18 September 2024

Global Markets Research

Daily Market Highlights

18 Sep: Verdict on the size and pace of Fed rate cuts soon

Uncertainties over the size of the Fed rate cuts kept markets rangy and mixed

Stocks generally closed higher; bond yields and Dollar Index rose

US retail sales and industrial production surprised on the upside

- The US stock indices closed mixed with relatively muted gains and losses in the range of -0.04% and +0.20%. Markets preferred to stay on the sideline ahead of the all important FOMC announcement, shrugging off better than expected retail sales and industrial production prints, which did not materially change rate cut pricing. The Dow slipped 0.04% dampened by healthcare and consumer staples stocks, while the NASDAQ added 0.2% d/d. Asian stocks traded mixed while European equities ended largely in the green. Futures are pointing to a mixed opening in Asian trading this morning as investors continued positioning for imminent Fed rate cut this week.
- US and European sovereign bonds corrected from recent rally as yields at multi-months low somewhat deterred investors' appetite. USTs were under pressure, pushing yields up between 3-6bps on a bear flattening bias with the 2s added 5bps to 3.61% while the 10s rose 3bpsto 3.65% on the day. European bond yields closed the day higher by 1-3bps
- In the FX space, earlier USD weakness in Asian and early European sessions was overturned during American trading hours. The Dollar Index slipped to an intraday low of 100.57 before erasing all losses to close the day higher by 0.3% d/d at 101.01 on Tuesday. The greenback strengthened against all G10s except for the minute loss in the AUD. Meanwhile, Asian currencies traded mixed. MYR led gainers with a 1.0% d/d gain to 4.2590 at close, bouncing back a tad from 4.2527 in intraday trading and marked its strongest level since Jan-23. The MYR outperformed all G10s and regional peers, the most vs the JPY (+2.2%), GBP (+1.4%), CNH (+1.2%), and THB (+1.2%). SGD however softened by 0.1% d/d to 1.2970, somewhat dented by the bigger than expected moderation in NODX.
- On the commodity front, global crude oil prices continued rising for a 2nd straight day spurred by lingering bets for an outsized rate cut by the Fed, exacerbated by escalating geopolitical tensions following a series of blasts in Lebanon. WTI rose 0.9% d/d to US$71.13/ barrel while Brent crude jumped over 1.0% to $73.78/ barrel.

US retail sales and industrial production surprised on the upside; reducing the need for outsized rate cuts

- Retail sales surprised on the upside for the 3rd straight month, and unexpectedly rose 0.1% m/m in August (Jul: +1.1% m/m upwardly revised), suggesting consumer spending continued to hold up and will remain supportive of 3Q GDP growth. Sales excluding volatile auto however moderated more than expected to print a 0.1% m/m increase (prior: +0.4% and consensus: +0.2% m/m). The upbeat reading was driven by online sales

Key Market Metrics

	Level	d/d (%)
Equities		
Dow Jones	41,606.18	-0.04
S&P 500	5,634.58	0.03
NASDAQ	17,628.06	0.20
Stoxx Eur 600	517.19	0.40
FTSE 100	8,309.86	0.38
Nikkei 225	36,203.22	-1.03
CSI 300	3,159.25	-0.42
Hang Seng	17,660.02	1.37
Straits Times	3,593.42	0.64
KLCI 30	1,664.28	0.73
FX		
Dollar Index	101.01	0.31
EUR/USD	1.1114	-0.17
GBP/USD	1.3161	-0.42
USD/JPY	142.41	1.27
AUD/USD	0.6756	0.06
USD/CNH	7.1110	0.20
USD/MYR	4.2590	-0.98
USD/SGD	1.2970	0.13
Commodities		
WTI ($/bbl)	71.13	0.89
Brent ($/bbl)	73.78	1.07
Gold ($/oz)	2,573.00	-0.52
Copper ($$/MT)	9,379.00	0.07
Aluminum($/MT)	2,506.50	-0.34
CPO (RM/tonne)	3,995.50	0.24

Source: Bloomberg, HLBB Global Markets Research
** Dated as of 13 Sep for CPO*

and five out of the thirteen categories reported increases. These include building materials, health stores, and sporting & books.

- Industrial production rebounded at a stronger than expected pace of 0.8% m/m in August (Jul: -0.9% downwardly revised), marking its best growth pace since Feb-24. The upside surprise in the IPI print was led by a sharper than expected turnaround in manufacturing production (+0.9% vs -0.7% m/m), driven by turnaround in motor vehicles & parts, and quicker growth in machinery (+0.8% vs +0.1% m/m). Capacity utilisation also jumped from July's 77.4% to 78.0% in August. Utilities and mining also turned around, registering flat growth and a 0.8% m/m increase respectively.
- New York Fed services activity eased to 0.5 in September (Aug: 1.8), but nonetheless still marked its first back-to-back positive print since March this year. The slower expansion was due to a sharp contraction in business climate (-23.3 vs -25.0), as well as small positive gains in employment and prices paid. Wages on the other hand picked up again, in line with recent data showing stickiness in wage growth.
- NAHB housing market index showed homebuilder confidence improved to 41 in September as expected (Aug: 39), marking its first uptick in six months, thanks to more upbeat present and future single family sales and as prospective buyers traffic increased.

Eurozone ZEW survey showed softer sentiments

- ZEW economic expectations tapered off for the 3rd straight month to 9.3 in September (Aug: 17.9). This marked its lowest reading in a year, as weakness in global trade, geopolitical uncertainties, and energy securities were hurting sentiments and would keep a lid on economic activities ahead.

Mixed Japan data suggests uneven and fragile growth outlook

- Tertiary industry index rebounded more than expected to increase 1.4% m/m in July (Jun: -1.2% m/m), its best month in three, adding to signs of continuous recovery in the Japanese economy that would keep the BOJ on a tightening path. Of note, utilities, transport & postal, wholesale trade, finance & insurance, medical & healthcare, were the key sectors registering a turnaround from prior month's declines.
- Trade deficit widened less than expected to ¥695.3bn in Aug (Jul: -¥628.7bn) as exports fell 12.2% m/m, while imports fell at a relatively slower pace of 10.8% m/m during the month. On an annual basis, exports continued expanding albeit at a slower than expected pace of 5.6% y/y in August (Jul: +10.2% y/y) while imports also missed expectations with a 2.3% y/y increase (Jul: +16.6% y/y), pointing to moderation in external demand.
- Core machine orders unexpectedly fell 0.1% m/m in July (Jun: +2.1% m/m) amid declines in both manufacturing and non-manufacturing orders and as continued contraction in domestic orders more than offset an increase in foreign orders, a sign of pockets of weakness in business spending.

Singapore's NODX growth slowed more than expected despite doubling growth in electronics exports

- Non-oil domestic exports grew at a much slower than expected pace of 10.7% y/y in August (Jul: +15.7% y/y), dragged by declines in chemicals (-7.2% y/y) and pharmaceutical (-31.6% y/y). This more than offset the jump in electronics exports growth from 16.8% to 35.1% y/y during the month, its best growth since 2010 driven by sharp pick-ups in ICs (+52.0% vs +13.5% y/y) and disk media products (+166.8% vs +113.2% y/y).

- Exports to China sustained at double-digit pace of 18.8% y/y for a second straight month (Jul: +21.1% y/y) while shipment to the US slowed sharply to +6.4% y/y (Jul: +28.9% y/y). We expect the pullback to be just a blip due to the volatile biomedical and pharmaceutical segments as a result of periodic re-tooling, and hence the Singapore economy remains on track to grow 2.0-3.0% for the whole of 2024.

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	1.29-1.33	1.29	1.30	1.30	1.29
USD/JPY	139-145	145	143	140	137
AUD/USD	0.66-0.69	0.66	0.66	0.67	0.68
USD/MYR	4.20-4.30	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	3.50	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
18-Sep	AU Westpac Leading Index MoM (Aug)	-0.04%
	CH 1-Yr Medium-Term Lending Facility Rate	2.30%
	UK CPI Core YoY (Aug)	3.30%
	UK House Price Index YoY (Jul)	2.70%
	EC CPI Core YoY (Aug F)	2.80%
	US MBA Mortgage Applications	1.40%
	US Housing Starts MoM (Aug)	-6.80%
	US Building Permits MoM (Aug)	-4.00%
19-Sep	US FOMC Rate Decision (Upper Bound)	5.50%
	AU Unemployment Rate (Aug)	4.20%
	MA Exports YoY (Aug)	12.30%
	UK Bank of England Bank Rate	5.00%
	US Philadelphia Fed Business Outlook (Sep)	-7
	US Initial Jobless Claims (14 Sep)	230k
	US Leading Index (Aug)	-0.60%
	US Existing Home Sales MoM (Aug)	1.30%

Source: Bloomberg

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