16 May 2024

Global Markets Research

Daily Market Highlights

16 May: Easing US CPI and stalled retail sales bolstered rate cut bets

US major stock indices hit record highs; treasury yields and DXY plunged

EC: Gradual growth in the Eurozone amid geopolitical risks; downgrade to CPI forecasts

PBoC maintained 1Y MLF rate; Japan's 1Q GDP fell as consumers & companies cut spending

- All the three US equity indices popped to record highs on Wednesday, after the latest US inflation report showed price pressures moderating as expected, bucking previous readings and soothing persistent inflation fears. Softer retail sales data also revived investor optimism that the Fed will cut in the near future, sending the S&P 500 rallying 1.2% d/d, Nasdaq rising 1.4% d/d while Dow Jones gained 0.9% d/d. Market leaders in the technology sector popped upon the inflation reading and were notable gainers.
- Similarly, European markets also closed higher on optimism over the Fed rate cut bets. Stoxx Eur 600 closed 0.6% d/d higher, with most sectors and major bourses in positive territory led by real estate and utilities. Corporate results from banking giants ABN Amro and Commerzbank were mixed, while Burberry shares plunged 7.3% d/d after warning of a "challenging" outlook, dragging other luxury stocks with it. Asian stocks closed mixed but are set for a positive open today following US and the futures.
- Yields on the Treasuries plunged 9-11bps across the curve following the US CPI and retail sales reports. The 2Y yield slid 9bps to 4.72%, while the 10Y fell 10bps to 4.34%. Similarly, 10Y European bond yields fell between 9-15bps led by the Italian sovereign bonds.
- The Dollar slid to its 1-month low against its G10 peers after the soft batch of economic data. DXY fell 0.6% d/d to 104.35, with NZD, SEK and NOK the leading gainers against greenback at +1.3% d/d each. Regional currencies also strengthened against the Dollar, led by JPY (+1.0% d/d to 154.88), PHP (+0.5% d/d) and SGD (+0.5% d/d to 1.3452). We, nonetheless, expect some weakness in JPY today following the undershot in 1Q GDP data this morning. MYR, meanwhile, appreciated 0.2% d/d to close at 4.7063 and is expected to continue with its strengthening trend today in anticipation of USD weakness.
- Oil prices rose in tune to 0.5-0.8% d/d after an EIA report showed that crude inventories dropped by 2.5m barrels in the week ending May 10. This comes after oil prices fell earlier in the session after the International Energy Agency cut its global demand growth forecast by 140k b/d for 2024 on 1Q demand contraction in rich countries.

PBoC maintained 1Y MLF rate

- As widely expected, the People's Bank of China maintained its 1Y medium-term lending facility (MLF) rate at 2.50% and offered 125bn yuan of MLF this month. The latest move signals the central bank's intention to aid a nascent economic recovery without adding pressure to the yuan, and is in line with the latest MOF's announcement of a 1tn yuan fiscal stimulus to support the Government's ambitious growth target of 5% this year.

Key Market Metrics

	Level	d/d (%)
Equities		
Dow Jones	39,908.00	0.88
S&P 500	5,308.15	1.17
NASDAQ	16,742.39	1.40
Stoxx Eur 600	524.71	0.59
FTSE 100	8,445.80	0.21
Nikkei 225	38,385.73	0.08
CSI 300	3,626.06	-0.85
Hang Seng	19,073.71	-0.22
Straits Times	3,289.42	-0.72
KLCI 30	1,603.23	-0.17
FX		
Dollar Index	104.35	-0.64
EUR/USD	1.0884	0.60
GBP/USD	1.2685	0.74
USD/JPY	154.88	-0.98
AUD/USD	0.6694	1.01
USD/CNH	7.2179	-0.30
USD/MYR	4.7063	-0.24
USD/SGD	1.3452	-0.49
Commodities		
WTI ($/bbl)	78.63	0.78
Brent ($/bbl)	82.75	0.45
Gold ($/oz)	2,394.90	1.48
Copper ($$/MT)	10,219.00	1.04
Aluminum($/MT)	2,598.50	1.86
CPO (RM/tonne)	3,909.00	-0.28

Source: Bloomberg, HLBB Global Markets Research
** Dated as of 14 May for CPO*

US CPI eased as expected, retail sales unexpectedly stalled, slowdown in housing indicators

- Both headline and core CPI moderated as expected to +3.4% y/y and +3.6% y/y respectively in April (Mar: +3.5% y/y and +3.8% y/y), the latter is the lowest reading this year. On a m/m basis, both headline and core prices rose at a slower pace of +0.3% m/m (Mar: +0.4% m/m), with shelter and energy contributing to 70% of the monthly increase. Energy prices saw a steady increase of +1.1% m/m, food prices were flat (Apr: +0.1% m/m), services slowed (+0.4% m/m vs +0.5% m/m) on disinflation in housing, while goods prices fell 0.1% m/m due to the decline in car prices.
- Consumer spending, meanwhile, slowed more than expected in April, with retail sales stagnating after a downwardly revised +0.6% m/m gain the prior month. Control-group sales, used to calculate GDP, declined 0.3% m/m from +1.0% m/m previously. Seven out of the 14 categories posted sales decreases, led by a pullback at non-store retailers, sporting goods and autos, while much of the spending was focused on necessities like food and gasoline, the latter due to higher prices.
- The headline data suggests that consumers are starting to feel the pinch from the high interest rates, still elevated inflation, declining savings rate, cooler labour market and slower wage growth. Real average weekly earnings slowed to +0.5% y/y in April from 0.6% y/y previously, but sales could have been potentially affected by the bump-up sales in March due to the early Easter holiday and Amazon sales.
- In the housing market, elevated mortgage rates weighed on builder confidence and mortgage applications in May. The NAHB Housing Market Index eased more than expected to 45 (Apr: 51), while mortgage applications slowed to +0.5% w/w for the week ended May 10 (May 3: +2.6% w/w). For the former, all three sub-components (current sales conditions, sales expectations in the next six months and traffic of prospective buyers) declined and NAHB were concerned that the recent rules that require insured mortgages for homes built to the 2021 International Energy Conservation Code, could further increase the cost of construction.
- The Empire Fed Manufacturing index unexpectedly worsened to -15.6 in May (Apr: -14.3) as new orders declined significantly, unfilled orders fell, labor market conditions remained weak while the pace of price increases moderated slightly. Though firms expect conditions to improve over the next six months, optimism was subdued.

EC expects a gradual expansion in the Eurozone amid high geopolitical risks

- Highlights from the latest European Commission's (EC) Spring forecast include: 1) The EC is expecting the Euro area to expand by a faster pace of 0.8% in 2024 (unchanged from its previous forecast) and 1.4% in 2025 (marginally revised down), with almost all member states expected to return to growth. 2) CPI projections were revised down to 2.5% in 2024 and 2.1% in 2025 (2023: 5.4%), with food and non-energy industrial goods becoming the primary disinflation drivers. Energy inflation is expected to turn positive again, but only marginally, while the relatively weak economic momentum and decelerating wage growth should allow services inflation to ease. 3) The EU economy is still expected to generate another 2.5m jobs, while the unemployment rate should hover around the current record-low rates. In terms of wages, real disposable income is set to accelerate further in 2025 and should deliver a more sustained consumption growth during the year. 4) Risks to growth have increased due to geopolitical tensions. On the domestic front, ECB could postpone rate cuts until the decline in services inflation firms, and on the back of a more restrictive fiscal policy as member states reduce budget deficits and put debt ratios back on a declining path. 5) On a separate note, 1Q GDP and employment growth was left unchanged at +0.3% q/q respectively (4Q: -0.1% q/q and +0.3% q/q).

Australia's wage growth unexpectedly slowed due to the public sector

- Annual wage growth unexpectedly slowed to +4.1% y/y and +0.8% q/q in 1Q (4Q: +4.2% y/y and +0.9% y/y). This marks the first time that wage growth has decelerated since 2020, but wages have remained at or above 4.0% since 3Q of 2023. Private sector wages grew at a faster pace than those in the public sector, the latter reflecting the implementation of new enterprise agreements and changes to wage caps.

Japan's economy contracted in 1Q as consumers and corporate cut spending

- Economic growth weakened more than expected to -2.0% q/q in 1Q (4Q: 0%), underscoring a fragile economic recovery as both consumer and capital spending retreated, while net exports exerted a drag to growth. 1Q data also reflected the negative impact from the New Year's data earthquake and disruption to auto production and sales after the certification scandal at Daihatsu and as such, the economy is likely to keep growing moving forward, possibly above its potential growth rate, driven by a recovery in global external demand as well as consumption driven growth after the largest wage hike in three decades.

House View and Forecasts

FX	This Week	2Q-24	3Q-24	4Q-24	1Q-25
DXY	103-107	105.43	105.56	103.45	101.38
EUR/USD	1.06-1.09	1.06	1.05	1.06	1.06
GBP/USD	1.23-1.27	1.24	1.22	1.23	1.24
USD/JPY	153-157	152	149	146	143
AUD/USD	0.65-0.67	0.65	0.65	0.65	0.66
USD/MYR	4.71-4.76	4.73	4.68	4.64	4.57
USD/SGD	1.34-1.37	1.35	1.35	1.34	1.33

Rates, %	Current	2Q-24	3Q-24	4Q-24	1Q-25
Fed	5.25-5.50	5.25-5.50	5.25-5.50	5.00-5.25	4.50-4.75
ECB	4.50	4.25	3.75	3.50	3.50
BOE	5.25	5.25	4.75	4.50	4.50
BOJ	0 - 0.10	0 - 0.10	0 - 0.10	0 - 0.10	0 - 0.10
RBA	4.35	4.35	4.35	4.10	4.10
BNM	3.00	3.00	3.00	3.00	3.00

Source: HLBB Global Markets Research

Up Next

Date	Events	Prior
16-May	AU Unemployment Rate (Apr)	3.80%
	JN Industrial Production MoM (Mar F)	3.80%
	US Building Permits MoM (Apr)	-4.30%
	US Initial Jobless Claims	231k
	US New York Fed Services Business Activity (May)	-0.6
	US Philadelphia Fed Business Outlook (May)	15.5
	US Import Price Index YoY (Apr)	0.40%
	US Industrial Production MoM (Apr)	0.40%
17-May	SI Non-oil Domestic Exports YoY (Apr)	-20.70%

CH New Home Prices MoM (Apr)	-0.34%
CH Industrial Production YTD YoY (Apr)	6.10%
CH Retail Sales YTD YoY (Apr)	4.70%
CH Fixed Assets Ex Rural YTD YoY (Apr)	4.50%
CH Surveyed Jobless Rate (Apr)	5.20%
MA GDP YoY (1Q F)	3.90%
HK GDP YoY (1Q F)	2.70%
EC CPI Core YoY (Apr F)	2.70%
US Leading Index (Apr)	-0.30%

Source: Bloomberg

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