

10 July 2024

Global Markets Research

Daily Market Highlights

10 July: Powell said the Fed is dealing with “two-sided risks”

Powell signalled growing worries on labour market; cautioning risks of cutting too late and too early

Financial stocks led gains in the US stock markets; UST closed mixed; DXY inched up

All eyes on Powell’s testimony to the House Financial Services Committee and China price prints today

- The S&P 500 and Nasdaq closed the day 0.1-0.2% higher and closed at or near fresh records again, after Fed Chair Jerome Powell highlighted that the Fed is fully aware of “two-sided risks” and continued to refrain from offering a clear guidance on the timing of the first rate cut. In his testimony to the Senate Banking Committee, Powell said that **“reducing policy restraint too late or too little could unduly weaken economic activity and employment”** while **“easing too soon, too much could harm inflation progress”**. Markets continued to price in a 80% probability of 50bps rate cuts by end-2024 with the first full quarter-point cut by November, little change from prior’s pricing.
- Powell also indicated that regulators are making progress on changes to the bank capital plan under Basel III. Consequently, financial stocks were the leading gainers, with shares of Goldman Sachs and Intercontinental Exchange closing the session at their all-time highs. Powell will continue his testimony before the House Financial Services Committee today, ahead of key price prints later in the week.
- Trading in equity indices elsewhere were mixed. While French stocks led declines in Europe weighed down by uncertainty over France’s political gridlock, Asian markets were mostly higher and are expected to open in green today following the futures and the US.
- In the bond market, US Treasury yields rose following Powell’s remarks but eased in afternoon trading. Consequently, the 2Y yield closed just below the flatline at 4.63% while the 10Y inched up 2bps to 4.30%. 10Y European bond yields were also higher in tune to 2-8bps.
- The Dollar, meanwhile, posted modest gains of 0-0.3% d/d against most of its G10 peers after Powell’s testimony, sending DXY closing the day 0.1% d/d higher at 105.13. JPY led the laggards amongst G10, after Japan’s biggest banks called for the BOJ to make cuts in its monthly bond purchases during hearings of market participants at the central bank. Regional currencies, meanwhile, closed mixed against the Dollar by +/-0.3% d/d. While CNH and SGD closed 0-0.1% d/d weaker against the greenback, MYR eked out marginal gains above the flatline at 4.7070.
- In the commodities market, oil prices fell 1.1-1.3% d/d after Powell’s testimony and after the oil hub of Houston made it through the worst of storm Beryl.

Powell flagged two-sided risks and avoided commitment on rate cut timing

- Highlights of Powell’s testimony to the Senate Banking Committee include: 1) On top of cutting too soon and too much that could harm disinflation progress, Powell highlighted risks to economic activity and employment if reducing policy restraint too late or too little. 2) Powell stressed the need for

Key Market Metrics

	Level	d/d (%)
Equities		
Dow Jones	39,291.97	-0.13
S&P 500	5,576.98	0.07
NASDAQ	18,429.29	0.14
Stoxx Eur 600	511.76	-0.90
FTSE 100	8,139.81	-0.66
Nikkei 225	41,580.17	1.96
CSI 300	3,439.81	1.12
Hang Seng	17,523.23	0.00
Straits Times	3,426.09	0.64
KLCI 30	1,614.42	0.21
FX		
Dollar Index	105.13	0.12
EUR/USD	1.0813	-0.10
GBP/USD	1.2786	-0.16
USD/JPY	161.33	0.31
AUD/USD	0.6741	0.06
USD/CNH	7.2886	0.04
USD/MYR	4.7070	-0.04
USD/SGD	1.3509	0.07
Commodities		
WTI (\$/bbl)	81.41	-1.12
Brent (\$/bbl)	84.66	-1.27
Gold (\$/oz)	2,367.90	0.19
Copper (\$\$/MT)	9,869.00	-0.46
Aluminum(\$/MT)	2,496.50	-1.38
CPO (RM/tonne)	4,110.50	-0.46

Source: Bloomberg, HLBB Global Markets Research

* Dated as of 5 July for CPO

more good data to strengthen their confidence that inflation is moving sustainably toward 2%, adding that the most recent inflation readings have shown some modest further progress. 3) The restrictive monetary policy stance is helping to bring demand and supply conditions into better balance and to put downward pressure on inflation. 4) The labour market is strong, but not overheated. 5) The economy continues to expand at a solid pace. Private domestic demand remains robust, however, with slower but still-solid increases in consumer spending.

- Small business owners remained pessimistic in June, despite the NFIB Small Business Optimism Index unexpectedly increasing and reaching the highest reading of the year at 91.5 (May: 90.5). This is still below the historical average of 98, as business owners reporting inflation as their single most important problem in operating their business.

Australia's business confidence jumped but pessimism amongst consumers deepened

- Mixed reading on Australia's front, with households' worry over persistent inflation and further interest rate hikes continued to weigh on consumer confidence while business confidence surged to its highest level since early 2023. The latter jumped 6 points to 4 in June, but business conditions eased 2 points to 4, below its long-term average. The Westpac Consumer Confidence index also fell 1.1% m/m to 82.7 in July (June: +1.7% m/m), as pessimists outweigh optimists.
- The divergence between the sentiment suggests the corporate Australia is coping better, though the details for NAB's survey point to softness ahead with forward orders flat, capex falling and the employment index below its long-term average, reaffirming our expectations that the RBA will most likely maintain status quo for the rest of 2024.

Japan's PPI accelerated as expected

- Matching expectations, producer price inflation accelerated to 2.9% y/y in June from an upward revised 2.6% y/y the prior month. Prices on a m/m basis, were however, more moderate at 0.2% m/m (May: 0.4% m/m) with prices broadly softer across all the products, but a weak JPY which largely keep prices still elevated. As it is, both PPI for goods and services have risen in recent months and made steady progress toward achieving the price stability target and as such, we expect BOJ to deliver another rate hike by the end of the year.

House View and Forecasts

FX	This Week	2Q-24	3Q-24	4Q-24	1Q-25
DXY	104-107	105.43	105.56	103.45	101.38
EUR/USD	1.06-1.09	1.06	1.05	1.06	1.06
GBP/USD	1.25-1.29	1.24	1.22	1.23	1.24
USD/JPY	159-163	152	149	146	143
AUD/USD	0.66-0.69	0.65	0.65	0.65	0.66
USD/MYR	4.69-4.73	4.73	4.68	4.64	4.57
USD/SGD	1.34-1.37	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	4.25	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
10-Jul	CH PPI YoY (Jun)	-1.40%
	CH CPI YoY (Jun)	0.30%
	US MBA Mortgage Applications	-2.60%
11-Jul	AU CBA Household Spending MoM (Jun)	1.10%
	JN Core Machine Orders MoM (May)	-2.90%
	AU Consumer Inflation Expectation (Jul)	4.40%
	UK Monthly GDP (MoM) (May)	0.00%
	MA BNM Overnight Policy Rate	3.00%
	US CPI Ex Food and Energy YoY (Jun)	3.40%
	US Real Avg Weekly Earnings YoY (Jun)	0.50%
	US Initial Jobless Claims	238k
11-18 July	CH FDI YTD YoY CNY (Jun)	-28.20%

Source: Bloomberg

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