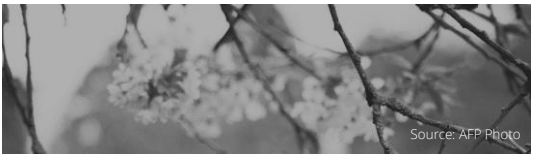


Market Newsfeed

12 July 2021

Asia stocks bear brunt of retreat in global equities

THE DAY AHEAD

- The US reads its consumer inflation expectations for June.

OVERVIEW

- US stocks register more fresh record highs amid broad-based rebound.
- Europe stocks rebound from worst drop since May with cyclicals.
- China tightens rules on foreign IPOs.
- Oil posts first weekly loss since May on OPEC+ volatility.
- Gold posts third weekly advance on recovery headwinds.

DEVELOPED MARKETS EQUITIES

US

US stocks registered more fresh record highs amid a broad-based rebound and Treasuries snapped an eight-day rally fuelled by concerns about global growth amid the spread of Covid-19 variants.

The benchmark S&P 500 Index rose 1.13% to 4,369.55 on Friday (9 July), rebounding from the biggest one-day drop in about three weeks on Thursday. The Dow Jones Industrial, Nasdaq Composite, and Nasdaq 100 indices also finished at all-time highs on the same day with the S&P for a second time this month. Financial shares led the gains with rising yields increasing the outlook for profits. The dollar weakened against a basket of major currencies and oil gained for a second day.

Money managers are betting global growth is still on track, with second quarter earnings season starting this week set to bolster confidence. China's central bank cut the amount of cash most banks must hold in reserve, while the European Central Bank on Thursday indicated it will tolerate an inflation overshoot, implying an even longer period of loose policy.

The 10Y Treasury yield still posted a second consecutive weekly decline. The 30Y yield broke below 1.90% on Thursday for the first time since February.

Meanwhile, tension between the US and China continues to bubble. Washington added 34 Chinese entities to its economic blacklist over alleged human rights abuses and high-tech surveillance in Xinjiang.

Elsewhere, Biogen shares fell after the head of the US Food and Drug Administration said she is seeking a federal investigation of the approval of the Alzheimer's disease drug Aduhelm, a highly unusual step that will increase scrutiny of a heavily criticised clearance.

On the virus front, Pfizer Inc plans to request US emergency authorisation in August for a third booster dose of its Covid-19 vaccine and said it is confident it will be effective against the more virulent delta variant. – Bloomberg News.

The Dow Jones Industrial Average gained 1.30% to 34,870.16 and the Nasdaq Composite Index upped 0.98% to 14,701.92.

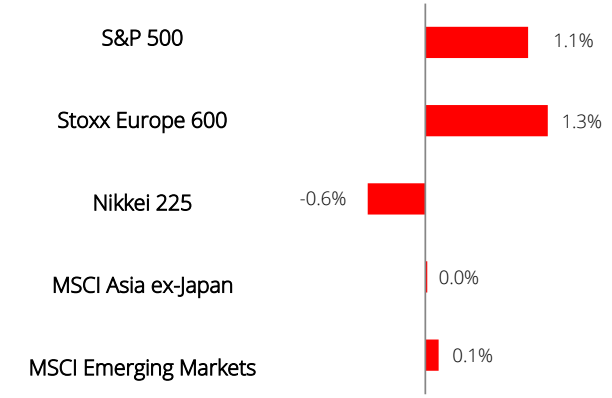
EUROPE

Europe stocks advanced, rebounding from their biggest drop in almost two months, as investors mulled the outlook for recovery and returned to sectors that are more sensitive to the economic revival.

The Stoxx Europe 600 Index rose 1.34% to 457.67 by the close in London on Friday (9 July), retracing most of Thursday's declines. It is now just 0.5% away from a record high reached last month. Cyclicals such as miners, automakers, and banks – the main victims of the Thursday retreat – led gains, while France's CAC 40 outperformed, as it jumped 2.1%.

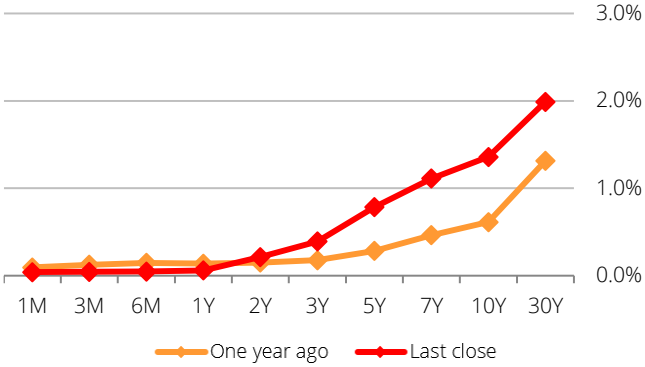
Equity markets

Shown in local currency terms.



US Treasury Yield Curve

Shows the yield to maturity of current US bills, notes, and bonds.



Source: DBS, Bloomberg, as of the last business day.

Investors returned to risk assets as they factored in the threat that the rapidly spreading delta virus strain poses to the economic recovery, while watching signals from central banks on the timing of stimulus tapering. The Stoxx 600 is bouncing off the 50-day moving average it tested on Thursday, after trading in a range near a record for the past month.

Thursday's market selloff was led by a rotation out of more economically sensitive sectors amid concerns about the growth recovery and higher inflation. Strategists said they expect a 45% earnings per share increase for Stoxx 600 companies this year.

The UK's economic recovery lost momentum in May despite a relaxation of lockdown curbs. Still, the FTSE 100 rose Friday, lifted by commodity shares.

Investors have been piling into European funds in the second quarter, with strategists noting that equity funds had new inflows of USD16b, making it the best quarter for inflows in four years. "Europe should attract more inflows from here, given the scope for a further reversal of the USD230b outflow from the region which has occurred over the last three years," they said in a note.

Among individual moves, Vectura Group Plc jumped 14% after Philip Morris International Inc agreed to buy the UK maker of inhaled medical therapies for GBP1.05b (USD1.5b). – Bloomberg News.

JAPAN

Japan's Nikkei 225 Index pared losses that had pushed it toward a correction following the country's decision to declare another state of emergency in Tokyo to contain the continued virus spread.

The blue chip measure fell 0.63% to 27,940.42 at the 3 pm close in Tokyo on Friday (9 July), after sliding as much as 2.5% and briefly extending its drop from a February peak to more than 10%. The broader Topix Index was 5% below its March high.

Just two weeks ahead of the spectator-free Olympic Games, prolonged virus countermeasures restricting economic activity are spurring concern over a delayed recovery for Japan, which had already disappointed many investors during the last earnings season. Globally, a stock rebound from pandemic lows driven by technology heavyweights has been tempered by higher US inflation and concern over potential tapering of easy monetary policies.

Losses in the Nikkei 225 have also been compounded by the withdrawal of key buyers. The Bank of Japan in April stopped purchases of exchange-traded funds linked to the blue chip measure, shifting its market support focus to the Topix. SoftBank Group Corporation, which until recently had the second largest weighting on the Nikkei 225, has fallen since it ended its buyback programme, and tumbled further last week (ended 9 July) after Chinese regulators ordered app stores to remove the ride sharing app of Didi Global Inc.

Japan is one of the worst performers this year among Developed Markets tracked by Bloomberg. While the Nikkei 225 is now up less than 2% on the year, the S&P 500 Index has gained 15%.

It is a stark reversal from February, when the Nikkei 225 breached the 30,000 level for the first time since 1990, fuelled by global stimulus and hopes for an economic recovery from the pandemic. – Bloomberg News.

The Nikkei 225 Index jumped 2.11% to 28,529.00 on Monday morning.

ASIA EQUITIES

MANLAND CHINA & HONG KONG

China proposed new rules that would require nearly all companies seeking to list in foreign countries to undergo a cybersecurity review, a move that would significantly tighten oversight over its Internet giants.

Companies holding data on more than 1m users must now apply for cybersecurity approval when seeking listings in other nations because of the risk that such data and personal information could be "affected, controlled, and maliciously exploited by foreign governments", the Cyberspace Administration of China said in a statement on Saturday (10 July).

Equity Markets

Returns of equity indices around the world, in local currency terms.

	Index	Close	Overnight	YTD
US	DJIA	34870.16	1.30%	13.93%
	S&P 500	4369.55	1.13%	16.33%
	NASDAQ	14701.92	0.98%	14.07%
Europe	Stoxx Europe 600	457.67	1.34%	14.70%
Germany	DAX	15687.93	1.73%	14.35%
France	CAC 40	6529.42	2.07%	17.62%
UK	FTSE 100	7121.88	1.30%	10.24%
Asia	MSCI AxJ	851.43	0.02%	1.01%
Japan	Nikkei 225	27940.42	-0.63%	1.81%
China	SHCOMP	3524.09	-0.04%	1.47%
Hong Kong	Hang Seng	27344.54	0.70%	0.42%
Taiwan	TWSE	17661.48	-1.15%	19.88%
South Korea	Kospi	3217.95	-1.07%	11.99%
Indonesia	JCI	6039.84	0.00%	1.02%
Malaysia	KLCI	1520.58	0.79%	-6.55%
Singapore	STI	3131.40	0.77%	10.11%
India	Sensex	52386.19	-0.35%	9.71%
Emerg. Mkt	MSCI EM	1318.18	0.15%	2.08%

Government Bonds

Benchmark yields of major 10-year government bonds.

	Latest yield	Previous yield	Change (bps)
US	1.36%	1.29%	6.67
Germany	-0.29%	-0.31%	1.40
Japan	0.03%	0.03%	0.70
China	3.00%	2.99%	0.80
Taiwan	0.40%	0.39%	0.75
South Korea	2.04%	1.99%	4.30
Indonesia	6.56%	6.56%	0.00
Singapore	1.45%	1.41%	3.52
India	6.19%	6.12%	6.20

Commodity futures

Prices of one-month futures contracts, grouped by commodity type.

	Close	1-day change	1-yr high	1-yr low
WTI crude ($/bbl)	74.56	2.22%	76.98	33.64
Gold ($/oz.)	1810.60	0.58%	2063.00	1673.30
Copper ($/ton)	9488.75	2.09%	10737.50	6437.18
Corn (cents/bu.)	629.75	-1.29%	775.00	307.25
Soybean (cents/bu.)	1404.00	0.99%	1677.25	869.50
Wheat (cents/bu.)	608.50	-0.61%	773.00	488.00
Coffee (cents/lb)	151.50	-0.49%	168.65	104.60
Sugar (cents/lb)	454.00	-0.83%	482.60	345.10

Source: Bloomberg, as at the close of the last business day.
YTD refers to year-to-date returns.

The cybersecurity review will also look into the potential national security risks from overseas initial public offerings (IPOs), it said.

The move announced on Saturday, which confirms a previous report by Bloomberg, is one of the most concrete steps taken yet to restrain the ability of technology firms to raise capital in the US through a so-called Variable Interest Entity model that the likes of Alibaba Group Holding Ltd to Baidu Inc and Didi Global Inc have adopted. Regulators are also considering requiring variable interest entities like Alibaba that have already gone public to seek approval for additional share offerings in the offshore market, people with knowledge of the matter have said.

The regulator is seeking feedback on the proposed rules, which apply to listings in foreign countries specifically, before implementation. So far this year, 37 Chinese companies have listed in the US, surpassing last year's count, and raised a combined USD12.9b, according to data compiled by Bloomberg.

Authorities have accelerated a crackdown against overseas listings after Didi was said to push ahead with its debut in June, despite being asked to delay the plans as early as three months ago. The State Council said Tuesday that rules for overseas listings will be revised while publicly traded firms will be held accountable for keeping their data secure.

Even before the rules were announced, some companies that had planned to list in New York pulled their IPOs. On Thursday, Beijing-based LinkDoc Technology Ltd became the first known company to shelve an IPO in the wake of the newly proposed changes. Since then, it has been reported that Chinese fitness app Keep and vegetable startup Meicai have both scrapped plans for US listing.

The new rules could impact Chinese tech firms such as TikTok owner ByteDance Ltd and on-demand logistics and delivery firm Lalamove, which are considering IPOs. – Bloomberg News.

The Shanghai Composite Index closed little changed at 3,524.09 and Hong Kong's Hang Seng Index climbed 0.70% to 27,344.54.

REST OF ASIA

Asia is emerging as the epicentre for investor worries over global growth and the spread of coronavirus variants.

While their peers in the US and Europe remain near record highs, Asian stocks have fallen back in recent months amid slowing Chinese economic growth and a glacial rollout of vaccines. The trend accelerated Friday (9 July) with the benchmark MSCI Asia Pacific Index briefly erasing year-to-date gains for the second time in as many months, while Chinese authorities moved to boost lending to help the economy.

"Asia was seen as the poster child in pandemic response last year, but this year the slow vaccination rollout in most countries combined with the arrival of the delta variant means another lost year," said a market analyst. "I suspect Asia will continue to lag as long as vaccination rollouts remain at their relatively sluggish levels and high daily new Covid counts prevent them from lifting mobility restrictions."

In a sign that Asia's growth is facing challenges, China's policymakers cut the reserve requirement ratio for most banks on Friday, unleashing about CNY1t (USD154b) of long-term liquidity into the economy from 15 July.

China had surprised investors earlier last week (ended 9 July) when it signalled a potential cut. The timing and magnitude of the move, coming a week before second quarter growth data, suggests growing concerns about the economic outlook, analysts said.

A fresh regulatory crackdown on Chinese tech stocks has also impacted investor sentiment in the region. The Hang Seng China Enterprises Index fell briefly into a technical bear market Friday, led by weakness in the sector.

While Asia bore the brunt of the retreat in global equities, havens in other asset classes from Treasuries to the yen have rallied, and the rotation toward economically sensitive cyclical stocks from their high-priced growth counterparts continued to unwind. – Bloomberg News.

Australia's S&P/ASX 200 Index gained 0.62% to 7,318.40 on Monday after losing 0.93% to 7,273.30 on Friday.

South Korea's Kospi Index opened 0.78% higher at 3,243.21 on Monday morning. It tumbled 1.07% to 3,217.95 the previous session.

The Taiwan Stock Exchange Weighted Index closed 1.15% lower at 17,661.48.

COMMODITIES

Oil fell last week (ended 9 July) for the first time since May after days of volatile trading in the wake of the Organization of Petroleum Exporting Countries+'s (OPEC+) stalemate over a production increase in the near term.

Futures in New York declined 0.8% last week, although the US crude benchmark closed higher on Friday (9 July) amid a broader market rebound. Prices whipsawed in the week amid ambiguity over the future of the OPEC+ alliance and swings in the US dollar. A stronger dollar makes commodities priced in the currency less attractive to investors.

Oil accelerated to a six-year high earlier last week after OPEC+ failed to ratify a production increase, spurring concerns of a supply shortfall. Fuel consumption is rising in countries such as the US, India, and China during the summer driving season. Americans have hit the road with gusto, leading to rapidly draining inventories and US refineries running close to full bore to keep up with demand.

At the same time, the OPEC+ alliance and US shale producers have practiced discipline toward returning supply that was shelved during the pandemic. The global oil market will remain in "deep deficit" of more than 3m barrels per day through the third quarter of the year, according to analysts. OPEC+ countries will need to add more oil to the market at a higher level "sooner or later", said the report.

On Friday, West Texas Intermediate crude for August delivery added 2.22% to settle at USD74.56 a barrel in New York, the biggest gain in a week. Brent for September settlement rose 1.93% to end the session at USD75.55 a barrel on the ICE Futures Europe exchange.

Before talks broke down earlier last week, Saudi Arabia proposed that the coalition gradually revive 5.8m barrels of daily capacity in monthly instalments of 400,000 barrels through to the end of next year. But the United Arab Emirates blocked an agreement, saying it will only support an extension of the pact if there are revisions to its own quota, which the country contends is outdated.

If no agreement is reached, the existing one states that output will remain steady next month. The unresolved deadlock also threatens to unravel the alliance altogether and spark a fresh price war.

Meanwhile, traders are also eyeing the global spread of the delta variant, which has taken hold in countries with lower vaccination rates, especially in Asia. New mobility restrictions threaten a further oil demand recovery. Thailand ordered stricter measures to contain a surge in new cases, while South Korea is raising curbs on social distancing to the highest level in Seoul for two weeks starting Monday. – Bloomberg News.

CURRENCIES

Gold posted a third weekly advance as fears that coronavirus variants may endanger the economic recovery spurred investor demand for havens.

Bullion is winning back investors after a bleak June, helped by a sharp decline in Treasury yields which burnish the appeal of the non-interest-bearing metal. Renewed virus fears around the world have taken the edge off the so-called reflation trade, causing global

FX Round-up (as of New York close)

	Last	Overnight change	Day high	Day low
EUR/USD	1.1876	0.26%	1.1881	1.1825
GBP/USD	1.3901	0.83%	1.3907	1.3756
USD/JPY	110.14	0.38%	110.26	109.70
AUD/USD	0.7488	0.79%	0.7494	0.7410
NZD/USD	0.6985	0.42%	0.7004	0.6923
USD/CAD	1.2447	-0.69%	1.2557	1.2443
USD/SGD	1.3511	-0.10%	1.3555	1.3506
AUD/SGD	1.0118	0.66%	1.0127	1.0034
NZD/SGD	0.9454	0.52%	0.9463	0.9375
GBP/SGD	1.8781	0.71%	1.8788	1.8635
EUR/SGD	1.6051	0.19%	1.6056	1.6014
AUD/NZD	1.0716	0.31%	1.0718	1.0671
USD/IDR	14528	0.02%	14550	14528
USD/INR	74.6375	-0.10%	74.6862	74.5688
XAU/USD	1808.32	0.30%	1812.46	1796.71

Source: Bloomberg, as of last business day.

stocks to slump on Thursday (8 July). Bullion held gains even though US bond yields and equities rebounded Friday.

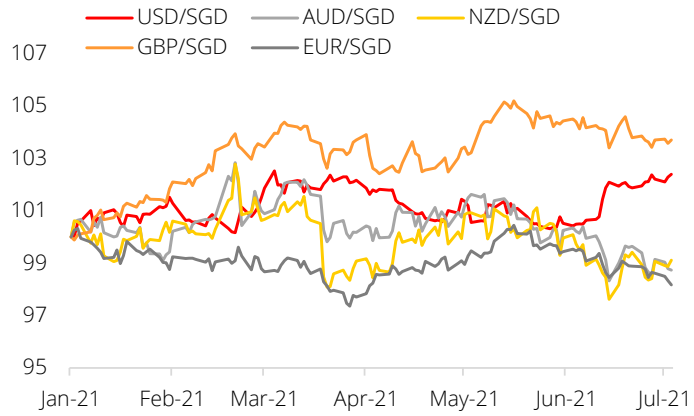
The risks to the recovery were underscored last week (ended 9 July) by Federal Reserve minutes that highlighted continued uncertainties. China's central bank cut the amount of cash most banks must hold in reserve, a move that went further than many economists expected and suggested growing concerns about the economy's recovery.

Seasonality will likely see gold rise in the third quarter, according to a market strategist. In the past 20 years, the third quarter was the best seasonal period for gold and the companies that mine it, he said in a note.

Gold was up 0.30% at USD1,808.32 an ounce on Friday, and gained 1.18% last week. Futures for August delivery on the Comex rose 0.58% to settle at USD1,810.60. Spot silver, platinum, and palladium also gained on Friday. – Bloomberg News.

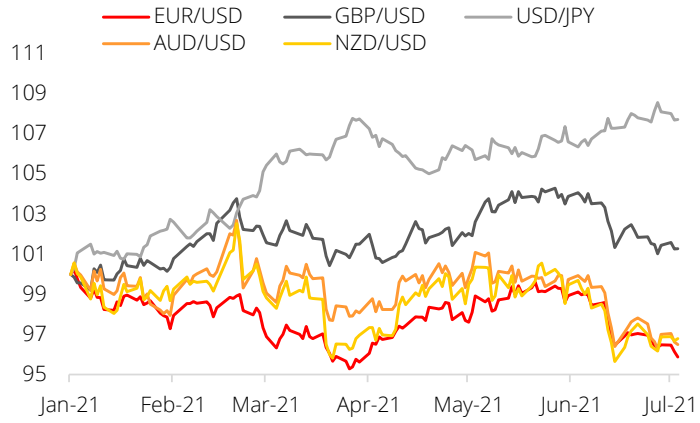
The US Dollar Index fell 0.31% to 92.130, the euro rose 0.26% to USD1.1876, the pound climbed 0.83% to USD1.3901, and the yen weakened 0.38% to 110.14 per dollar.

SGD Against Major Currencies



Source: Bloomberg, as of last business day.

USD Against Major Currencies



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