again by -0.1% m/m in April (Mar: -0.2% m/m).
- Matching expectations, headline and core personal consumption expenditure (PCE) prices were stable at 2.7% and 2.8% on a y/y basis and grew by 0.3%

Key Market Metrics

	Level	d/d (%)
Equities		
Dow Jones	38,571.03	-0.30
S&P 500	5,283.40	0.11
NASDAQ	16,828.67	0.56
Stoxx Eur 600	519.85	0.32
FTSE 100	8,262.75	-0.15
Nikkei 225	38,923.03	1.13
CSI 300	3,588.75	0.25
Hang Seng	18,403.04	1.79
Straits Times	3,348.87	0.37
KLCI 30	1,596.68	-0.47
FX		
Dollar Index	104.14	-0.51
EUR/USD	1.0904	0.52
GBP/USD	1.2808	0.52
USD/JPY	156.08	-0.78
AUD/USD	0.6689	0.54
USD/CNH	7.2517	-0.16
USD/MYR	4.7065	0.04
USD/SGD	1.3459	-0.39
Commodities		
WTI ($/bbl)	74.22	-3.60
Brent ($/bbl)	78.36	-3.99
Gold ($/oz)	2,346.60	1.02
Copper ($$/MT)	10,143.00	1.03
Aluminum($/MT)	2,661.50	0.34
CPO (RM/tonne)	4,000.00	-0.49

Source: Bloomberg, HLBB Global Markets Research
** Dated as of 30 May for CPO, 31 May for KLCI, USD/MYR*

m/m and 0.2% m/m in April (Mar: 0.3% m/m and 0.3% m/m), the latter as prices accelerated for goods (0.2% m/m vs 0.1% m/m), offsetting the moderation in services inflation (0.3% m/m vs 0.4% m/m).

- Meanwhile, personal income eased as expected to 0.3% m/m in April (Mar: 0.5% m/m) while personal spending slowed more than expected to 0.2% m/m (Mar: 0.7% m/m), the latter due to a decline in spending on goods while spending on services also cooled. Within services, the largest contributors to the increase were housing & utilities, health care as well as financial services & insurance, but these were offset by a decline in air transportation. Within goods, the downtick was driven by recreational good & vehicles as well as other nondurable goods.
- Cooling core-inflation as well as softer personal income and spending growth will support plans for an eventual cut in fed funds rate later this year but we expect Fed may want to see a series of 0.2% m/m readings for core prices, further cooling in the jobs market or consumer spending before a rate cut is possible. We maintain our house view for a 25bps cut in 4Q.

Mixed manufacturing PMIs for the majors and China

- The final S&P Manufacturing PMI was revised upwards 0.4ppts to 51.3 in May (Apr: 50.0) as the new orders index returned to growth following April's blip. Although modest, this will bode well for production going forward. Manufacturers' confidence was also reflected in increases in employment, purchasing activity and finished goods stocks, although there were notable and strongest cost pressures in a year.
- The final Eurozone Manufacturing PMI was revised 0.1ppts downwards to 47.3 in May (Apr: 45.7). Although still below the 50 no-change threshold, this is the highest reading since March 2023, suggesting a turning point for the sector. Improved Manufacturing PMIs were observed across the majority of the countries. Germany and France saw contractions slowing, although the former was still the eurozone's worst-performing manufacturing sector.
- The final UK Manufacturing PMI rose to 51.2 in May, up from 49.1 in April, its highest reading since July 2022 but a tick below the earlier flash estimate of 51.3. The breath of recovery was positive across all its main industries and solid, underpinned by the quickest expansion in production and new business sub-indices since early 2022.
- The final Australia Manufacturing PMI was revised upwards by 0.1ppts to 49.7 in May (Apr: 49.6). As it is, the index has shown steady increases for three consecutive months, suggesting that the worst of the manufacturing slowdown may be over. New export orders notably rose for the first time since late 2022, supporting overall new orders, employment and unfortunately, price pressures as well. For the latter, separate data by the Melbourne Institute showed that the inflation gauge moderated for the 5th month to 3.1% y/y in May but jumped on a m/m basis to 0.5% (Apr: 3.7% y/y and 0.1% m/m).
- The final Japan Manufacturing PMI was revised down marginally to 50.4 in May (Apr: 49.6). This, nonetheless, marks the first expansion in a year, reflecting another round of job creation, renewed increase in pre-production inventories and broadly stable new orders and production sub-indices. Nonetheless, goods producers are facing cost pressures due to the weak yen. Coupled with rising wages, these drove the sharpest upturn in output costs in a year.
- Mixed data from China with glimpses of economic recovery although tepid. The Caixin China General Manufacturing PMI came in better than expected at

51.7 in May (Apr: 51.4), a high not seen since June 2022 but this is in contrast with the official manufacturing and non-manufacturing PMIs released last Friday, which unexpectedly worsened to 49.5 and 51.1 respectively (Apr: 50.4 and 51.2), the latter due to the slump in the construction sector. To sustain growth going forward, policies aimed at stabilizing the economy, boosting domestic demand and increasing employment, thus, need to be strengthened.

- The Vietnam Manufacturing PMI was unchanged at 50.3 in May and has largely remained stable since beginning 2024. Sub-indicators were mixed, with new orders up solidly, but there were concerns over staffing levels and inflationary pressures. Overall, companies were optimistic regarding the future.

Eurozone's inflation hiccup unlikely to thwart ECB rate cut this week

- May's inflation came in higher than expected, with headline at 2.6% y/y and core at 2.9% y/y (Apr: 2.4% and 2.7%). Driving the uptick in inflation during the month was energy (0.3% y/y vs -0.6% y/y) and services (4.1% y/y vs 3.7% y/y), the latter partly due to low base effect due to the introduction of the cheap flat rate for regional transportation for Germany. As it is, ECB officials have warned that the path towards the 2% inflation target will be an uneven one, and thus, we expect this hiccup is unlikely to thwart ECB's first cut this week.

Japan's capex spending slowed sharply

- Capital spending slowed sharper than expected to 6.8% y/y in 1Q (4Q: 16.4% y/y) despite corporate profits nearly doubling consensus estimate at 15.1% y/y (4Q: 13.0% y/y). As it is, the latest data does not bode well to the final revision to 1Q GDP print (due to be released next week and is expected to remain contractionary), but also poses headwinds into 2Q as corporates maintained a cautious investment stance amidst persistent inflation and uncertainties in the economy.

Singapore's official PMI rose again in May

- Factory activity rose further to 50.6 in May (Apr: 50.5), mirroring improvements in regionwide factory activity as well as the electronics sector which gathered momentum to 51.1 from 50.9 previously. The increase in headline was due to faster growths in new orders, new exports and factory output and with this, the outlook for this sector remains positive despite global uncertainties stemming from possible worsening of the geopolitical conflicts and risk of still elevated inflation in most advanced economies.

House View and Forecasts

FX	This Week	2Q-24	3Q-24	4Q-24	1Q-25
DXY	103-107	105.43	105.56	103.45	101.38
EUR/USD	1.06-1.10	1.06	1.05	1.06	1.06
GBP/USD	1.25-1.29	1.24	1.22	1.23	1.24
USD/JPY	154-159	152	149	146	143
AUD/USD	0.64-0.68	0.65	0.65	0.65	0.66
USD/MYR	4.67-4.73	4.73	4.68	4.64	4.57
USD/SGD	1.33-1.37	1.35	1.35	1.34	1.33

Rates, %	Current	2Q-24	3Q-24	4Q-24	1Q-25
Fed	5.25-5.50	5.25-5.50	5.25-5.50	5.00-5.25	4.50-4.75
ECB	4.50	4.25	3.75	3.50	3.50
BOE	5.25	5.25	4.75	4.50	4.50
BOJ	0 - 0.10	0 - 0.10	0 - 0.10	0 - 0.10	0 - 0.10

RBA	4.35	4.35	4.35	4.10	4.10
BNM	3.00	3.00	3.00	3.00	3.00

Source: HLBB Global Markets Research

Up Next

Date	Events	Prior
4-June	MA S&P Global Malaysia PMI Mfg (May)	49
	US JOLTS Job Openings (Apr)	8488k
	US Factory Orders (Apr)	1.60%
5-June	AU Judo Bank Australia PMI Services (May F)	53.1
	JN Labor Cash Earnings YoY (Apr)	0.60%
	HK S&P Global Hong Kong PMI (May)	50.6
	JN Jibun Bank Japan PMI Services (May F)	53.6
	SI S&P Global Singapore PMI (May)	52.6
	AU GDP SA QoQ (1Q)	0.20%
	CH Caixin China PMI Services (May)	52.5
	SI Retail Sales YoY (Apr)	2.70%
	EC HCOB Eurozone Services PMI (May F)	53.3
	UK S&P Global UK Services PMI (May F)	52.9
	EC PPI YoY (Apr)	-7.80%
	US MBA Mortgage Applications	-5.70%
	US ADP Employment Change (May)	192k
	US S&P Global US Services PMI (May F)	54.8
	US ISM Services Index (May)	49.4

Source: Bloomberg

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