16 August 2024

Global Markets Research

Daily Market Highlights

16 Aug: Resilient retail sales and labour prints from the US

Resilient consumer and labour prints calmed recession fears; traders pared rate cut bets
Increased appetite for global equities; UST yields jumped; Dollar Index closed higher
Expect upward revision to Malaysia's 2Q GDP today; confirming brighter growth outlook in 2024

- The three major US equity indices rallied 1.4-2.3% d/d overnight as investors regained confidence in the US economy following upside surprises in consumer and labor data. In short, retail sales print grew stronger than expected, while the number of people claiming initial jobless benefits fell to its lowest since July. Dow component Walmart added to the momentum with a solid earnings report, further cementing expectations that consumer spending should hold up going forward. Elsewhere, Cisco Systems shares also jumped after announcing plans to cut its workforce.
- In Europe, Stoxx Eur 600 ended up 1.2%, boosted in the afternoon by the release of the strong US retail sales data. The technology sector led gains for the index, followed by financials and consumer discretionary. Asian markets also gained after Japan's GDP growth beat expectations, and are expected to extend its uptrend today as US recession fears fade.
- In the Treasury market, bond yields closed higher with the front-end underperforming in a bear flattener. The 2Y yields shot up 14bps to 4.09%, while the 10Y rose 8bps to 3.91%. 10Y European bond yields also increased between 6-10bps.
- In the forex market, DXY closed up 0.4% d/d to 102.98, with appetite for the US Dollar getting a lift from the retail sales and jobs prints beat. The Dollar strengthened against all its regional peers save for the AUD (+0.2% d/d) and GBP (+0.2% d/d), both of which benefited from favourable economic numbers for their respective economies – 2Q GDP for the UK and jobs data for Australia. Regional currencies closed mixed against the Dollar, with CNH, SGD and MYR depreciating between 0.4-0.5% d/d, with the MYR closing at 4.4377.
- Crude oil prices halted its 2-day drop amid jittery on potential Iranian attack on Israel, as well as after the strong US retail sales reading. Both the WTI and Brent rallied 1-5-1.6% d/d but price outlook going forward could potentially be weighed down by the winding of the summer driving season as well as soft demand for crude from China.

Resilient consumer spending and labour market data eased economic-slowdown fears; traders pared rate cut bets

- The stronger retail sales and jobless claims prints allayed recession fears and saw traders pencilling in a 25bps rate cut in the September FOMC meeting rather than the 50bps prior to that. Retail sales came in firmer than expected at +1.0% July (prior: -0.2% m/m) while sales within the control group (which excludes vehicles, gas, food services and building materials) slowed but also out-beat forecasts at +0.3% m/m (prior: +0.9% m/m). A 3.6% m/m jump in sales motor vehicles accounted for the bulk of the increase for headline,

Key Market Metrics

	Level	d/d (%)
Equities		
Dow Jones	40,563.06	1.39
S&P 500	5,543.22	1.61
NASDAQ	17,594.50	2.34
Stoxx Eur 600	509.88	1.15
FTSE 100	8,347.35	0.80
Nikkei 225	36,726.64	0.78
CSI 300	3,341.95	0.99
Hang Seng	17,109.14	-0.02
Straits Times	3,315.73	0.90
KLCI 30	1,612.94	0.04
FX		
Dollar Index	102.98	0.40
EUR/USD	1.0972	-0.36
GBP/USD	1.2855	0.20
USD/JPY	149.28	1.32
AUD/USD	0.6612	0.21
USD/CNH	7.1796	0.45
USD/MYR	4.4377	0.40
USD/SGD	1.3224	0.47
Commodities		
WTI ($/bbl)	78.16	1.53
Brent ($/bbl)	81.04	1.60
Gold ($/oz)	2,453.10	0.56
Copper ($$/MT)	9,148.50	2.01
Aluminum($/MT)	2,363.50	1.20
CPO (RM/tonne)	3,856.00	-0.21

Source: Bloomberg, HLBB Global Markets Research
** Dated as of 14 Aug for CPO*

further supported by food & beverages as well health & personal care. Spending on food services, a proxy for services demand, also rebounded a modest 0.3% m/m.

- Meanwhile, jobless claims fell for the second week to its lowest since July in a sign of labour market resilience. Jobless claims fell 7k to 227k for the week ended August 10 (Aug 3: -16k), while continuing claims dropped 7k to 1864 the week prior (Jul 27: +2k).
- Rounding out the main US indicators, we have IPI falling the most since January on Hurricane Beryl. The 0.6% m/m decline in IPI followed a 0.3% m/m increase the prior month, as the hurricane resulted in facility closures and reduced output for natural gas as well as motor vehicles.
- Import prices unexpectedly advanced 0.1% m/m after being unchanged in June, driven by higher prices for fuel as well as foods, feeds, & beverages, automotive vehicles and capital goods. The y/y increase at 1.6% was the largest since December 2022.
- Challenging housing affordability and buyer hesitation due to elevated interest rates and high home prices weighed on builder confidence, sending the NAHB Housing Market Index unexpectedly deteriorating to 39 in August (Jul: 41). This is the lowest reading since December 2023 but is expected to improve going forward in line with easing mortgage rates.

UK grew a steady 0.6% q/q in 2Q; growth stalled in June due to temporary factors

- Matching expectations, the UK's economy saw another quarter of steady growth in 2Q (+0.6% q/q vs +0.7% q/q prior) but monthly GDP growth stalled in June, easing from +0.4% m/m previously. We are nonetheless unfazed by the sharp slowdown for June given that some industries have been temporarily affected by the general election while the NHS strikes could have disrupted activity as well. With this, we expect the economy to remain on a firm path to recovery, with the BOE expecting GDP to continue to grow by 0.4% in 3Q and to 0.2% in 4Q.
- Detail wise, the deceleration in 2Q was underpinned by softer private consumption (+0.2% q/q vs +0.4% q/q) and total investment (+0.4% q/q vs +0.9% q/q), which more than negated the impact from higher government spending (+1.4% q/q vs 0.0%) during the quarter. Meanwhile, the flat growth in June was due to softer services (-0.1% m/m vs +0.3% m/m) and construction (+0.5% vs +1.7% m/m) sectors, which more than offset the pick-up in manufacturing production (+1.1% m/m vs +0.3% m/m).

Record participation rate in Australia sent unemployment rate ticking up

- Australia's labour market remained tight in July and continued to beat expectations, adding weight that the RBA will most likely keep policy rates unchanged and put greater focus on CPI prints going forward. Although the unemployment rate unexpectedly ticked up to 4.2% in July (prior: 4.1%), its highest since November 2021 this was largely due to its record high participation rate of 67.1%. The number of unemployed remains around 70k below its pre-pandemic level and the number of employed unexpectedly picked up pace to +58.2k from +52.3k previously. Separate data also supports our view of status quo if not a hike, with the Melbourne Institute inflation expectations accelerating to 4.5% in August from 4.3% previously.

Mixed prints from China; consumer spending continued to languish

- Uneven economic data in China signalled a not meaningful recovery going forward, with the factory sector continuing to outpace sluggish consumption growth. NBS, nonetheless, characterized the economy as "overall stable" with some improvements, but flagged concerns from the challenging external environment and insufficient domestic sector. Hence, we continue to expect further policy measures to shore up the domestic economy.

- Industrial output decelerated more than expected to 5.1% y/y in July (June: +5.3% y/y), while retail sales climbed a mere 2.7% y/y (June: +2.0% y/y), albeit better than expected. Jobless rate also unexpectedly ticked up to 5.2% from 5.0% previously, while fixed asset investment unexpectedly eased to 3.6% YTD (1H: 3.9%). Despite measures to support the housing market, property indicators continued to slump, with property investment contracting 10.2% YTD (1H: -10.1% y/y) and new and used home prices declining by 0.7% and 0.8% (prior: -0.7% and -0.9%).

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
16-Aug	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
19-Aug	JN Core Machine Orders MoM (Jun)	-3.20%
	MA Exports YoY (Jul)	1.70%
	US Leading Index (Jul)	-0.20%

Source: Bloomberg

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