23 August 2024

## Global Markets Research

## Daily Market Highlights

# 23 Aug: Cautious sentiment ahead of Powell's speech

### Markets cautious after Fed officials prefer gradual, methodical rate cut path

### Uptick in US jobless claims; smaller than expected pullback in composite PMI

### Faster expansions in composite PMIs for Eurozone, UK and Japan

- A better-than-expected headline S&P PMI, a rebound in existing home sales and cautious comments from Fed officials saw profit taking and investors turning cautious ahead of Fed Chair Jerome Powell's speech at the annual Jackson Hole Symposium. The 3 major US equities fell 0.4-1.7% d/d, while Treasuries tumbled across the curve. Tech stocks were notable losers, after Fed Presidents Jeffrey Schmid, Susan Collins and Patrick Harker all threw cold water on market expectations for aggressive rate cuts, saying that "a gradual, methodical pace" is more appropriate.
- Stoxx Eur 600, nonetheless, closed 0.4% higher, with major bourses and most sectors in the green on rate cut hopes. Asian markets closed mixed but are set for declines today echoing Wall Street and futures.
- In the Treasury market, the benchmark 2Y yield rose 7bps to 4.00%, while the 10Y increased 5ps to 3.85%. 10Y European bond yields also rose in tune to 1-7bps led by UK gilts following its better-than-expected PMIs.
- DXY benefitted from the sell-off and closed the day 0.5% d/d higher at 101.52. The US Dollar strengthened against all its peers save for the GBP. The latter closed flat at 1.3091 against the USD, a 13-month high following the strong UK PMI prints, while NOK, JPY and SEK were notable laggards weakening by 0.6 to -0.9% d/d. Regional currencies also weakened against the Dollar except for the PHP and MYR. The latter appreciated slightly to 4.3780, but SGD weakened 0.4% d/d to 1.3105.
- Oil prices halted its losing streak and rose 1.5% d/d. Investors remained nonetheless worried over soft demand from China.

#### Composite PMIs broadly improved for the majors, albeit marginal

- US PMIs suggest that business activity remained robust in August and economic growth will likely be sustained over 3Q. The Composite PMI was broadly unchanged but better-than-expected at 54.1 (prior: 54.3) but growth disparities widened further. The services sector expanded at a solid pace of 55.2 (prior: 55.0) but the manufacturing worsened more-than-expected to 48.0 (prior: 49.6). Employment fell on gloomier prospects for the latter, while service sector employment fell amid hiring difficulties. On a positive note, prices charged for goods and services registered their smallest increases since June 2020.
- In the Eurozone, the composite PMI unexpectedly picked up to 51.2 in August (prior: 50.2) but a closer look at the details suggests that underlying fundamentals remain shaky as the boost largely came from a temporary surge in services activity in France, likely linked to the Olympic Games. With this likely to fade and signs of waning confidence across both sectors, these

**Key Market Metrics**

| | Level | d/d (%) |
|---|---|---|
| **Equities** | | |
| Dow Jones | 40,712.78 | -0.43 |
| S&P 500 | 5,570.64 | -0.89 |
| NASDAQ | 17,619.35 | -1.67 |
| Stoxx Eur 600 | 515.74 | 0.35 |
| FTSE 100 | 8,288.00 | 0.06 |
| Nikkei 225 | 38,211.01 | 0.68 |
| CSI 300 | 3,313.14 | -0.26 |
| Hang Seng | 17,641.00 | 1.44 |
| Straits Times | 3,373.58 | -0.01 |
| KLCI 30 | 1,641.66 | 0.39 |
| **FX** | | |
| Dollar Index | 101.51 | 0.46 |
| EUR/USD | 1.1112 | -0.34 |
| GBP/USD | 1.3091 | 0.00 |
| USD/JPY | 146.29 | 0.74 |
| AUD/USD | 0.6705 | -0.58 |
| USD/CNH | 7.1467 | 0.19 |
| USD/MYR | 4.3780 | -0.02 |
| USD/SGD | 1.3105 | 0.36 |
| **Commodities** | | |
| WTI ($/bbl) | 73.01 | 1.50 |
| Brent ($/bbl) | 77.22 | 1.54 |
| Gold ($/oz) | 2,478.90 | -1.18 |
| Copper ($$/MT) | 9,130.50 | -1.40 |
| Aluminum($/MT) | 2,480.00 | -0.28 |
| CPO (RM/tonne) | 3,893.50 | -0.18 |

*Source: Bloomberg, HLBB Global Markets Research*
** Dated as of 21 Aug for CPO*

suggest that the struggles of the manufacturing sector (45.6 vs 45.8) could potentially spill over to the overall services sector (53.3 vs 51.9) going forward.

- UK's PMI saw a welcome signal of stronger economic growth supported by robust new orders, improved job creation and moderating inflation. Its composite index improved more than expected to its highest since April at 53.4 in August (prior: 52.8) as both the manufacturing and services sectors beat forecasts at 52.5 and 53.3 respectively (prior: 52.1 and 52.5). The latter was driven by greater business and consumer spending, and saw a considerable easing in cost pressures, a welcome news for the BOE.
- Japan's flash Composite PMI (53.0 vs 52.5) signalled sustained solid expansion of business activity in 3Q, supported by an acceleration in the services sector (54.0 vs 53.7) while the manufacturing sector closed the gap towards the neutral level at 49.5 (prior: 49.1). Overall optimism remained above average, although there were concerns of rising price pressures and slower employment growth in the services sector.

**US jobless claims rose slightly; existing home sales chalked its first growth in 5 months**

- Both jobless claims and existing home sales matched expectations overnight and remained on a gradual cooling trend for the former and sluggish for the latter, setting the stage for the Fed to start cutting rates next month. Initial and continuing jobless claims rose 4k each to 232k and 1863k for the week ending August 17 and 10 respectively (prior: -6k and -12k), while existing home sales broke its 4-month losing streak with a gain of 1.3% m/m in July (prior: -5.1% m/m). Despite this, overall sales number remained low but consumers are seeing more choices and affordability improving due to lower mortgage rates. The median existing-home remained elevated and rose 4.2% y/y to $422.6k, while housing inventory edged to 1.3m. Inventories remained below pre-pandemic levels of 1.9m and represent 4.0-month supply at the current sales pace, an uptick from June's 4.1 months.
- On the district level, the Kansas City Fed Manufacturing Activity index reported a smaller decline in August (-3) than in July (-13), while expectations for future activity remained positive. The Chicago Fed Nat Activity Index, on the other hand, suggests that economic growth worsened in July (-0.34) as compared to June's -0.09.

**Wage growth in the Eurozone slowed sharply; boosted ECB rate cut odds**

- In the Eurozone, consumer confidence unexpectedly worsened to -13.4 in August (Jul: -13.0), while negotiated pay slowed sharply to 3.6% y/y in 2Q from 4.7% y/y the previous quarter. As it is, this negotiated pay data is an important indicator to gauge second round effects of inflation. Although still elevated, the deceleration will boost the case for another rate cut by the ECB in September amid a sluggish economic environment.

**UK manufacturers expected orders to pick up in autumn, below "normal" in August; steady consumer confidence**

- Mixed bag of data from the UK. CBI trends total order books remained below "normal" in August but improved more than expected to 22% in August from -32% previously. Manufacturers also remained confident that output will tick up over autumn and expects selling price inflation to accelerate. Consumer confidence was steady but was below consensus forecasts and remained stuck in the doldrums at -13 in August. Forward indicators were mixed, with outlook improving for personal finances, spending and major purchases intentions but worsened for economic outlook.

### Japan's core inflation accelerated, cementing rate hike hopes

- Although matching expectation, core inflation (excluding fresh food) rose at a faster pace of 2.7% y/y in July (prior:2.6% y/y), while headline held steady at 2.8% y/y. The uptick in inflation was widely expected given the temporary halt in the government's subsidy programme and more importantly, points to sticky rising cost of living and the possibility that the BOJ will continue with its tightening policy. As it is, market is pencilling in a 10bps rate hike in the December monetary policy meeting at this juncture.

### Steady and mild inflation rate for Malaysia for the third month

- Contrary to expectations for an uptick, Malaysia's inflation rate held steady at 2.0% y/y for the third month in July, while core was also unchanged at 1.9% y/y. While the headline suggests modest impact from the diesel subsidy cut, a closer look at the detailed prints point to a mixed picture. Seven of the thirteen main categories registered faster price increases as opposed to six previously, led by services-related industries (2.3% y/y vs 2.2% y/y), a potential sign of higher inflationary pressure. This includes costs of healthcare (1.9% y/y vs 1.8% y/y), communication (0.5% y/y vs 0.3% y/y), recreation/culture (2.2% y/y vs 1.9% y/y), insurance & financial (0.5% y/y vs -0.1% y/y) as well as restaurants & hotels (3.4% y/y vs 3.3% y/y). Prices for alcohol & tobacco (0.9% y/y vs 0.7% y/y) as well as miscellaneous (3.2% y/y vs 2.8% y/y) also picked up momentum.
- Overall inflation remained below the 2.0% level for the first seven months of 2024 amid limited impact and spillover from the recent floating of diesel prices on 10-June. We are nonetheless cognizant of the uptick in services cost, which could suggest upside risk as service providers and businesses begin raising prices to manage higher cost pressure as well as further subsidy rationalization measures, especially the blanket removal of RON95. As we expect the latter to only kick in later in the year, if at all, the impact will only predominantly be felt in 2025. Thus, there is no change in our view of a low-2.0% CPI forecast for 2024 and status quo for OPR at 3.00%.
- On a separate note, foreign reserves rose another $1.2bn to $115.9bn as at 15 August (2H of July: +$1.4bn). The reserves position is sufficient to finance 5.4 months of imports of goods and services, and is 1.0 times of the total short-term external debt.

### 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 | 1.08-1.13 | 1.11 | 1.12 | 1.10 | 1.08 |
| GBP/USD | 1.27-1.33 | 1.29 | 1.30 | 1.30 | 1.29 |
| USD/JPY | 144-152 | 145 | 143 | 140 | 137 |
| AUD/USD | 0.65-0.68 | 0.66 | 0.66 | 0.67 | 0.68 |
| USD/MYR | 4.32-4.42 | 4.50 | 4.40 | 4.35 | 4.30 |
| USD/SGD | 1.30-1.32 | 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 |
|---|---|---|
| 23-Aug | SI CPI YoY (Jul) | 2.40% |
| | EC ECB 1 Year CPI Expectations (Jul) | 2.80% |
| | US New Home Sales MoM (Jul) | -0.60% |
| | US Kansas City Fed Services Activity (Aug) | -4 |
| 26-Aug | CH 1-Yr Medium-Term Lending Facility Rate | 2.30% |
| | SI Industrial Production SA MoM (Jul) | -3.80% |
| | US Durable Goods Orders (Jul P) | -6.70% |
| | US Cap Goods Orders Nondef Ex Air (Jul P) | 0.90% |
| | US Dallas Fed Manf. Activity (Aug) | -17.5 |

*Source: Bloomberg*

**Hong Leong Bank Berhad**
Fixed Income & Economic Research, Global Markets
Level 8, Hong Leong Tower
6, Jalan Damanlela
Bukit Damansara
50490 Kuala Lumpur
Tel: 603-2081 1221
Fax: 603-2081 8936
HLMarkets@hlbb.hongleong.com.my