1 November 2023

## Global Markets Research

## Daily Market Highlights

# 1 Nov: Mild tweak to BOJ's YCC; all eyes on FOMC today

### BOJ maintained policy rates; Upper bound of 1.0% for the 10Y JGB used as a reference point only

### JPY plunged to its lowest since 1990s, partially supporting the 0.5% gain in DXY

### Eurozone's inflation eased to 2Y low; the region's economy shrank 0.1% q/q in 3Q

- US stocks closed October with gains amidst a busy day of corporate earnings. S&P 500 climbed 0.7% d/d, with real estate, banks and utilities leading gains. Arista Networks led the surge at +14.0% d/d after the networking equipment company beat forecasts. The index was, nonetheless, weighed down by earnings-related sell-offs, including heavy equipment manufacturer Caterpillar (-6.7% d/d), drugmaker Catalent (-13.9% d/d) and Vans shoemaker VF Corp (-14.0% d/d). Nasdaq and Dow Jones Industrial Average also closed the day 0.5% d/d and 0.4% d/d higher.

- European equity markets also rose, with Stoxx Eur 600 up 0.6% d/d as sentiment was lifted by some positive corporate earnings and cooling bond yields. FTSE 100, on the other hand, slid 0.1% d/d, with energy stocks underperforming after BP Plc missed its 3Q estimate, plunging 4.6% d/d. In Asia, Nikkei 225 advanced 0.5% d/d after the BOJ allowed greater flexibility on its YCC in its latest policy meeting, but Hang Seng and CSI 300 fell 1.7% d/d and 0.3% d/d respectively after China's PMIs disappointed.

- UST yields rose modestly ahead of the FOMC meeting. The 2Y gained 3bps to 5.09%, while the 10Y rose 4bps to 4.93%. 10Y European bond yields declined between 1-5bps.

- DXY rallied from its intraday low of 105.91 to its peak of 106.86 before closing the day at 106.66 (+0.5% d/d) with support largely coming from JPY. The latter weakened a whopping 1.7% d/d to 151.68, levels not seen since the 1990s as BOJ's mild tweak in the YCC disappointed JPY bulls. Its G10 peers EUR and GBP also weakened between 0.1%-0.4% d/d against the Dollar. In Asia, MYR closed flattish at 4.7632 while CNH and SGD weakened in tune to 0.2%-0.4% d/d.

- Oil prices eased by less than 1.6% d/d each as markets worried less about potential supply disruptions from the Middle East conflict and on data showing rising output from the US. According to the US Energy Information Administration, crude oil production jumped to a record high of 13.05mb/d in August.

**BOJ maintained short-term policy rate, target for 10Y GBP yield at -0.1% and 0%; Upper bound of 1.0% for the latter used as a reference point instead**

- As widely expected, the Bank of Japan (BOJ), in a unanimous vote, kept its short-term rate unchanged at -0.1% and the target for the 10Y JGB yield at 0%. The central bank, nonetheless, took a more flexible approach to its yield curve control (YCC), saying that policy makers will regard the upper bound of

**Key Market Metrics**

| | Level | d/d (%) |
|---|---|---|
| **Equities** | | |
| Dow Jones | 33,052.87 | 0.38 |
| S&P 500 | 4,193.80 | 0.65 |
| NASDAQ | 12,851.24 | 0.48 |
| Stoxx Eur 600 | 433.66 | 0.59 |
| FTSE 100 | 7,321.72 | -0.08 |
| Nikkei 225 | 30,858.85 | 0.53 |
| CSI 300 | 3,572.51 | -0.31 |
| Hang Seng | 17,112.48 | -1.69 |
| Straits Times | 3,067.74 | 0.00 |
| KLCI 30 | 1,442.14 | 0.20 |
| **FX** | | |
| Dollar Index | 106.66 | 0.51 |
| EUR/USD | 1.0575 | -0.38 |
| GBP/USD | 1.2153 | -0.14 |
| USD/JPY | 151.68 | 1.73 |
| AUD/USD | 0.6337 | -0.58 |
| USD/CNH | 7.3416 | 0.22 |
| USD/MYR | 4.7632 | -0.01 |
| USD/SGD | 1.3697 | 0.40 |
| **Commodities** | | |
| WTI ($/bbl) | 81.02 | -1.57 |
| Brent ($/bbl) | 87.41 | -0.05 |
| Gold ($/oz) | 1,994.30 | -0.56 |
| Copper ($$/MT) | 8,110.50 | -0.37 |
| Aluminum($/MT) | 2,251.50 | -0.66 |
| CPO (RM/tonne) | 3,630.00 | -0.19 |

*Source: Bloomberg, HLBB Global Markets Research*
** Dated as of 30 Oct for CPO*

1.0% for 10Y JGB yields as a reference in its market operations This is compared to its previous statement of purchasing the 10Y JGBs at 1.0% every business day.

- At the same time, the BOJ raised its CPI forecast for fiscal years 2023, 2024 and 2025 to +2.8%, +2.8% and +1.7% respectively (July's forecasts: +2.5%, +1.9%, +1.6%). BOJ added that the upward revisions through fiscal 2024 was due to the past through effects from the past increases in import prices and the effects of the recent rise in crude oil prices. Real GDP is projected at +2.0%, +1.0% and +1.0% for the same fiscal years (July's forecasts: +1.3%, +1.2%., +1.0%).
- Data wise was mixed. Annualized housing starts contracted more than expected by 6.8% y/y in September (Aug: -9.4% y/y), but the Consumer Confidence Index unexpectedly improved to 35.7 (Aug: 35.2). 3 of the 4 sub-indices for the latter recorded improvement during the month.

**US consumer confidence fell for the third month; ECI unexpectedly accelerate; House price indicators topped estimates**

- The Conference Board Consumer Confidence Index declined for the third month, albeit less than forecast to 102.6 in October (Sep: 104.3). October's retreat reflected pullbacks in both the Present Situation and Expectations Index (75.6 vs 76.4). The latter below 80, historically signals a recession within the next year and is largely in line with elevated consumer fears of an impending recession.
- The Employment Cost Index for 3Q unexpectedly accelerated to +1.1% q/q in 3Q (2Q: +1.0% q/q), raising concerns that a still tight labour market will keep inflation above Fed's target for a longer period of time. While wage growth picked up slightly for the private sector, salaries at state and local government surged.
- Both the house price indices beat street estimates. Growth in the FHFA House Price Index decelerated to +0.6% m/m in August (Jul: +0.8% m/m), while the S&P CoreLogic House Price Index expanded at a faster pace +2.6% y/y (Jul: +1.0% y/y). As it is, US and regional house price gains have remained strong over the last 12 months despite the softer housing market, partially due to low inventory levels.
- Dallas Fed Services Activity index worsened to -18.2 in October (Sep: -8.6), its lowest since December 2022. Expectations regarding future service sector activity were, nonetheless mixed. The MNI Chicago PMI, meanwhile, unexpectedly worsened a shade to 44.0 (Sep: 44.1) but we note that the new orders sub-index fell at a slower pace while prices paid rose at a faster pace.

**Eurozone's inflation eased to 2Y low of +2.9% y/y; economy shrank 0.1% q/q in 3Q**

- Headline inflation eased more than expected to its 2Y low of +2.9% y/y in October (Sep: +4.3% y/y), while core matched expectations to moderate to +4.2% y/y (Sep: +4.5% y/y). The drop was mainly due to lower energy contributions due to high base effect. Prices also moderated for food and service inflation although they remain elevated at +7.5% y/y and +4.6% y/y respectively.
- At the same time, data also showed that the Eurozone economy worsened more than expected to -0.1% q//q in 3Q (2Q: +0.2% q/q), its first quarterly drop since 2Q of 2020. The volatile Irish economy led the decline, falling by 1.8% q/q (2Q: +0.5% q/q), while Germany recorded a 0.1% q/q contraction in

GDP (2Q: +0.1% q/q). As it is, both the moderating growth and inflation pictures support our view of a pause in ECB rates for the rest of 2023.

### Australia's private sector credit accelerated, home prices rose further

- Private sector credit unexpectedly accelerated to +0.5% m/m in September (+0.4% m/m), underpinned by lending to housing and businesses, while consumers accelerated. Separately, the CoreLogic House Price index rose another 0.9% m/m in September (Aug: +0.9% m/m) and is now 0.5% shy of the record high in April 2022. According to CoreLogic, at this rate of growth, the national home value index could reach a record high in mid-November. Lastly but not least, the final Judo Bank Manufacturing PMI was revised 0.2ppts upwards to 48.2 in October (Sep: 48.7).

### Official China PMIs unexpectedly worsened for both manufacturing and non-manufacturing

- Both the official manufacturing and non-manufacturing PMIs unexpectedly worsened in October, with the former retreating back below the 50-threshold to 49.5 (Sep: 50.2), while the latter fell to 50.6 (Sep: 51.7). The new orders and input/output selling prices indices weakened for both, suggesting that any recovery in demand remains sluggish and fragile. NBS also signalled that infrastructure activity stayed robust, suggesting that the slump in the Steel Industry PMI (45.6 vs 45.8) was largely property sector driven.

### Hong Kong's 3Q GDP accelerated to +4.1% y/y, albeit below expectations

- 3Q GDP accelerated to 4.1% y/y and rebounded to +0.1% on a q/q basis (2Q: +1.5% y/y and -1.3% q/q), but were nevertheless below expectations. Largely driving the stronger y/y growth was investment due to low base effect (+18.2% y/y vs -1.0% y/y), while household spending moderated slightly (+6.5% y/y vs. +8.5% y/y). In terms of the external sector, exports of goods remained contractionary amidst a weak external environment and increasing geopolitical tension, while exports of services expanded notably further thanks to the continued revival of visitor arrivals.
- The slower growth highlights the challenges that the economy is facing, and the government has recently rolled out various support initiatives including "Night Vibes Hong Kong" as well as tax cuts for some property purchases and stock trades to support the economy.

### House View and Forecasts

| FX | This Week | 4Q-23 | 1Q-24 | 2Q-24 | 3Q-24 |
|---|---|---|---|---|---|
| DXY | 105-108 | 107 | 107 | 106 | 105 |
| EUR/USD | 1.04-1.07 | 1.04 | 1.04 | 1.04 | 1.05 |
| GBP/USD | 1.19-1.23 | 1.20 | 1.20 | 1.20 | 1.21 |
| USD/JPY | 148-152 | 150 | 147 | 144 | 141 |
| AUD/USD | 0.62-0.65 | 0.64 | 0.65 | 0.66 | 0.67 |
| USD/MYR | 4.75-4.82 | 4.74 | 4.69 | 4.65 | 4.60 |
| USD/SGD | 1.35-1.39 | 1.38 | 1.37 | 1.35 | 1.34 |

| Rates, % | Current | 4Q-23 | 1Q-24 | 2Q-24 | 3Q-24 |
|---|---|---|---|---|---|
| Fed | 5.25-5.50 | 5.50.5.75 | 5.50-5.75 | 5.50-5.75 | 5.25-5.50 |
| ECB | 4.50 | 4.50 | 4.50 | 4.25 | 4.00 |
| BOE | 5.25 | 5.25 | 5.25 | 5.00 | 4.75 |
| BOJ | -0.10 | -0.10 | -0.10 | -0.10 | -0.10 |
| RBA | 4.10 | 4.10 | 4.10 | 4.10 | 3.83 |
| BNM | 3.00 | 3.00 | 3.00 | 3.00 | 3.00 |

*Source: HLBB Global Markets Research*

## Up Next

| Date | Events | Prior |
|---|---|---|
| 1-Nov | JN Jibun Bank Japan PMI Mfg (Oct F) | 48.5 |
| | MA S&P Global Malaysia PMI Mfg (Oct) | 46.8 |
| | VN S&P Global Vietnam PMI Mfg (Oct) | 49.7 |
| | AU Building Approvals MoM (Sep) | 7.00% |
| | CH Caixin China PMI Mfg (Oct) | 50.6 |
| | HK Retail Sales Value YoY (Sep) | 13.70% |
| | UK S&P Global/CIPS UK Manufacturing PMI (Oct F) | 45.2 |
| | US MBA Mortgage Applications | -1.0% |
| | US ADP Employment Change (Oct) | 89k |
| | US S&P Global US Manufacturing PMI (Oct F) | 50 |
| | US Construction Spending MoM (Sep) | 0.50% |
| | US JOLTS Job Openings (Sep) | 9610k |
| | US ISM Manufacturing (Oct) | 49 |
| 2-Nov | US FOMC Rate Decision (Upper Bound) | 5.50% |
| | US FOMC Rate Decision (Lower Bound) | 5.25% |
| | AU Exports MoM (Sep) | 5% |
| | AU Home Loans Value MoM (Sep) | 2.20% |
| | MA BNM Overnight Policy Rate | 3.00% |
| | EC HCOB Eurozone Manufacturing PMI (Oct F) | 43 |
| | US Challenger Job Cuts YoY (Oct) | 58.20% |
| | UK Bank of England Bank Rate | 5.25% |
| | US Nonfarm Productivity (3Q P) | 3.50% |
| | US Unit Labor Costs (3Q P) | 2.20% |
| | US Initial Jobless Claims | 210k |
| | SI Purchasing Managers Index (Oct) | 50.1 |
| | US Factory Orders (Sep) | 1.20% |
| | US Durable Goods Orders (Sep F) | 4.70% |

*Source: Bloomberg*

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