12 July 2024

Global Markets Research

Daily Market Highlights

12 July: Softer than expected US CPI heightened Fed rate cut bets

Rotational play in US equities; UST yields and DXY plunged after the tamer than expected US CPI

GBP rallied after a strong UK GDP reading; better weather supported the construction and retail sectors

BNM stood pat and stayed neutral; Singapore saw quicker q/q economic growth in 2Q

- The US equity markets saw a dramatic shift in market trends, as investors piled into small caps and trimmed bets on big tech leaders after the US CPI prints turned out tamer than expected, boosting confidence that the Fed will begin cutting rates as early as September. The Russell 2000 small-cap index, which has largely struggled to find its footing, soared 3.6% d/d, while at the same time, every stock in the so-called "Magnificent 7" fell. These moves pushed the Dow up 0.1% d/d, and the S&P 500 as well as Nasdaq sliding 0.9-2.0% d/d.
- European stocks also stayed in the green following the CPI reading, with the Stoxx Eur 600 ended 0.6% d/d higher led by utility stocks. FTSE 100 also gained 0.4% d/d after a stronger than expected UK GDP showing, while Nikkei 225 smashed the 42k mark for the first time amid a broader rise in Asian markets.
- Led by the front end, Treasury yields plunged 6-11bps after the much cooler than expected CPI report in the US. The 2Y yield fell 11bps to 4.51%, while the 10Y dropped 7bps to 4.21%. 10Y European bond yields also fell between 5-11bps overnight.
- DXY plunged 0.6% d/d to 104.44 after the CPI reading, with the Dollar weakening against all its G10 peers save for the CAD. Leading gains against greenback were JPY and GBP, the former rallying 1.8% d/d to 158.84 amidst speculation of official intervention, while the latter strengthened 0.5% d/d to 1.2915, its 1Y high after the strong 2Q GDP. Regional currencies also appreciated against the Dollar with the exception of the INR. CNH, SGD and MYR appreciated 0.3-0.5% d/d, the latter closing at 4.6875 after the central bank maintained the OPR unchanged at 3.00% and offered a neutral guidance.
- Bullish sentiment over summer demand from the US continued to linger, sending oil prices up 0.4-0.6% d/d overnight. This eclipsed IEA's downbeat forecast for demand growth, with the agency reporting that world demand increased a mere 710k b/d in 2Q, and is expected to grow by less than 1mb/d each in 2024 and 2025, as the post-pandemic rebound In China fades.

No change to OPR and neutral policy tone

- BNM decided to leave the OPR unchanged at 3.00% for the seventh consecutive meeting as widely expected. The policy statement remained largely unchanged and continued to strike a very neutral tone, with BNM largely reaffirming its assessment on growth and inflation outlook, both globally and domestically. The global economy continued to expand while global inflation continued to moderate, with some central banks started embarking on policy easing. Domestically, economic data pointed to sustained growth in 2Q. While inflation is expected to trend higher in the 2H

Key Market Metrics

	Level	d/d (%)
Equities		
Dow Jones	39,753.75	0.08
S&P 500	5,584.54	-0.88
NASDAQ	18,283.41	-1.95
Stoxx Eur 600	519.51	0.60
FTSE 100	8,223.34	0.36
Nikkei 225	42,224.02	0.94
CSI 300	3,468.17	1.14
Hang Seng	17,832.33	2.06
Straits Times	3,475.06	0.44
KLCI 30	1,623.12	0.29
FX		
Dollar Index	104.44	-0.58
EUR/USD	1.0868	0.35
GBP/USD	1.2915	0.51
USD/JPY	158.84	-1.76
AUD/USD	0.6759	0.18
USD/CNH	7.2677	-0.34
USD/MYR	4.6875	-0.26
USD/SGD	1.3428	-0.45
Commodities		
WTI ($/bbl)	82.62	0.63
Brent ($/bbl)	85.40	0.38
Gold ($/oz)	2,421.90	1.77
Copper ($$/MT)	9,786.50	-1.20
Aluminum($/MT)	2,476.50	-0.28
CPO (RM/tonne)	3,981.00	-0.85

Source: Bloomberg, HLBB Global Markets Research
** Dated as of 10 July for CPO*

in the wake of recent rationalization of diesel subsidies, the increase will remain manageable. The neutral stance continued to reinforce our view for OPR to stay unchanged for the year. Upside inflationary risk from second order effects from subsidy reforms will be the biggest wild card going into next year, but we do not expect inflation to stay protractedly high enough to justify an OPR hike at this juncture, hence our view for an extended pause.

US registered its first monthly fall in headline CPI in 4 years

- In the US, the monthly inflation rate fell in June for the first time in more than four years, providing further cover for the Fed to start lowering interest rates later this year. Headline CPI unexpectedly fell 0.1% m/m, putting the yearly inflation at 3.0% (May: flat m/m and +3.3% y/y), its lowest level in more than 3 years. Core prices also unexpectedly slowed to +0.1% m/m and 3.3% y/y (Apr: 0.2% m/m and +3.4% y/y), the smallest y/y increase since April 2021. A 3.8% m/m slide in gasoline prices held back inflation for the month, offsetting the 0.2% m/m increases in both food prices and shelter. Shelter cost, one of the most stubborn components of inflation, was nonetheless a moderation from +0.4% m/m previously. As it is, the second "really good" CPI reading for the US should give Fed officials the confidence they need to start lowering rates later this year, and consequently, markets upped its probability of 50bps rate cuts by end-2024 to around 86% from just 80% a few days ago.
- Meanwhile, the tame inflation report meant that real average weekly earnings accelerated to +0.6% y/y from +0.5% y/y, while jobless claims data entered the typical period of summer volatility but continued to point to a still resilient but not overheated labour market. Initial jobless claims fell more than expected by 17k to 222k for the week ended July 6 after the prior week's +5k jump, while continuing claims, which run a week behind, nudged lower by 4k to 1852k (June 22: +24k).

Better weather supported UK's retail and construction sectors, and GDP growth

- In the UK, the economy gathered momentum in May and grew by 0.4% m/m, an uptick from April's flat growth, putting the UK on course for another quarter of expansion and a boost for Sir Keir Starmer's new Labour government. The result was double street estimates, and was aided by better weather during the month which resulted in the retail sector rebounding and the construction sector (+1.9% m/m vs -1.1% m/m) growing at its fastest pace in almost a year. The services sector was steady at +0.3% m/m and expanded by 1.1% m/m for the 3-months ended May, its strongest since December 2021. There was widespread growth for the sector, led by professional, scientific & technical as well as administrative & support service activities.
- With the economy growing 0.9% for the 3-months ended May, the UK economy should easily achieve BOE's target of 0.5% for the quarter, supporting our expectation of the first rate cut only in the September meeting. As it is, the OIS is pricing in a 50% probability of 50bps rate cuts by end-2024, with the first full quarter-point cut by September.

Australia's inflation gauge moderated slightly

- Consumer inflation gauge continued with its downward trend to 4.3% in July, from 4.4% in June and 5.2% this time last year. Nonetheless, the gauge at this level remained elevated, and as such, we expect the RBA to maintain status quo in its next monetary policy meeting but is expected to be on track to cut its policy rates in 2025 given the dissipating inflationary pressures and soft consumer spending recently.

Singapore's economy grew at a slightly softer pace y/y but accelerated q/q

- The Singapore economy grew by 2.9% y/y in 2Q, a shade softer from the upwardly revised 3.0% y/y in 1Q, but growth on a q/q basis accelerated slightly to 0.4% from +0.3% q/q previously. Consensus had anticipated the economy to growth at a steady pace of 2.7% y/y for both quarters, but the latest data is a sign that economy recovery is gaining momentum and will most likely meet government's growth target of 1-3% this year. Coupled with easing price pressures, this will offer some reprieve for MAS to manoeuvre going forward.
- As it is, the acceleration during the quarter was driven by rebounds in both construction (+2.4% q/q vs -1.9% q/q) and manufacturing (+0.6% q/q vs -5.3% q/q), the latter largely supported by expansions across most clusters except for biomedical. Growth in the services sector was flat after 1Q's +2.2% q/q, due to softer retail activities and a contractionary accommodation & food services, real estate, administrative & support services and other services cluster.

House View and Forecasts

FX	This Week	3Q-24	4Q-24	1Q-25	2Q-25
DXY	104-107	104.28	102.71	101.69	100.67
EUR/USD	1.06-1.09	1.08	1.09	1.08	1.06
GBP/USD	1.25-1.29	1.28	1.29	1.28	1.28
USD/JPY	159-163	158	155	151	148
AUD/USD	0.66-0.69	0.67	0.68	0.69	0.69
USD/MYR	4.69-4.73	4.66	4.60	4.54	4.50
USD/SGD	1.34-1.37	1.34	1.33	1.32	1.30

Rates, %	Current	3Q-24	4Q-24	1Q-25	2Q-25
Fed	5.25-5.50	5.25-5.50	5.00-5.25	4.75.-5.00	4.50-4.75
ECB	3.75	3.50	3.25	3.00	2.75
BOE	5.25	5.00	4.75	4.50	4.25
BOJ	0 - 0.10	0.10-0.20	0.10- 0.20	0.20- 0.30	0.20-0.30
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
12-Jul	MA Manufacturing Sales Value YoY (May)	5.70%
	MA Industrial Production YoY (May)	6.10%
	US PPI Final Demand YoY (Jun)	2.20%
	US U. of Mich. Sentiment (Jul P)	68.2
	CH Exports YoY (Jun)	7.60%
15-Jul	UK Rightmove House Prices YoY (Jul)	0.60%
	CH 1-Yr Medium-Term Lending Facility Rate	2.50%
	CH New Home Prices MoM (Jun)	-0.71%
	CH GDP YoY (2Q)	5.30%
	CH Industrial Production YTD YoY (Jun)	6.20%
	CH Retail Sales YTD YoY (Jun)	4.10%
	CH Fixed Assets Ex Rural YTD YoY (Jun)	4.00%
	CH Surveyed Jobless Rate (Jun)	5.00%
	EC Industrial Production SA MoM (May)	-0.10%
	US Empire Manufacturing (Jul)	-6

Source: Bloomberg

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