

12 September 2024

Global Markets Research

Daily Market Highlights

12 Sep: EUR weakened ahead of ECB's policy decision today

Faster than expected m/m gain in core CPI pared bets for a 50bps Fed rate cut in September
US equities and UST yields advanced; DXY rebounded from intraday low after CPI data
GBP weakened after UK's economy stalled for the second month

- The upward surprise in US core CPI on a m/m basis dampened hopes for a jumbo rate cut by the FOMC next week and drove an initial sell-off in the US equity markets. However, markets rebounded later in the day as investors bought in dip and picked up shares of mega-cap tech and semiconductors, as well as communication discretionary, utilities, materials and industrials. This sent all the three major equity indices closing up 0.3-2.2% d/d. Traders also reacted to Kamala Harris and Donald Trump's first presidential debate, taking positions that reflected a higher probability of Harris' election victory. This saw Trump Media & Technology tumbling more than 10% during the day.
- In contrast, European stocks trimmed earlier gains after US core CPI unexpectedly picked up m/m. Consequently, Stoxx Eur 600 closed just above the flatline, with major regional bourses closing mixed. FTSE 100 and France's CAC pulled back slightly, while Germany's DAX rose. Asian markets mostly traded lower but taking cue from futures and Wall Street, are likely to rebound today.
- Treasuries closed in the red, with the front-end underperforming on the Fed outlook. Consequently, the 2Y yield closed the day 5bps higher at 3.64%, while the 10Y rose 1bps to 3.65%. In the UK, yields to the benchmark 2- and 10Y gilts fell 6-7bps after data showed that the economy stalled for the second month in July. 10Y bond yields for the rest of Europe also dropped 2-4bps.
- In the forex space, DXY fell to as low as 101.27 during the day after the US presidential debate, before erasing all its losses following the surprised uptick in m/m core CPI. The DXY closed the day 0.1% d/d higher at 101.68 and the Dollar strengthened against all its G10 peers save for the AUD, CAD and JPY (0.1-0.3% d/d). JPY benefitted from BOJ's Junko Nakagawa comment that real rates were extremely low, but GBP weakened 0.3% d/d after July's GDP growth came in below forecasts. EUR weakened 0.1% d/d ahead of the ECB's monetary policy decision today. Closer to home, all regional currencies strengthened against USD save for the INR and HKD. CNH, MYR and SGD appreciated between 0-0.3% d/d to 7.1293, 4.3298 and 1.3041 respectively.
- Meanwhile, Brent rebounded above \$70/barrel and closed the day 2.1% higher, while WTI gained 2.4% d/d after Hurricane Francine ripped through the oil-producing zones in the Gulf of Mexico and halted operations. This undercut the bearish signal from increased crude stockpile in the US.

Unexpected m/m uptick in core CPI for the US reaffirmed our expectations of a 25bps rate cut next week

- Upward surprise in m/m core-CPI and August's higher real average weekly earnings (+0.9% y/y vs +0.4% y/y) reaffirmed our expectations that the Fed will deliver a 25bps rate in the September FOMC meeting and saw traders

Key Market Metrics

	Level	d/d (%)
Equities		
Dow Jones	40,861.71	0.31
S&P 500	5,554.13	1.07
NASDAQ	17,395.53	2.17
Stoxx Eur 600	508.02	0.01
FTSE 100	8,193.94	-0.15
Nikkei 225	35,619.77	-1.49
CSI 300	3,186.13	-0.30
Hang Seng	17,108.71	-0.73
Straits Times	3,531.17	0.53
KLCI 30	1,639.80	-1.24
FX		
Dollar Index	101.68	0.05
EUR/USD	1.1012	-0.07
GBP/USD	1.3043	-0.28
USD/JPY	142.36	-0.06
AUD/USD	0.6674	0.33
USD/CNH	7.1293	-0.09
USD/MYR	4.3298	-0.29
USD/SGD	1.3041	-0.04
Commodities		
WTI (\$/bbl)	67.31	2.37
Brent (\$/bbl)	70.61	2.05
Gold (\$/oz)	2,519.00	-0.02
Copper (\$\$/MT)	9,090.50	0.71
Aluminum(\$/MT)	2,370.50	1.46
CPO (RM/tonne)	4,009.00	0.11

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

dialling back their expectations of a 50bps rate cut. Headline CPI sustained a 0.2% m/m increase, in line with street estimate, putting y/y inflation at 2.5% (prior: +2.9% y/y), its lowest in more than 3 years. While y/y inflation for core held steady at 3.2%, core CPI unexpectedly increased 0.3% m/m (prior: +0.2% m/m). The uptick in core inflation was driven by the volatile hotels and airfares component, and more importantly, the sticky shelter (+0.5% m/m vs +0.4% m/m) and car-insurance costs, used to calculate PCE.

- Thus, amid the pick-up in core CPI and still elevated shelter costs, we believe this set of prints is unlikely to convince the FOMC to deliver a jumbo rate cut in the FOMC meeting next week. We also expect a drop in CPI in September given expectations of lower gasoline prices, while the continued disinflation in goods despite higher freight rates suggests some margin compression for corporate going forward.
- With mortgage rates almost a full 1ppts lower y/y and falling for the sixth straight week (30Y: 6.29%), both purchase and refinance continue to run higher and sent total applications up 1.4% w/w for the week ended September 6 (prior: 1.6% w/w). Moving forward however, there is still somewhat limited refinance potential as many borrowers still have sub-5% rates, while affordability challenges and tight inventory may deter home purchases. As such, we may see some signs of mortgage applications going forward until the Fed starts cutting rates.

Stagnant UK economy for the second month and below forecasts

- The UK economy stagnated for the second month in July, below consensus estimates as the construction and manufacturing sectors turned contractionary and offset the mild growth in the services sector. The latter was also below street estimate and was driven by computer programmers and health, which recovered from strike action in June.
- With growth of 0.5% for the 3-months ended July, this marks a slowdown from 2Q's +0.6% and 1Q's +0.7%, suggesting that the recovery from the mild recession may have petered out. Moving forward, we expect August GDP to see a bump given the "Swiftonomic" effect, but the economy will face headwinds from cautious business and consumer sentiment ahead of the prospect of tax hikes in the forthcoming October 30 Autumn Statement.

Japan's PPI unexpectedly fell m/m; economic conditions improved and should pick up in 2H

- In Japan, its producer price (PPI) unexpectedly fell 0.2% m/m in August and eased to 2.5% y/y (prior: +0.5% m/m and 3.0% y/y), with the m/m decline driven by nonferrous metals, scrap & waste, chemicals & related products as well as electricity power, gas & metals, while domestic economic conditions improved in 3Q with the BSI Large All Industry index rising 5.1 q/q in 2Q. This marks an uptick from 1Q's +0.4% q/q, and is expected to gather momentum in 2H.
- As it is, the downtick for the in PPI was largely driven by lower imported inflation during the month as JPY strengthened, and will give leeway for the BOJ to maintain status quo next week until a more sustainable economic recovery, especially in terms of consumer spending is visible. The blip, will not however, change the broad picture of a moderate economic recovery for Japan, amid wage-inflation pressure and tighter monetary policy ahead.

House View and Forecasts

FX	This Week	3Q-24	4Q-24	1Q-25	2Q-25
DXY	100-103	102.41	100.87	99.86	98.86
EUR/USD	1.09-1.12	1.11	1.12	1.10	1.08
GBP/USD	1.30-1.33	1.29	1.30	1.30	1.29
USD/JPY	141-146	145	143	140	137
AUD/USD	0.66-0.69	0.66	0.66	0.67	0.68
USD/MYR	4.31-4.38	4.50	4.40	4.35	4.30
USD/SGD	1.29-1.32	1.33	1.32	1.30	1.28

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
12-Sep	AU Consumer Inflation Expectation (Sep)	4.50%
	HK PPI YoY (2Q)	1.20%
	HK Industrial Production YoY (2Q)	1.80%
	EC ECB Main Refinancing Rate	4.25%
	US PPI Final Demand YoY (Aug)	2.20%
13-Sep	US Initial Jobless Claims	227k
	JN Industrial Production MoM (Jul F)	2.80%
	UK BoE/Ipsos Inflation Next 12 Mths (Aug)	2.80%
	EC Industrial Production WDA YoY (Jul)	-3.90%
	US Import Price Index YoY (Aug)	1.60%
	US U. of Mich. Sentiment (Sep P)	67.9

Source: Bloomberg

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