Hong Leong Bank

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Global Markets Research
Daily Market Highlights

16 Jul: Risk-off following higher US inflationary pressure

Inflation angst weighed on equity markets; sent UST yields & DXY up
Traders pared rate cut bets despite still modest inflationary pressures
Resilient 5.3% growth for China in 1H; US slapped Indonesia with a 19% tariff rate

- Worries over inflation and a sell-off in financial stocks amid a mixed bag of big bank earnings and guidance saw a sell-off in most US stocks, sending the Dow and S&P 500 sliding -1.0% d/d and -0.4% d/d overnight. Nasdaq (+0.2% d/d) was the outlier, underpinned by the rally in Nvidia shares after the chip company said it had received assurance that it can resume deliveries of its H20 GPU to China again.
- Worries over inflation also saw traders paring rate cut bets and Treasury yields rising at a faster pace of 4-6bps across the curve (prior: +1 to +3bps). The 2Y yield closed the day 4bps higher at 3.94%, while the 10Y rose 5bps to 4.48%.
- Elsewhere, European markets (Stoxx Eur 600: -0.4% d/d) closed slightly lower with the inflation angst hitting appetite for riskier assets, while 10Y sovereign bond yields retreated in tune to 2-3bps save for the UK and Norwegian bonds (prior: 0 to +2bps). Asian markets closed mostly higher after China's 2Q GDP beat, but may likely retreat today as Fed cut bets waned.
- The dollar gauge (DXY) climbed 0.6% d/d to 98.62, and all G10 currencies weakened against the greenback led by NOK (-1.1% d/d), SEK (-1.1%) and JPY (-0.8% d/d to 148.88). Asian currencies mostly weakened against the Dollar as well, with KRW (-0.3% d/d), SGD (-0.3% d/d to 1.2853) and CNH (-0.2% d/d to 7.1845) underperforming their regional peers. IDR weakened 0.1% d/d, but we expect the rupiah to be well supported today after Indonesia landed a pact with the US with a 19% tariff rate. MYR, meanwhile, led gains against the greenback within the regional space, appreciating 0.3% d/d to 4.2415.
- In the commodity space, a stronger USD and easing supply concerns from Trump's 50-day deadline for Russia to end the Ukraine war and avoid sanctions saw crude oil prices tumbling in tune to 0.7% d/d. The WTI closed the day at $66.52/barrel, and Brent at $68.71/barrel.

Key Market Metrics

	Level	d/d (%)
Equities		
Dow Jones	44,023.29	-0.98
S&P 500	6,243.76	-0.40
NASDAQ	20,677.80	0.18
Stoxx Eur 600	544.95	-0.37
FTSE 100	8,938.32	-0.66
Nikkei 225	39,678.02	0.55
CSI 300	4,019.06	0.03
Hang Seng	24,590.12	1.60
Straits Times	4,119.82	0.26
KLCI 30	1,525.40	-0.79
FX		
Dollar Index	98.62	0.55
EUR/USD	1.1601	-0.54
GBP/USD	1.3384	-0.32
USD/JPY	148.88	0.79
AUD/USD	0.6514	-0.47
USD/CNH	7.1845	0.17
USD/MYR	4.2415	-0.28
USD/SGD	1.2853	0.25
USD/KHR	4,010.00	0.05
USD/THB	32.41	0.06
Commodities		
WTI ($/bbl)	66.52	-0.69
Brent ($/bbl)	68.71	-0.72
Gold ($/oz)	3,336.70	-0.67
Copper ($$/MT)	9,645.50	0.28
Aluminum($/MT)	2,580.50	-0.44
CPO (RM/tonne)	4,155.00	1.00

Source: Bloomberg, HLBB Global Markets Research
** Closing as of 14 July for CPO*

Still tame inflationary pressure on modest impact from tariff hike for the US

- Consumer price index (CPI) prints showed an acceleration in price pressures, with both headline and core prices accelerating to +0.3% m/m (matching expectations) and +0.2% m/m (below forecast) in June (prior: +0.1% m/m for headline and core). On a yearly basis, prices grew by more than expected for headline (+2.7% y/y vs +2.4% y/y), while core CPI picked up to +2.9% y/y in June as expected (prior: +2.8% y/y).
- Details suggest that softer shelter cost and falling new car prices, helped offset the higher cost of services from medical and transportation, as well as some, but still modest evidence of tariff impact on goods like fresh fruit & vegetables, household appliances, toys and textiles. Prices are nonetheless still expected to strengthen further going forward but at this juncture, still modest inflationary pressure will give Fed's Powell and his team more ammunition to stay in the in wait-and-see stance for now. At the point of writing, consensus is expecting the next rate cut in the October FOMC meeting and pricing for rate cuts for the year dialling back to just 43bps.
- Meanwhile, growth in real average weekly earnings eased for the second month to +0.7% y/y in June from +1.4% y/y previously, while business activity picked up slightly in New York State in July. The Empire State Manufacturing Survey index jumped 22 points to +5.5, its first positive reading since February and better than expected. Moving forward, firms remained fairly optimistic over the outlook as well.

Positive output and sentiment print from the Eurozone

- IPI jumped more than expected by 1.7% m/m in May after April's -2.2% m/m blip, driven by higher output of non-durable consumer and capital goods as well as on energy. In our opinion, the jump was partially supported by US frontloading of more Eurozone goods (today's trade data will provide more clarity on this), suggesting that the 2Q manufacturing number will not be as bad as expected due to reversal of front-loading. Outlook ahead nonetheless will continue to be weighed down by the tariff development (latest: 30%).
- The ZEW Survey Expectations index also improved 0.8 points to 36.1 in July as the tariff hike pause and potential economic stimulus from the German government boosted sentiment. Increased optimism is particularly reflected for mechanical engineering and metal production sectors, followed by the electrical industry, the latter still exempted by the current round of levy hikes.

Australia's consumer confidence improved on future economic outlook and finances

- Westpac consumer confidence improved at a faster pace of 0.6% m/m in July as compared to June's +0.5% m/m. Driving the uptick was an improved outlook for family finances and on the economy, which more than offset declines in the intention to buy big-ticket items like dwelling, in line with RBA's view that consumer spending will continue to grow going forward, albeit at a cautious pace.

China's 2Q GDP growth beat expectations at +5.2%; a slight deceleration from 1Q's +5.4%

- China's 2Q GDP came in slightly stronger than expected at +5.2% y/y, beating street estimate's +5.1% y/y, continues to outpace official target's 5.0% y/y but a deceleration from +5.4% y/y in 1Q. In the accompanying statement, the National Bureau of Statistics (NBS) commented that the economy maintained on a steady path with good momentum, but also warned that there are many unstable and uncertain external factors ahead, and that domestic demand is "insufficient," possibly suggesting more stimulus on the deck going forward (Please refer to Research Alert "Resilient 5.3% growth for China in 1H25" on 15 July for more details).

House View and Forecasts

FX	This Week	3Q-25	4Q-25	1Q-26	2Q-26
DXY	96.25-99.25	98.32	96.29	94.99	93.77
EUR/USD	1.15-1.19	1.16	1.19	1.20	1.22
GBP/USD	1.34-1.38	1.36	1.38	1.39	1.40
USD/CHF	0.78-0.81	0.81	0.80	0.79	0.78
USD/JPY	144-149	147	144	140	137
AUD/USD	0.64-0.67	0.63	0.65	0.67	0.68
NZD/USD	0.59-0.62	0.59	0.60	0.61	0.61
USD/CNY	7.15-7.19	7.20	7.16	7.12	7.10
USD/MYR	4.22-4.29	4.28	4.25	4.22	4.18
USD/SGD	1.26-1.30	1.29	1.26	1.24	1.22
USD/THB	32.10-33.10	32.70	32.50	32.30	32.30

Rates, %	Current	3Q-25	4Q25	1Q26	2Q26
Fed	4.25-4.50	4.00-4.25	3.75-4.00	3.50.-3.75	3.25.-3.50
ECB	2.00	2.00	2.00	2.00	2.00
BOE	4.25	4.00	3.75	3.50	3.50
SNB	0.00	0.00	0.00	0.00	0.00
BOJ	0.50	0.50	0.50	0.75	0.75
RBA	3.85	3.60	3.35	3.10	3.10
RBNZ	3.25	3.00	2.75	2.75	2.75
BNM	2.75	2.75	2.75	2.75	2.75

Source: HLBB Global Markets Research

Up Next

Date	Events	Prior
16-Jul	UK CPI Core YoY (Jun)	3.50%
	UK House Price Index YoY (May)	3.50%
	EC Trade Balance NSA (May)	9.9b
	US MBA Mortgage Applications	9.40%
	US PPI Final Demand YoY (Jun)	2.60%
	US New York Fed Services Business Activity (Jul)	-13.2
	US Industrial Production MoM (Jun)	-0.20%
	US Fed Releases Beige Book	
17-Jul	JN Exports YoY (Jun)	-1.70%
	SI Non-oil Domestic Exports YoY (Jun)	-3.50%
	AU Consumer Inflation Expectation (Jul)	5.00%
	AU Employment Change (Jun)	-2.5k
	AU Unemployment Rate (Jun)	4.10%
	UK Average Weekly Earnings 3M/YoY (May)	5.30%
	UK ILO Unemployment Rate 3Mths (May)	4.60%
	UK Employment Change 3M/3M (May)	89k
	UK Payrolled Employees Monthly Change (Jun)	-109k
	HK Unemployment Rate SA (Jun)	3.50%
	EC CPI Core YoY (Jun F)	2.30%
	US Retail Sales Advance MoM (Jun)	-0.90%
	US Import Price Index YoY (Jun)	0.20%
	US Initial Jobless Claims	227k
	US Philadelphia Fed Business Outlook (Jul)	-4
	US NAHB Housing Market Index (Jul)	32

Source: Bloomberg

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