

Market Monitor – United States

The start of the Fed's rate cut cycle is imminent

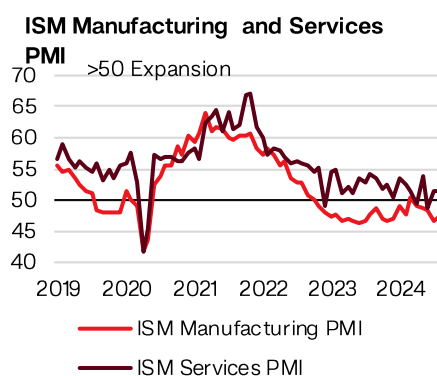


- US economic growth for Q2 was revised up, fuelled by stronger consumer spending.
- Fed Chairman Powell paved the way for a rate cut in September at the Jackson Hole Economic Symposium.
- The labour market showed further moderating signs in August.

The US posted stronger growth for Q2 with cooling inflation

US economic growth for Q2 was revised upward. The second estimate of US GDP for Q2 indicated that the economy grew at a seasonally adjusted annual rate (SAAR) of 3.0%, an upward revision from 2.8% in the first estimate. The adjustments were driven by stronger private consumption expenditure (PCE), which grew by 2.9% SAAR compared to 2.3% in the first estimate. Furthermore, monthly consumer spending grew by 0.5% month-on-month (MoM) in July, up from 0.3% in June. While July's performance suggested that consumer spending held up its momentum in early Q3, it should be noted that the saving rate declined to 2.9% in July from 3.1% in June, meaning a smaller cash buffer for consumers to sustain robust spending growth in the future.

Business surveys improved slightly, but hovered around low levels. The Institute of Supply Management (ISM) Manufacturing PMI inched up to 47.2 in August from 46.8 in July, but remained in contractionary territory for the 21st time over the past 22 months. The ISM Services PMI remained in expansion for the second straight month and registered 51.5 in August, marginally up from 51.4 in July, and was the sixth month of expansion in the last eight. Due to the services sector accounting for over two-thirds of the US economy, an expansion in services PMI points to US growth momentum continuing in Q3. The National Federation of Independent Business (NFIB) Small Business Optimism Index rose



Source: Bloomberg, data as of 06/09/2024

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to 93.7 in July, the highest level since February 2022. In spite of that, it still hovered below the 50-year average of 98 as small business owners still had concerns about cost pressures. Meanwhile, sentiment among consumers was up slightly across multiple surveys but remained at low levels. The University of Michigan Consumer Sentiment Index was up to 67.9 in August from 66.4 in July, however, still below the average of 73.0 in the first 8 months of the year. The Conference Board's Consumer Confidence Index was up to 103.3 in August from 101.9 in July. The survey showed a higher proportion of consumers were concerned about the prospects of the labour market.

The disinflation trend remains intact, with the latest personal consumption expenditures (PCE) inflation reading in line with expectations. In July, headline and core (which excludes food and energy) PCE inflation rose by 2.5% and 2.6% year-on-year (YoY), respectively, both unchanged from June's figures. On a monthly basis, headline PCE inflation ticked up slightly, growing by 0.2% MoM in July compared to 0.1% in June, while core PCE inflation was unchanged at 0.2% MoM. Across the major PCE components, goods prices remained flat MoM in July, while services prices were up 0.2%. These reflected a moderating price growth trend. Recent progress in cooling inflation has given the Fed greater confidence that inflation is heading towards its 2% policy target.

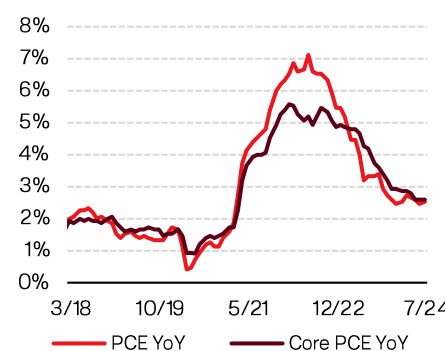
Fed Chairman Powell signalled a rate cut in September. During the Jackson Hole Economic Symposium, Fed Chairman Powell delivered a speech that reiterated that the Fed is now attentive to the risks posed by both inflation and the labour market, as highlighted in July's FOMC meeting. He stated that "the time has come for policy to adjust", effectively giving the green light for a rate cut at the next FOMC meeting in mid-September. Chairman Powell, however, offered minimal insight on the path of rate cuts and said it would hinge on multiple factors, such as incoming data, the evolving outlook, and the balance of risks. Currently, markets have fully priced in a 25 basis points (bps) rate cut in September.

The US labour market continued to cool in August. The labour market report revealed a slight drop in the unemployment rate to 4.2% in August from 4.3% in July. Jobs gains in August were less than expected but still higher than July's figures, with nonfarm payrolls increasing by 142,000 compared to the downwardly revised 89,000 in July. Both July and June's figures were revised down. In terms of wage growth, average hourly earnings picked up in August, increasing by 3.8% YoY and 0.4% MoM, compared to 3.6% YoY and 0.2% MoM in July. The decrease in the unemployment rate, coupled with softening growth in job gains, showed a moderating trend in the labour market. However, this should alleviate concerns that the job market is crashing and that a soft landing is still in sight.

The presidential election campaigns are heating up. After Donald Trump and J.D. Vance accepted the Republican nomination in July, Kamala Harris and Tim Walz were appointed as the Democratic nominees in August. Recently, the US presidential election campaigns have been heating up, with polls still suggesting a tight race. Both Trump and Harris have stepped up their campaigns across

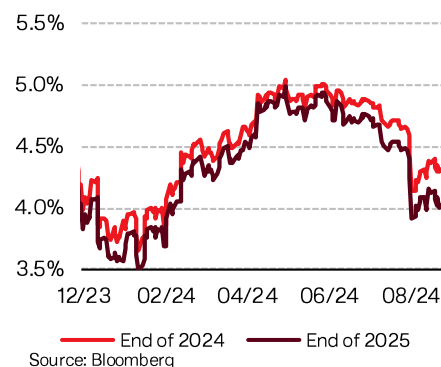
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US PCE Inflation



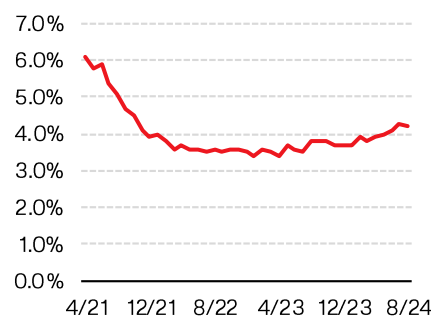
Source: Bloomberg, data as of 30/08/2024

US Rate Expectations



Source: Bloomberg

Unemployment rate



Source: CEIC

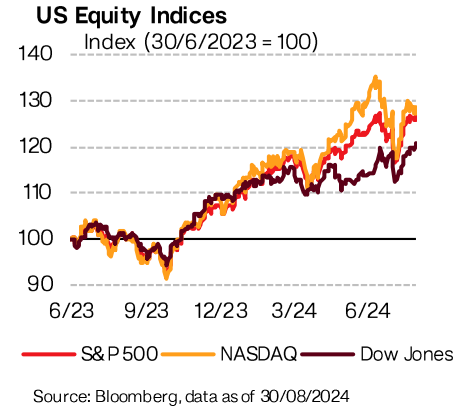
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various important swing states. Next up is the US presidential debate between Harris and Trump on 10 September, which should provide an opportunity for both candidates to introduce and expand on their policies. Furthermore, polls conducted after the debate will reveal important clues about voters' preferences.

Major US equity indices rose moderately in August

Major US equity indices posted gains in August. The S&P 500, the Dow Jones, and the Nasdaq all rose, by 2.3%, 1.8%, and 0.6% MoM in August, respectively. Stock markets globally experienced heightened volatility in early August, as the July labour market report triggered renewed worries over a hard landing of the US economy. But market sentiment stabilised shortly after as other economic data indicated a continued expansion, supporting the US equity indices to rise towards the end of the month. Meanwhile, 10-year US treasury yields fell 1.28 basis points MoM to 3.904%, while the US Dollar Index dropped by 2.3% MoM to 101.698 in August.



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