

15 August 2024

Global Markets Research

Daily Market Highlights

15 Aug: All eyes on US retail sales after a tamer CPI print

**US CPI eased towards 2%, reaffirming rate cut bets; Treasuries closed mixed, DXY above flatline
GBP weakened after its inflation prints undershoot forecasts; Services inflation eased sharply
Eurozone's economy grew at a steady pace in 2Q; Japan's GDP improved more than expected**

- Led by the Dow, the 3 major US indices closed up in tune to 0-0.6% d/d after the easing inflation prints supported rate cut hopes in the September FOMC meeting although markets remain divided on the magnitude of rate cuts for the rest of 2024. July's CPI eased to 2.9% y/y, its lowest reading since March 2021 and below consensus forecasts and today, traders will get another look at the economy when retail sales data is released. Among individual stocks, shares of Kellanova rallied following news that the company would be acquired by snack maker Mars, but shares of Alphabet fell amid news that Department of Justice might order a break-up of the company, weighing on the broad index as well as Nasdaq.
- Elsewhere, Stoxx Eur 600 gained 0.5% d/d as UBS shares rallied amid a profit beat, boosting appetite for other European banks as well. Asian markets closed mixed after the Reserve Bank of New Zealand (RBNZ) surprised with a 25bps cut in its cash rate, and after Japan's Prime Minister Fumio Kishida announced that he would step down in September.
- Treasuries closed mixed amid a sell-off in the front end. Consequently, the 2Y yield closed 3bps higher at 3.96%, but the 10Y slipped 1bps to 3.84%. 10Y European bond yields fell in tune to 1-6bps save the Swedish sovereign bonds.
- DXY slipped to its intraday low of 102.27, before rebounding to close just above the flatline at 102.57. The Dollar strengthened against most of its G10 peers but mostly weakened against regionals. Within the G10, NZD weakened 1.3% d/d and led losses against the Dollar after the RBNZ Governor said that the central bank considered a 50bps rate cut before settling on 25bps. JPY also weakened 0.3% d/d after Kichida's announcement, while GBP depreciated 0.3% d/d after its CPI print came in lower-than-expected and boosted BOE easing bets. In contrast, EUR strengthened 0.2% d/d against USD after reporting steady GDP growth for 2Q. On the regional front, SGD and MYR strengthened in tune to 0.1-0.6% d//d to 1.3162 and 4.4202 respectively, the latter to its strongest in 16-months and ahead of the release of its final 2Q GDP print on Friday.
- Crude oil prices fell in tune to 1.2-1.8% d/d after the Energy Information Administration reported a surprise increase in US inventories (+1.4m) last week, flagging concerns of a surplus next quarter.

US inflation prints reaffirmed expectations of a rate cut in September; jump in mortgage applications

- July's inflation data suggests the Fed remains on track to hit its 2% target, which should allow the Fed to focus on supporting its increasingly cooler labour market (Real average weekly earnings eased to +0.4% y/y in July from +0.5% y/y previously). A September interest rate cut is broadly expected, but

Key Market Metrics

	Level	d/d (%)
Equities		
Dow Jones	40,008.39	0.61
S&P 500	5,455.21	0.38
NASDAQ	17,192.60	0.03
Stoxx Eur 600	504.10	0.49
FTSE 100	8,281.05	0.56
Nikkei 225	36,442.43	0.58
CSI 300	3,309.24	-0.75
Hang Seng	17,113.36	-0.35
Straits Times	3,286.28	0.85
KLCI 30	1,612.35	0.18
FX		
Dollar Index	102.57	0.01
EUR/USD	1.1012	0.17
GBP/USD	1.2829	-0.26
USD/JPY	147.33	0.33
AUD/USD	0.6598	-0.54
USD/CNH	7.1471	-0.01
USD/MYR	4.4202	-0.61
USD/SGD	1.3162	-0.11
Commodities		
WTI (\$/bbl)	76.98	-1.75
Brent (\$/bbl)	79.76	-1.15
Gold (\$/oz)	2,439.40	-1.11
Copper (\$\$/MT)	8,968.50	0.11
Aluminum(\$/MT)	2,335.50	0.15
CPO (RM/tonne)	3,864.00	0.00

Source: Bloomberg, HLBB Global Markets Research

* Dated as of 13 Aug for CPO

as mentioned earlier, markets remain divided on the magnitude of cuts for the rest of the year. As it is, the market is currently pencilling a total of 100 bps cuts in policy rates by end-2024.

- US CPI rose by +0.2% m/m for both headline and core, in line with street estimates but an acceleration from June's -0.1% m/m and +0.1% m/m. On a y/y basis nonetheless, both headline and core eased to 2.9% y/y and 3.2% y/y respectively (prior: 3.0% y/y and 3.3% y/y). Energy prices were flat m/m after contracting for the two preceding months, while food prices increased 0.2% m/m, as it did in June. The main impetus to disinflation came from both new and used car prices, while shelter costs rose 0.4% m/m (prior: +0.2% m/m), accounting for nearly 90% of the monthly increase in prices.
- Spurred by lower fixed mortgage rates for both 30- and 15Y loans for the second week, mortgage applications jumped 16.8% w/w for the week ended August 9 to its highest since January 2023 (prior: +6.9% w/w). The acceleration was driven by a 35% w/w jump in refinance applications while purchase activities registered a small gain of 3% w/w as prospective homebuyers are slowly re-entering the market.

Eurozone's economy grew at a steady pace

- Matching expectations, the Eurozone grew at a steady pace of +0.3% q/q in 2Q, but with employment growth slowing to +0.2% m/m from +0.3% q/q previously, this flag concerns that the economy will continue to struggle in the months ahead. As it is, with consumers unwilling to spend despite its strong wage growth, the manufacturing sector still contractionary and confidence in its largest member, Germany, still tanking, there is little evidence that the economy will turn around soon.

UK's CPI picked up for the first time in 2024, but undershoots expectations

- July's headline consumer prices picked up for the first time in 2024 but was below consensus forecast at +2.2% y/y, while core eased more than expected to +3.3% y/y (June: +2.0% y/y and 3.5% y/y). The main source of uptick during the month was energy costs, restaurants & hotels, transport as well as housing & household services, while the largest downward effect came from clothing and footwear.
- More importantly, services inflation, closely tracked by policy makers for signs of domestic demand-pull inflation, cooled to +5.2% y/y from +5.7% y/y previously, its lowest reading in more than 2 years, bolstering the case of further loosening in monetary policy going forward. With this, the market is pencilling in one 25bps rate cut in the November meeting, but markets remain divided on the possibility for another 25bps cut in the December meeting.
- Separately, producer prices (PPI) accelerated to +0.4% y/y from a flat growth the previous month, driven by higher prices of coke and refined petroleum products and in sign of stability for the housing market, its House Price Index held steady at +2.7% y/y.

Japan's economy expanded at a strong pace in 2Q

Data this morning, meanwhile, showed that the economy grew 3.1% q/q on an annualized basis in 2Q (1Q: -2.3% q/q), largely vindicating BOJ's decision to raise its policy rate in July. The headline data was also better than street forecasts driven by stronger growth in both consumer spending as well as private investment. Moving forward, we expect this strong growth to be sustained especially since private consumption will benefit from the recent hike in wages as well as after the government implemented a tax rebate.

House View and Forecasts

FX	This Week	3Q-24	4Q-24	1Q-25	2Q-25
DXY	101-105	102.41	100.87	99.86	98.86
EUR/USD	1.08-1.11	1.11	1.12	1.10	1.08
GBP/USD	1.26-1.29	1.29	1.30	1.30	1.29
USD/JPY	144-150	145	143	140	137
AUD/USD	0.64-0.68	0.66	0.66	0.67	0.68
USD/MYR	4.43-4.51	4.50	4.40	4.35	4.30
USD/SGD	1.31-1.34	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
15-Aug	AU Consumer Inflation Expectation (Aug)	4.30%
	CH 1-Yr Medium-Term Lending Facility Rate	2.30%
	CH New Home Prices MoM (Jul)	-0.67%
	AU Unemployment Rate (Jul)	4.10%
	CH Industrial Production YTD YoY (Jul)	6.00%
	CH Retail Sales YTD YoY (Jul)	3.70%
	CH Fixed Assets Ex Rural YTD YoY (Jul)	3.90%
	CH Surveyed Jobless Rate (Jul)	5.00%
	UK GDP QoQ (2Q P)	0.70%
	US Empire Manufacturing (Aug)	-6.6
	US Retail Sales Advance MoM (Jul)	0.00%
	US Philadelphia Fed Business Outlook (Aug)	13.9
	US Initial Jobless Claims	233k
	US Import Price Index YoY (Jul)	1.60%
	US Industrial Production MoM (Jul)	0.60%
16-Aug	US NAHB Housing Market Index (Aug)	42
	SI Non-oil Domestic Exports SA MoM (Jul)	-0.40%
	MA GDP YoY (2Q F)	5.80%
	UK Retail Sales Inc Auto Fuel MoM (Jul)	-1.20%
	HK GDP YoY (2Q F)	3.30%
	HK Unemployment Rate SA (Jul)	3.00%
	EC Trade Balance SA (Jun)	12.3b
	US Building Permits MoM (Jul)	3.40%
	US New York Fed Services Business Activity (Aug)	-4.5
	US Housing Starts MoM (Jul)	3.00%
	US U. of Mich. Sentiment (Aug P)	66.4

Source: Bloomberg

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