6 June 2024

Global Markets Research

Daily Market Highlights

6 June: All eyes on ECB today

S&P 500 and Nasdaq closed at fresh records as Nvidia's market capitalisation crossed $3 trillion
UST yields fell amid more signs of cooling labour market; DXY rose after ISM services jumped
ECB will likely be the third major central bank to start cutting rates, following SNB and BOC

- The S&P 500 and Nasdaq rose to fresh records again, as Nvidia led major tech stocks higher, while a slightly weak labor market data gave investors hope that the Fed might start cutting interest rates later this year. The broad equity index rose 1.2% d/d, Nasdaq rallied 2.0% d/d while the Dow trailed a bit with a mere 0.3% d/d gain. Nvidia continued its AI -driven run, adding 5.2% d/d to top $3 trillion in market value and leapfrogged past Apple. Hewlett Packard Enterprise also climbed after its revenue topped Wall Street estimates.
- Meanwhile, major European bourses and most sectors closed in positive territory, with gains in tech heavyweight ASML (+8.1% d/d) boosting the technology sector. Zara owner, Inditex, also gained after announcing a solid 2Q sales outlook. Asian markets closed mixed but are set for a higher open today tracking the US. Stocks in India stabilized after a heavy sell-off the day earlier.
- Treasury yields continued their descent on further signs of a slowing labour market. Both the 2 and 10Y yields fell in tune to 5bps to 4.72% and 4.28% respectively. With the exception of the UK and Swedish sovereign bonds, 10Y European bond yields were also 2-5bps lower.
- DXY trended up 0.2% d/d to 104.27, with the Dollar supported by gains against CAD following the expected rate cut by the Bank of Canada, while a better-than-expected ISM-Service print also supported the greenback against most of its G10 peers. JPY, CHF and NOK were the leading laggards against the Dollar, while SEK, NZD and GBP strengthened by 0.1-0.4% d/d each. Regional currencies closed mixed against the Dollar, with CNH and SGD depreciating by 0.2% d/d each, while MYR appreciated 0.1% d/d to 4.6978.
- Oil prices gained 1.1-1.2% d/d, rebounding from their 4-months lows despite US' Energy Information Administration reporting that crude inventories increased by 1.2m barrels.

US ISM-Services jumped; another set of disappointing labour data

- May's ISM Services Index (53.8 vs 49.4) jumped more than expected and back into expansionary territory after contracting in April for the first time since December 2022. The increase in headline was driven by notably higher business activity, faster new orders growth, slower supplier deliveries and despite the continued contraction in employment. The latter primarily attributed to difficulties in backfilling positions and controlling labor expenses. The majority of respondents also signalled that inflation and the current interest rates are restrictive to improving business conditions.
- Separate data from the ADP Employment report, nonetheless showed that although the labor market remains solid overall, job gains and pay growth are slowing going into 2H. Job gains slowed more than expected to +152k in May (Apr: 188k), its lowest this year due to a steep decline in manufacturing sector

Key Market Metrics

	Level	d/d (%)
Equities		
Dow Jones	38,807.33	0.25
S&P 500	5,354.03	1.18
NASDAQ	17,187.90	1.96
Stoxx Eur 600	521.23	0.81
FTSE 100	8,246.95	0.18
Nikkei 225	38,490.17	-0.89
CSI 300	3,594.79	-0.58
Hang Seng	18,424.96	-0.10
Straits Times	3,330.01	-0.27
KLCI 30	1,608.53	-0.43
FX		
Dollar Index	104.27	0.15
EUR/USD	1.0869	-0.09
GBP/USD	1.2787	0.13
USD/JPY	156.11	0.79
AUD/USD	0.6648	-0.02
USD/CNH	7.2593	0.16
USD/MYR	4.6978	-0.08
USD/SGD	1.3488	0.16
Commodities		
WTI ($/bbl)	74.07	1.12
Brent ($/bbl)	78.41	1.15
Gold ($/oz)	2,354.10	1.23
Copper ($$/MT)	9,925.50	-0.20
Aluminum($/MT)	2,622.00	-1.56
CPO (RM/tonne)	3,952.00	-2.66

Source: Bloomberg, HLBB Global Markets Research
** Dated as of 4 June for CPO*

hiring, while leisure and hospitality also showed weaker hiring. Y/y pay gains for job-changers moderated for the second month to +7.8%, while pay for job-changers held steady for the third month at +5.0%.

- Mortgage rates moved slightly higher again to its highest level since early May (30Y at 7.07%), sending total applications falling for the second week by 5.2% w/w for the week ended May 31 (May-24: -5.7% w/w). After adjusting for the Memorial Day holiday, both purchase and refinance application volumes were down, with purchase activity specifically 13% below last year's level. As it is, high borrowing costs and asking prices are weighing on demand despite housing inventory stabilizing.

Mixed bag of services PMI; China Caixin Services PMI registered its strongest growth in 10 months

- The final US Services PMI was left unchanged at its 1-year high of 54.8 in May (Apr: 51.3), driven by a return to growth in new business following April's blip. The data suggest a healthy pace of expansion but was not all positive. Employment was down for the second month and despite this, wage pressures pushed up input costs.
- The final Eurozone Services PMI was revised 0.1ppts down to 53.2 in May, broadly unchanged from April's 11-month high of 53.3. Another solid expansion in services activity aided by a stronger increase in new business inflow, steady employment growth and future expectations, which have brightened considerably.
- The final UK Services PMI was left unchanged at 52.9 in May, a deceleration from April's 11-month high of 55.0. Taken in tandem with the earlier released expansionary manufacturing survey, the PMIs suggest a slightly positive GDP growth in 2Q. Of note, the PMI's gauge of services inflation is still sitting well above its pre-pandemic trend, which may give more weight for the BOE to hold out until 2H before loosening its monetary policy.
- The Japanese service sector's strong upturn was sustained in May, with the Jibun Bank Services PMI revised 0.2ppts upwards to 53.8 (Apr: 54.3). The slightly softer expansion m/m was driven by new work easing slightly, while new export business and employment rose solidly. Prices charged eased from April's 10-year high, but was still the third-strongest on record.
- The Caixin China Services PMI unexpectedly accelerated and expanded at its fastest pace since July 2023 to 54.0 in May (Apr: 52.5). Notably, new orders grew at its fastest pace since May 2023 reflecting a strong recovery in demand, external demand accelerated for the fourth month, employment rebounded above expansionary territory for the first time since January, while prices rose modestly. All in, market sentiment remained optimistic over the sector outlook.
- The Hong Kong PMI indicated that overall business conditions deteriorated in May (49.2 vs 50.6), a trend preluded by the renewed downturn in new orders over April. Output returned to contraction, while employment levels fell for the first time since last October. Margin pressures have also mounted, and forward-looking indicators suggest that conditions may remain subdued in the near term.
- Singapore's private sector expansion extended into May in a solid manner, with the S&P PMI rising to 54.2 in May (Apr: 52.6). Cost pressures eased during the month, while the marked upturn in new orders and backlogged orders suggests that we are likely to see growth sustained through mid-2024.

Eurozone's producer prices continued to fall

- The contraction in producer price inflation (PPI) narrowed less than expected to -5.7% y/y in May (Apr: -7.8% y/y) as prices continued to fall for energy and intermediate foods. Producer prices, meanwhile, largely recorded stable or a slight deceleration in prices for durable consumer goods, capital and non-durable goods. All in the contraction in input prices will help to alleviate margin pressure and hopefully prices, supporting our expectations that the ECB will start cutting its rates today.

Australia's 1Q GDP remained sluggish as elevated rates hurt consumers and businesses

- GDP growth was weak and undershot expectations in 1Q (0.1% q/q and 1.1% y/y vs 0.3% q/q and 1.6% y/y) and the economy experienced its lowest y/y growth since December 2020. Domestic demand was subdued, slowing to 0.2% q/q from 0.3% q/q previously, while the rise in imports of goods and services was offset by an increase in exports and change in inventories. The subdued growth for the latter was due to the dip in investment, while household spending accelerated to 0.4% q/q from 0.3% q/q, driven by essential services like electricity, health, rent and food as well discretionary services because of overseas travel and spending on gambling, sporting and musical events. Despite the uptick, the overall consumption story remains a weak one and as such, economic growth will most likely remain anaemic in the near term with no rate hike expected for the rest of 2024.

Singapore's retail sales missed forecasts and slipped into contraction

- Retail sales unexpectedly registered its first contraction in 3 months, declining 1.2% y/y in April after March's +2.8% y/y. Declines were broad based and led by wearing apparel, but sales of motor vehicles and at petrol services station grew, the former due to higher COE quota and the latter probably due to the higher oil prices during the month. As it is, probably driving the muted sales during the month was the lack of key tourist promotional events during the month, while a strong SGD, GST hike and pass-through from higher operating costs could have encouraged locals to seek better deals overseas

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
6-June	AU Home Loans Value MoM (Apr)	3.10%
	AU Exports MoM (Apr)	0.10%
	UK DMP 1 Year CPI Expectations (May)	2.90%
	EC Retail Sales MoM (Apr)	0.80%
	US Challenger Job Cuts YoY (May)	-3.30%
	EC ECB Main Refinancing Rate	4.50%
	US Trade Balance (Apr)	-$69.4b
	US Initial Jobless Claims	220k
7-June	JN Household Spending YoY (Apr)	-1.20%
	JN Leading Index CI (Apr P)	112.2
	EC GDP SA QoQ (1Q F)	0.30%
	US Change in Nonfarm Payrolls (May)	175k
	US Average Hourly Earnings MoM (May)	0.20%
	US Average Weekly Hours All Employees (May)	34.3
	CH Exports YoY (May)	1.50%

Source: Bloomberg

Hong Leong Bank Berhad
Fixed Income & Economic Research, Global Markets
Level 8, Hong Leong Tower
6, Jalan Damanlela
Bukit Damansara
50490 Kuala Lumpur
Tel: 603-2081 1221
Fax: 603-2081 8936
HLMarkets@hlbb.hongleong.com.my