

29 July 2024

Global Markets Research

Daily Market Highlights

29 July: Tame US PCE prices supported rate cut bets

Tame PCE prices for the US; healthy personal spending but income growth slowed

US equities rallied; UST yields tumbled as futures priced in first rate cut in September

DXY closed steady; cautiousness ahead of the FOMC, BOE and BOJ policy meetings this week

- US equities rallied last Friday, and Treasury yields tumbled after the PCE-data came largely within consensus forecasts, further supporting expectations that inflation will remain tame and that the Fed will start cutting rates in the September FOMC meeting. As it is, Fed fund futures are pricing in about 28bps cuts by September and 68bps by December. The 3 major equity indices rallied 1.0-1.6% d/d, with broad based gains observed and investors pivoting into cyclical areas like industrial materials and small caps. In particular, 3M shares skyrocketed 23.0% and led the industrials sector higher.
- Similarly, Stoxx Eur 600 and FTSE 100 closed 0.8-1.2% d/d higher, bolstered by strong earnings from Hermes and NatWest, and with most sectors closing in positive territory. Asian markets logged broad gains save Japan's Nikkei, and are expected to extend its upwards trend today following futures.
- In the Treasuries market, yields slid 3-6bps across the curve following the PCE prints boosted Fed rate cut expectations. Both the 2Y and 10Y yield fell 5bps each to 4.38% and 4.19% respectively. 10Y European bond yields also closed 0-3bps lower, save for the Belgian and Norwegian sovereign bonds.
- In the forex market, DXY closed steady and just below the flatline at 104.32 and the Dollar weakened against most of its G10 peers except for the CAD and CHF. Regional currencies closed mixed against USD, with the MYR and SGD slightly stronger by 0.1% d/d each at 4.6678 and 1.3426. Trading was, nonetheless, largely mild and within the +/-0.3% d/d band ahead of the string of central bank meetings this week.
- Commodity prices continued to slide, with crude oil prices down 1.4-1.5% d/d on demand concerns, as the surprised rate cuts in China during the week raised worries that Beijing is struggling to revive the economy.

Tame PCE prices for the US, healthy personal spending but income growth slowed

- PCE inflation continued to expand at a mild pace in June and consumer spending remained healthy, although a much slower income growth could translate to slower consumer spending going forward. Headline PCE prices matched expectations to ease to 2.5% y/y (May: 2.6% y/y) but core was a shade higher than forecasts and held steady at 2.6% y/y. Personal spending increased 0.3% m/m (May: upward revised to +0.4% m/m), in line with street estimates while personal income slowed to just +0.2% m/m, falling short of estimates (May: Downward revised to +0.4% m/m). Spending on goods slowed to +0.1% m/m from +0.5% m/m previously amid consumer caution and a decline in car purchases due to cyberattack, while spending in services held steady at +0.4% m/m.

Key Market Metrics

	Level	d/d (%)
Equities		
Dow Jones	40,589.34	1.64
S&P 500	5,459.10	1.11
NASDAQ	17,357.88	1.03
Stoxx Eur 600	512.83	0.83
FTSE 100	8,285.71	1.21
Nikkei 225	37,667.41	-0.53
CSI 300	3,409.29	0.29
Hang Seng	17,021.31	0.10
Straits Times	3,426.47	-0.12
KLCI 30	1,612.88	-0.14
FX		
Dollar Index	104.32	-0.04
EUR/USD	1.0856	0.09
GBP/USD	1.2867	0.12
USD/JPY	153.76	-0.12
AUD/USD	0.6548	0.15
USD/CNH	7.2635	0.32
USD/MYR	4.6578	-0.08
USD/SGD	1.3426	-0.06
Commodities		
WTI (\$/bbl)	77.16	-1.43
Brent (\$/bbl)	81.13	-1.51
Gold (\$/oz)	2,381.00	1.17
Copper (\$\$/MT)	9,111.00	-0.12
Aluminum(\$/MT)	2,289.00	0.81
CPO (RM/tonne)	4,004.00	-0.17

Source: Bloomberg, HLBB Global Markets Research
* Dated as of 25 July for CPO

- Meanwhile, the final University of Michigan Sentiment index was revised up 0.4ppts to 66.4 in July (June: 68.2). It has remained largely stable in the last three months, and was 33% above the June 2022 historic low but consumers remain guarded as high prices and election uncertainty continue to weigh on sentiment.
- The Kansas City Fed Services Activity index declined to -4 in July from +2 in June, but expectations for the next six months remained expansionary. Activity expanded in the consumer services sector, particularly in wholesale and hospitality, while it contracted in the business and professional sector.

ECB's inflation expectations remained steady

- ECB 1Y and 3Y inflation expectations remained stable at 2.8% and 2.3% in June, the former after having fallen in May to their lowest level since September 2021. The ECB's survey also showed that consumers became slightly more pessimistic on the economy, foreseeing a 0.9% contraction over the next 12 months compared to 0.8% previously. Expectations for the unemployment rate 12 months ahead (10.6%) were only slightly higher than the perceived current unemployment rate (10.3%), implying a broadly stable labour market.

China's industrial profits accelerated as the manufacturing sector gained momentum

- Industrial profits grew at a faster pace in June (3.6% y/y vs +0.7% y/y), as the manufacturing gained momentum while a still sluggish domestic demand and ongoing trade tension continues to hinder any significant recovery in corporate profitability. Profits in the industrial sector grew by 5.0% YTD, led by sectors like non-ferrous metal smelting and motor vehicles, while mining profits fell 10.8% YTD.

Singapore's IPI fell on biomedical and semiconductors

- Manufacturing output fell 3.9% y/y in June, reversing May's upwardly revised 2.3% y/y and was worse than consensus forecast. The downtick was driven by biomedical manufacturing, which fell double-digit again due to different mix of active pharmaceutical ingredients, while electronics output fell 5.5% y/y, reversing May's +18.6% y/y due to semiconductors.

House View and Forecasts

FX	This Week	3Q-24	4Q-24	1Q-25	2Q-25
DXY	102-106	104.28	102.71	101.69	100.67
EUR/USD	1.07-1.10	1.08	1.09	1.08	1.06
GBP/USD	1.26-1.30	1.28	1.29	1.28	1.28
USD/JPY	152-156	158	155	151	148
AUD/USD	0.64-0.67	0.67	0.68	0.69	0.69
USD/MYR	4.64-4.68	4.66	4.60	4.54	4.50
USD/SGD	1.33-1.36	1.34	1.33	1.32	1.30

Rates, %	Current	3Q-24	4Q-24	1Q-25	2Q-25
Fed	5.25-5.50	5.25-5.50	5.00-5.25	4.75-5.00	4.50-4.75
ECB	3.75	3.50	3.25	3.00	2.75
BOE	5.25	5.00	4.75	4.50	4.25
BOJ	0 - 0.10	0.10-0.20	0.10- 0.20	0.20- 0.30	0.20-0.30
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
29-Jul	UK Mortgage Approvals (Jun)	60.0k
	UK CBI Retailing Reported Sales (Jul)	-24
	US Dallas Fed Manf. Activity (Jul)	-15.1
30-Jul	JN Jobless Rate (Jun)	2.60%
	AU Private Sector Houses MoM (Jun)	2.10%
	EC Economic Confidence (Jul)	95.9
	EC GDP SA QoQ (2Q A)	0.30%
	US FHFA House Price Index MoM (May)	0.20%
	US S&P CoreLogic CS US HPI YoY NSA (May)	6.29%
	US JOLTS Job Openings (Jun)	8140k
	US Conf. Board Consumer Confidence (Jul)	100.4
	US Dallas Fed Services Activity (Jul)	-4.1
	UK Nationwide House Px NSA YoY (Jul)	1.50%
30 Jul – 5 Aug	SI Unemployment rate SA (Jun)	2.10%

Source: Bloomberg

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