

Stocks surge ahead of US earnings releases

THE DAY AHEAD

- China posts June's imports, exports, and balance of trade.
- The US releases June's inflation data and the NFIB Business Optimism Index reading.

OVERVIEW

- US stocks hit records ahead of earnings.
- UK consumer boom delivers best quarter for retail.
- China tech's stock pain shown in widening gap with US giants.
- Oil slips on growing threat of delta variant to demand.
- Rupee slides towards year's low as India's trade deficit widens.

DEVELOPED MARKETS EQUITIES

US

US stocks registered more all-time highs as investors await second quarter earnings starting this week (ending 16 July) to gauge whether corporate profits can support equity valuations. Treasury yields edged slightly higher as the US sold debt.

Financials and Communication Services shares led the S&P 500 Index to another record, while Tesla, Nvidia, and Google parent Alphabet pushed the tech-heavy Nasdaq Composite Index into uncharted territory. Both indices set their previous closing marks on Friday. The S&P 500 inched 0.35% higher to 4,384.63 and the Nasdaq climbed 0.21% to 14,733.24. The Dow Jones Industrial Average gained 0.36% to 34,996.18.

The US Treasury sold USD58b of three-year notes at yields slightly higher than before the auction. A sale of USD38b of 10Y notes was greeted by stronger demand. The dollar gained against most major peers.

Equities and bonds have rallied amid a decline in long-term interest rates and inflation expectations as central banks hold off on unwinding the support driving the recovery from the pandemic. Still, investors remain concerned about the spread of the delta variant and a slowdown in vaccination rates, while pondering when the Federal Reserve will start tapering stimulus. – **Bloomberg News.**

EUROPE

Growing consumer confidence and the unleashing of pent-up demand after months of lockdown delivered the UK retail sector its best quarter on record, a survey published Tuesday (12 July) found.

The British Retail Consortium (BRC) and KPMG said sales were 13.1% higher in June than in the same month of 2019, buoyed by spending on summer clothing and footwear. The start of the Euro 2020 soccer tournament also fuelled demand for TVs, snack food, and beer. Sales in the second quarter jumped by 10.4%.

The UK is enjoying a consumer boom after limited opportunities to spend during more than a year of restrictions led to cash piling up in bank accounts. The BRC figures were reinforced by data from Barclaycard, which showed consumer spending on credit and debit cards rising 11.1% vs June 2019 amid demand for vacations in the UK and outdoor socialising.

With indoor hospitality reopening in mid-May, spending on hotels, resorts, and accommodation grew for the first time since the pandemic began, Barclaycard said.

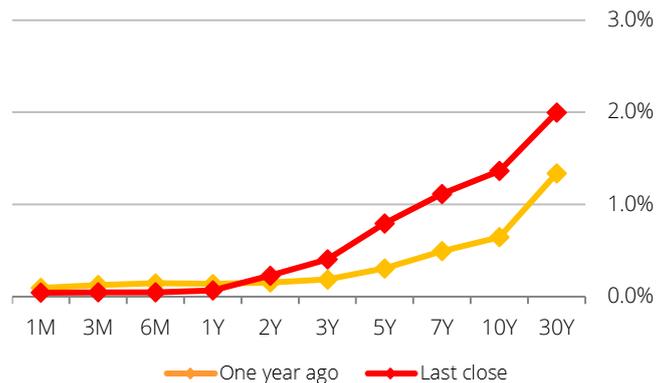
Equity markets

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.

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The retail sector is still facing strong headwinds, with many retailers still making up for ground lost during the lockdowns, said Helen Dickinson, chief executive of the BRC. – **Bloomberg News.**

The Stoxx Europe 600 Index rose 0.69% to 460.83 by the close in London on Monday.

JAPAN

The Bank of Japan (BOJ) is seen standing pat on its main tools at this week's (ending 16 July) meeting while putting meat on the bones of its climate change policy with an offer to pay interest to banks lending to green projects.

The BOJ will also trim its growth forecast for this fiscal year, while boosting next year's, according to economists polled before a meeting of the central bank that ends 16 July. The tweaks would reflect a delay in Japan's recovery due to renewed restrictions to contain the coronavirus.

About two-thirds of respondents said they see the BOJ's new climate programme being modelled on existing incentives that pay interest or offer some exemptions from the BOJ's negative interest rate to banks lending to firms coping with the pandemic.

The BOJ last month promised to unveil details of a green lending measure at July's meeting, joining other central banks in taking action on climate change. The European Central Bank last week said it will start including the issue in its policy considerations.

Under the BOJ's green initiative, 43% of responding analysts see it paying 0.1% interest to banks on reserves that match loan or investment amounts to environmentally friendly projects. Some 14% said the rate would be 0.2%.

In terms of its Covid-era lending measures, the BOJ is seen on a diverging path from the Federal Reserve and other central banks that have started to scale back. Almost 80% of economists do not see the BOJ signalling a pullback until next year.

The vast majority of analysts also said they see the BOJ holding its negative interest rate and asset purchases unchanged for the foreseeable future amid Japan's stubbornly slow inflation. – **Bloomberg News.**

The Nikkei 225 Index was up 0.78% to 28,790.50 on Tuesday (13 July) morning. It surged 2.25% to 28,569.02 on Monday.

ASIA EQUITIES

MANLAND CHINA & HONG KONG

The gap between megacap technology stocks in China and the US is at its widest in at least a year, as Beijing tightens its grip on some of the nation's biggest companies.

An equal-weighted basket of China's three Internet giants collectively dubbed BAT—Baidu Inc, Alibaba Group Holding Ltd, and Tencent Holdings Ltd – fell about 2% in the 12 months through Friday (9 July), according to calculations by Bloomberg. That compares with a 40% surge in an equivalent portfolio of their US peers – Facebook Inc, Amazon.com Inc, Apple Inc, Microsoft Corporation, and Google's parent Alphabet Inc (FAAMG).

Chinese technology shares just suffered from their worst week in more than four months, after the nation's cyberspace regulator ordered app stores to remove Didi Chuxing and issued a sweeping warning to the nation's biggest companies, vowing to tighten oversight of data security and overseas listings. Beijing has also proposed rules that would require nearly all companies seeking to list in foreign countries to undergo a cybersecurity review.

Looking at major gauges, the Nasdaq 100 Index is trading around the highest level vs the Hang Seng Tech Index, whose members include China's biggest tech firms, since the latter's official launch in July last year.

This underperformance has left the Asian stocks looking relatively cheaper. Baidu, Alibaba, and Tencent are trading at an average of 21 times their estimated earnings, according to Bloomberg data. That compares with about 31 times for their US peers. – **Bloomberg News.**

Equity Markets

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

	Index	Close	Overnight	YTD
US	DJIA	34996.18	0.36%	14.34%
	S&P 500	4384.63	0.35%	16.73%
	NASDAQ	14733.24	0.21%	14.32%
Europe	Stoxx Europe 600	460.83	0.69%	15.49%
Germany	DAX	15790.51	0.65%	15.10%
France	CAC 40	6559.25	0.46%	18.15%
UK	FTSE 100	7125.42	0.05%	10.29%
Asia	MSCI AxJ	857.32	0.69%	1.71%
Japan	Nikkei 225	28569.02	2.25%	4.10%
China	SHCOMP	3547.84	0.67%	2.15%
Hong Kong	Hang Seng	27515.24	0.62%	1.04%
Taiwan	TWSE	17814.33	0.87%	20.92%
South Korea	Kospi	3246.47	0.89%	12.98%
Indonesia	JCI	6078.57	0.64%	1.66%
Malaysia	KLCI	1512.89	-0.51%	-7.03%
Singapore	STI	3147.14	0.50%	10.67%
India	Sensex	52372.69	-0.03%	9.68%
Emerg. Mkt	MSCI EM	1326.83	0.66%	2.75%

Government Bonds

Benchmark yields of major 10-year government bonds.

	Latest yield	Previous yield	Change (bps)
US	1.36%	1.36%	0.50
Germany	-0.30%	-0.29%	-0.20
Japan	0.03%	0.03%	-0.30
China	2.95%	3.00%	-4.60
Taiwan	0.40%	0.40%	0.12
South Korea	2.02%	2.04%	-1.30
Indonesia	6.53%	6.56%	-2.60
Singapore	1.46%	1.45%	0.74
India	6.22%	6.19%	3.50

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)	74.10	-0.62%	76.98	33.64
Gold (\$/oz.)	1805.90	-0.26%	2063.00	1673.30
Copper (\$/ton)	9379.50	-1.15%	10737.50	6437.18
Corn (cents/bu.)	669.25	6.27%	775.00	307.25
Soybean (cents/bu.)	1432.50	2.03%	1677.25	869.50
Wheat (cents/bu.)	635.00	4.35%	773.00	488.00
Coffee (cents/lb)	154.00	1.65%	168.65	104.60
Sugar (cents/lb)	449.30	-1.04%	482.60	345.10

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

The Shanghai Composite Index rose 0.67% to 3,547.84 and the Hang Seng Index added 0.62% to 27,515.24.

REST OF ASIA

Malaysia will lower its economic growth outlook for this year due to movement restrictions against Covid, the country's finance minister said, signalling the government may forecast expansion around 4%.

While there is optimism that the current surge in cases can be contained and lockdowns can be eased, the government still expects to lower its gross domestic product estimate for 2021, Finance Minister Tengku Zafrul Abdul Aziz said Monday (12 July) in an interview with Bloomberg TV.

"We're in the midst of revising to a lower number and will share the exact number after we get data from the ground," Zafrul said. Asked if the forecast could be cut to around 4%, Zafrul responded that it could be "around the range you mentioned". The government has already said it will revise the outlook, currently at 6-7.5%, next month.

Pressure is mounting on Prime Minister Muhyiddin Yassin with lockdowns costing the economy MYR1b (USD239m) a day and only 10% of the population fully vaccinated, while the largest party in his ruling coalition just withdrew its support for the premier. New Covid cases reached a record 9,353 on Saturday, with the Klang Valley – which includes Kuala Lumpur – accounting for about 60% of the total.

The benchmark stock index slid 0.5% at the close after capping the third week of losses on Friday. The ringgit was little changed at 4.1905 per dollar after falling to a 11-month low on Friday, while 10Y bond yields rose 6 bps to 3.27%.

Zafrul was appointed last week (ended 9 July) as coordinating minister for the nation's National Recovery Plan, responsible for monitoring the implementation of strategy. While an accelerated vaccine rollout has allowed the government to ease virus curbs in seven states, much of the country remains under a lockdown since 1 June.

"Our focus today is for the economy to open safely," Zafrul said. "It's a dynamic and agile plan." – **Bloomberg News.**

Australia's S&P/ASX 200 Index opened 0.10% higher at 7,340.60 on Tuesday after climbing 0.83% to 7,333.50.

South Korea's Kospi Index added 0.21% to 3,253.24 at the open on Tuesday. It advanced 0.89% to 3,246.47 the previous session.

The Taiwan Stock Exchange Weighted Index gained 0.87% to 17,814.33.

COMMODITIES

Oil dipped as traders grappled with the demand implications of a Covid-19 resurgence in several regions and slowing economic growth in China.

Futures in New York fell 0.6% on Monday (12 July). New mobility restrictions have been introduced in parts of Japan, South Korea, and Vietnam to curb the spread of the delta variant, clouding the demand outlook for oil. Confirmed Covid-19 cases in the US soared 47% in the week ending Sunday (11 July), the largest weekly rise since April 2020.

Meanwhile, China's economic rebound is reported to have slowed. A stronger US dollar also weighed on prices, making commodities priced in the currency less attractive.

Rebounding fuel consumption in economies such as the US and China has boosted oil prices this year amid tight global supplies. Now, the spread of the delta variant is threatening the demand recovery, while the Organization of the Petroleum Exporting Countries+ (OPEC+) remains in a stalemate over near-term production.

China's growth eased in the second quarter to 8% from the record gain of 18.3% in the first quarter, according to a Bloomberg poll of economists. Retail sales and industrial production are expected to moderate, too.

The delta variant continues to spread around the world. In Europe, officials in the UK and France are issuing warnings about new cases and reopenings. Anthony Fauci, the top US infectious disease specialist, said "ideological rigidity" is preventing people from getting Covid-19 shots and voiced frustration at the struggle to boost vaccination rates in parts of the country.

West Texas Intermediate for August delivery lost 0.62% to settle at USD74.10 a barrel on the New York Mercantile Exchange. Brent for September settlement slid 0.52% to end the session at USD75.16 a barrel on the ICE Futures Europe exchange.

On the supply side, OPEC and its allies have been unable to agree on an output increase, creating swings in the market and pushing crude to its first weekly loss since May last week. The OPEC+ alliance abandoned meetings last week after a dispute between members over production cuts, and one week later, no deal is in sight.

The International Energy Agency will provide investors with a snapshot of the market on Tuesday with the release of its monthly report, while OPEC will release its own monthly report on Thursday. – **Bloomberg News.**

CURRENCIES

After months of wild volatility in the rupee, India's widening trade deficit and elevated commodity prices are bearing down on the currency, reinforcing a recent downward bias and pushing it toward a new low for the year.

That is the view of traders who have seen the rupee whipsaw from being Asia's best performer in the first quarter to its worst in April when another wave of Covid-19 infections took hold.

This volatility and the prospect of tapering by the Federal Reserve have also reduced the attractiveness of India's currency for carry trades, adding to its headwinds.

The rupee was trading at 74.4563 to the dollar on Monday (12 July) while Brent crude, the benchmark for India's oil imports, was above USD75.00 per barrel, up more than 45% since the start of the year.

Amid the devastating human toll that the coronavirus is taking in India, the rate of increase in new infections is slowing, which is improving the prospects for reopening the economy. But as the Covid curve flattens and consumers and businesses become more active, demand for imports is also set to increase, weighing on the currency.

Technical indicators also point to further depreciation of the currency given dollar-rupee's moving average convergence divergence gauge, a measure of momentum, remains above zero in bullish territory. The pair has room to run before reaching resistance at April's peak of 75.3362.

Yet even some domestic market heads who expects the rupee to weaken, see pockets of support for the currency, including inflows for equity offerings.

Notable among these is a USD1.3b initial share sales from Zomato Ltd, and Paytm's bid for shareholder approval of a USD2.2b stock sale that would set in motion the process for the country's largest ever debut.

The Reserve Bank of India also has USD600b of currency reserves to draw on to curb any sharp fall in the rupee. – **Bloomberg News.**

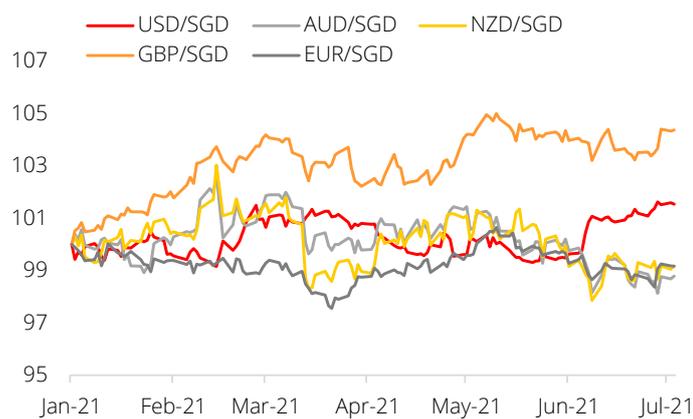
The US Dollar Index gained 0.14% to 92.261, the euro fell 0.13% to USD1.1861, the pound dipped 0.13% to USD1.3883, and the yen weakened 0.21% to 110.37 per dollar.

FX Round-up (as of New York close)

	Last	Overnight change	Day high	Day low
EUR/USD	1.1861	-0.13%	1.1880	1.1836
GBP/USD	1.3883	-0.13%	1.3910	1.3839
USD/JPY	110.37	0.21%	110.40	109.98
AUD/USD	0.7476	-0.16%	0.7496	0.7449
NZD/USD	0.6981	-0.27%	0.7009	0.6948
USD/CAD	1.2453	0.05%	1.2514	1.2447
USD/SGD	1.3520	0.07%	1.3529	1.3501
AUD/SGD	1.0109	-0.09%	1.0127	1.0052
NZD/SGD	0.9441	-0.14%	0.9471	0.9398
GBP/SGD	1.8767	-0.07%	1.8789	1.8716
EUR/SGD	1.6038	-0.08%	1.6049	1.6013
AUD/NZD	1.0709	-0.07%	1.0724	1.0684
USD/IDR	14493	-0.24%	14498	14480
USD/INR	74.5775	-0.08%	74.5887	74.4088
XAU/USD	1806.28	-0.11%	1810.89	1791.68

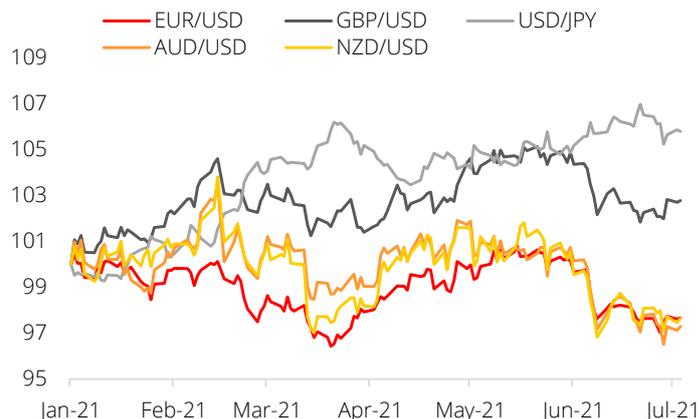
Source: Bloomberg, as of last business day.

SGD Against Major Currencies



Source: Bloomberg, as of last business day.

USD Against Major Currencies



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