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Global Markets Research

Daily Market Highlights

2 Feb: Wall Street cheered the Fed's take on softening inflation

The Fed expectedly raised rates by a slower pace of 25bps to 4.50%-4.75%

US equities and UST rallied; DXY slipped on the Fed's dovish hike citing easing inflation

IMF raised world GDP forecast for 2023 to 2.9%; ECB and BOE in focus today

- Wall Street gained on Wednesday in an intraday turnaround as investors shook off the 25bps rate hike from the Federal Reserve and instead focused on comments from Fed Chairman Jerome Powell that acknowledged falling inflation. The S&P 500 gained 1.1% d/d, reversing an early decline of almost 1.0%. The Nasdaq Composite added 2.0% d/d, boosted by gains in chipmakers following strong earnings from Advanced Micro Devices. The Dow Jones Industrial Average closed flat after sliding more than 200 points at the day's lows. Stoxx 600 and FTSE 100 also ended the day flat as the policy announcements loomed, with the ECB and BOE decisions up next after the Fed. In Asia, shares traded higher. Both the Nikkei 225 and Hang Seng rose by 0.1% and 1.1% d/d.
- Treasuries rallied with most yields falling close to 10bps as investors view that economic conditions are likely to limit the scope for the Federal Reserves to deliver additional rate increases policy makers still anticipate. The 10-year yield was down by 9bps to 3.42%. The 2-year Treasury yield fell 10bps to 4.11%.
- The Dollar Index slipped 0.9% d/d to close at 101.22, after falling to an intraday low of 101.04 earlier. Amongst the G10 currencies, EUR and GBP strengthened by 1.2% d/d and 0.5% d/d respectively. JPY also appreciated by 0.9% d/d while AUD gained 1.2% d/d. In Asia, CNH and SGD strengthened 0.6% d/d each against USD. MYR closed 0.7% d/d weaker vis-à-vis USD at 4.2740 as of 31st Jan.
- Oil prices slid after US government data showed crude oil and fuel inventories climbed the most since June 2021 as demand remained weak. Brent crude was down 2.0%, d/d, while the West Texas Intermediate (WTI) fell 3.1% d/d. Price of gold was 0.1% d/d lower at \$1,927.80/oz.

Fed increased fed funds rate at a slower pace of 25bps, to 4.50%-4.75%

- As per expectations, the Federal Reserve Bank lifted the fed fund rate by 25bps to 4.50%-4.75%. Key highlights from the statement and Chairman Jerome Powell's press conference include: 1) The committee anticipates that the ongoing increases in the target range will be appropriate but added that the extent of future increases will depend on a number of factors, including cumulative tightening of monetary policy. It has previously tied the "pace" of future increases to these factors. 2) The Fed noted that inflation has eased somewhat but remains elevated, suggesting that policymakers are confident that inflation has peaked. 3) Powell pushed back market expectations that

Key Market Metrics

	Level	d/d (%)
Equities		
Dow Jones	34,092.96	0.02
S&P 500	4,119.21	1.05
NASDAQ	11,816.32	2.00
Stoxx Eur 600	453.09	-0.03
FTSE 100	7,761.11	-0.14
Nikkei 225	27,346.88	0.07
Hang Seng	22,072.18	1.05
Straits Times	3,377.65	0.36
KLCI 30	1,485.50	-0.93
FX		
Dollar Index	101.22	-0.86
EUR/USD	1.0990	1.17
GBP/USD	1.2376	0.45
USD/JPY	128.98	-0.85
AUD/USD	0.7137	1.16
USD/CNH	6.7195	-0.55
USD/MYR	4.2740	0.73
USD/SGD	1.3064	-0.57
Commodities		
WTI (\$/bbl)	76.41	-3.12
Brent (\$/bbl)	82.84	-1.95
Gold (\$/oz)	1,927.80	-0.09
Copper (\$\$/MT)	9,087.00	-1.47
Aluminum(\$/MT)	2,631.50	-0.47
CPO (RM/tonne)	3,800.00	-3.06

Source: Bloomberg, HLBB Global Markets Research
*KLCI and USD/MYR as of 31st Jan

Fed will cut rates later this year, saying that restoring price stability will likely require maintaining a restrictive stance and it would be very premature to declare victory. As it is, we expect more hikes are in store, but the end of the hiking cycle may be in sight. **There is no change in our view that the Fed will increase its fed funds rate by another 25bps to 4.75%-5.00% at its March meeting, which will likely be the last hike for the year.**

IMF raised its world GDP forecast for 2023 to 2.9% amid upgrades in all major economies and China

- In its latest outlook, the IMF raised its GDP forecast for the global economy for 2023 to +2.9% (+0.2ppts vs earlier forecast) but shaved its forecast for 2024 to +3.1% (-0.1ppts). The bank also added that the rise in central bank rates to fight inflation and Russia's war in Ukraine continue to weigh on economic activity. The rapid spread of COVID-19 in China dampened growth in 2022, but the recent reopening has paved the way for a faster-than-expected recovery. Global inflation, meanwhile, is expected to fall from +8.8% in 2022 to +6.6% in 2023 and +4.3% in 2024.
- In the US, growth is projected to soften from +2.0% in 2022 to +1.4% (+0.4ppts) in 2023 and +1.0% (-0.2ppts) in 2024. The upward revision in 2023 reflects carryover effects from domestic demand resilience.
- Growth in the euro area is projected to bottom out at +0.7% (+0.2ppts) in 2023 before rising to +1.6% (-0.2ppts) in 2024. The upward revision to 2023 reflects the effects of carryover from the 2022 outturn, lower wholesale energy prices, and additional announcements of fiscal purchasing power support in the form of energy price controls and cash transfers.
- Growth in the UK is projected to contract by 0.6% (-0.9ppts) in 2023 before turning positive at +0.9% (+0.3 ppts) in 2024. The downward revision in 2023 reflects tighter fiscal and monetary policies and financial conditions and still-high energy retail prices weighing on household budgets.
- Growth in Japan is projected at +1.8% (+0.2ppts) in 2023 and +0.9% (-0.4ppts) in 2024. The upward revision for growth in 2023 reflects high corporate profits from a depreciated yen and earlier delays in implementing previous projects will support business investment.
- For China, IMF is expecting the economy to grow by +5.2% (+0.8ppts) in 2023 and +4.5% (no change from previous forecast) in 2024. The upward revision in 2023 took into account rapidly improving mobility.

S&P Manufacturing PMIs generally ticked higher but remained contractionary in January

- The S&P Global US Manufacturing PMI stood at 46.9 in January (Dec: 46.2), broadly in line with the earlier released 'flash' estimate of 46.8. The solid deterioration in operating conditions was driven by a sharp contraction in new orders, a further drop in output and ongoing efforts to reduce inventories.
- The S&P Global Eurozone Manufacturing PMI rose for a third successive month to 48.8 in January (Dec: 47.8). Not only was this the highest reading since last August 2022, business optimism about the year ahead has also surged higher over the past three months.
- The S&P Global / CIPS UK Manufacturing PMI stood at 47.0 in January (Dec: 45.3). A spate of weak results in employment, output and new orders kept the sector in contraction for the seventh month in a row.

- Caixin's Manufacturing PMI rose less than expected to 49.2 in January (Dec: 49.0). The relative improvement in the headline index was partially due to a softer fall in production volumes at the start of the year.
- At 48.9 in January (Dec: 48.9), the headline au Jibun Bank Japan Manufacturing PMI remained below the neutral 50.0 threshold for the third month running but suggested an overall stabilisation of manufacturing sector business conditions.
- Judo Bank Australia Manufacturing PMI eased to 50.0 in January (Dec: 50.2) though business confidence improved. The PMI highlighted a few key trends. Both output and new orders continued to fall. The backlog of work and supplier delivery times have returned to normal levels. Labour demand remained strong while price pressures are moderating.
- The S&P Global Malaysia Manufacturing PMI dipped to 46.5 in January (Dec: 47.8) as production volumes scaled back to greatest extent since September 2021. On a positive note, there was a renewed rise in employment levels.
- The S&P Global Vietnam Manufacturing PMI increased to 47.4 in January (Dec: 46.4). Operating conditions have now worsened in each of the past three months. One of the main positives in January was a renewed expansion in new export orders.

US consumer confidence, ISM-Manufacturing and housing data fell; labour data still solid

- The Conference Board Consumer Confidence Index unexpectedly decreased to 107.1 in January following an upwardly revised 109.0 the previous month. Consumers' assessment of present economic and labor market conditions improved at the start of 2023. However, the Expectations Index retreated reflecting their concerns about the economy over the next six months. Consumers' expectations for inflation also ticked up slightly to 6.8% (Dec: 6.6%) over the next 12 months.
- The ISM Manufacturing Index fell sharper than expected to 47.4 in January (Dec: 48.4). This is the lowest since May 2020 and the third month of contraction in factory activity. Of note, one of the six biggest manufacturing industries, transportation equipment, reported growth for the month.
- A string of negative housing data was released. Mortgage applications declined 9.0% w/w for the week ended Jan 27 (Jan 20: +7.0% w/w) despite lower rates, which is an indication of the still volatile time of the year for housing activity. Total construction spending also unexpectedly fell 0.4% m/m in December (Nov: +0.5% m/m). House prices, meanwhile, fell less than expected by 0.1% m/m in Nov (Oct: No change) according to the Federal Housing Finance Agency. Similarly, S&P Core Logic reported that prices for the 20 cities also fell less than forecast by -0.5% m/m for the same month (Oct: -0.5% m/m).
- In the labour market, Employment Cost Index slowed more than expected to +1.0% q/q in 4Q (3Q: +1.2% q/q). The number of job openings, meanwhile, unexpectedly surged to a 5-month high of 11.0m in December (Nov: 10.4m). The increase mostly reflected a jump in vacancies in accommodation and food services. In tandem with this, the ratio of job openings to unemployed persons also rose to a near record high 1.9 (Dec: 1.7), while quit rate held steady at 2.7%. Separate report by the ADP National Employment Report painted a different picture. Accordingly, private sector employment slowed more than forecast to +106k in January (Dec: +253k), while annual pay was up 7.3% y/y. It should however be noted that this employment data was affected by weather-related disruptions.

- The Chicago Business Barometer fell more than expected to 44.3 in January (Dec: 45.1). This is the fifth consecutive month the index is below 50.
- The Texas Services sector general business activity index posted an eighth consecutive negative reading but moved up to -15 in January (Dec: -20.5). Respondents' expectations regarding future business activity were mixed for the month. The future general business activity index remained negative, though it improved. The future revenue index remained positive, pushing up 7 points.

Eurozone unexpectedly grew, inflation eased, unemployment rate steady

- Eurozone is on course to avoid recession after unexpectedly growing 0.1% q/q in 4Q (3Q: +0.3% q/q). While German and Italian GDP shrank, France and Spain recorded growth. Ireland also reported stronger than expected economic growth, supporting growth for the region.
- Inflation softened for a third consecutive month in January on the back of a significant fall in energy costs. Headline inflation softened more than expected to +8.5% y/y (Dec: +9.2% y/y), while core inflation was a shade higher than expected at +5.2% y/y (Dec: +5.2% y/y).
- Unemployment rate unexpectedly held steady at 6.6% in December. Economists had expected the unemployment rate to soften slightly to 6.5%.

UK consumer credit slower as mortgage approvals plunged

- UK net consumer credit slowed more than expected to GBP0.5bn in December (Nov: GBP1.5bn). Notably, mortgage approvals for house purchases plunged more than expected to 35.6k (Nov: 46.2k). This is the lowest since May 2020 and marked the fourth consecutive monthly decrease. Separate data reaffirmed a slowdown in the property market. Nationwide's house price index slowed to +1.1% y/y in January (Dec: +2.8% y/y), leaving prices 3.2% lower than their August peak.

Japan factory output and retail sales beat forecast

- Japan's factory output fell less than expected at -0.1% m/m in December (Nov: +0.2% m/m) dragged by lower output for boilers and precision measuring equipment. Nevertheless, while output was better than expected, factory output remained below pre-pandemic levels.
- In the consumer sector, retail sales increased more than expected at +1.1% m/m (Nov: -1.3% m/m), with improvement seen across most industries with the exception of food and beverages and motor vehicles. As it is, spending will continue to be supported by improved consumer confidence, which also rose above expectations to 31.0 in January 2023 (Dec: 30.3). Jobless rate, meanwhile, held steady and within expectations at 2.5% in December (Nov: 2.5%).
- In the housing market, housing starts unexpectedly contracted by 1.7% y/y in December (Nov: -1.4% y/y).

China's official PMIs rebounded on economy reopening and CNY boost

- China's official PMI for both the manufacturing and services sector rebounded for the first time in 4 months in January post reopening of the economy and boosted by Lunar New Year spending as well as travel. Manufacturing PMI matched estimate at 50.1 (Dec: 47.0), while the services PMI topped estimate at 54.4 (Dec: 41.6).

- Separate data showed that China's industrial profits fell 4.0% y/y in 2022, led by a 13.4% y/y fall in the manufacturing sector. This more than offset the 48.6% y/y jump in profits in the mining sector.

Australia's December retail sales fell for the first time in 2022

- Australia's retail sales fell for the first time in 2022 in December, suggesting that consumers may be reigning in spending ahead of higher interest rate and inflation. Sales fell more than expected by -3.9% y/y (Nov: +1.7% y/y), with department store sales recording the largest fall. This is followed by clothing, footwear and personal accessory. Food was the only industry to record a rise.
- CoreLogic Inc.'s National Home Value Index dropped 1.1% m/m in January (Dec: -1.2% m/m). The index is now down 8.9% from its April 2022 peak, the largest and fastest fall in values since at least 1980.
- Separate data from RBA also showed that private sector credit growth decelerated to +8.3% y/y in December (+8.9% y/y)

Singapore's employment grows by 'unprecedented' 232k in 2022

- Total employment grew by an unprecedented 231,700 in 2022, driven mainly by a growth in non-resident employment in the construction and manufacturing sectors. In tandem with this, unemployment rates remained low at 2.2% in December, below pre-pandemic levels of 3.0%. In providing its outlook for 2023, Ministry of Manpower said it expects hiring sentiments to remain positive in the coming months. Additionally, with fewer firms planning to raise wages in the next three months, the risk of an ensuing wage-price spiral remains low.

Hong Kong's GDP contracted 4.2% in 4Q; in recession of 3.5% in 2022

- Hong Kong's economy shrank more than expected in 4Q, contracting 4.2% y/y for the quarter (3Q: -4.6% y/y). This marks the fourth straight quarter of contraction, effectively sending the economy into recession at -3.5% for the whole of 2022. Weak trade was a contributor to the weak growth in 2022, along with slackening domestic demand that was dragged by the fifth wave of local epidemic as well as tightened financial conditions.

House View and Forecasts

FX	This Week	1Q-23	2Q-23	3Q-23	4Q-23
DX	101-103	98.00	96.04	96.04	96.04
EUR/USD	1.08-1.12	1.10	1.11	1.11	1.11
GBP/USD	1.23-1.27	1.26	1.27	1.27	1.27
USD/JPY	128-131	130	128	128	128
AUD/USD	0.69-0.73	0.70	0.72	0.72	0.72
USD/MYR	4.20-4.24	4.31	4.28	4.28	4.28
USD/SGD	1.30-1.32	1.32	1.30	1.30	1.30

Rates, %	Current	1Q-23	2Q-23	3Q-23	4Q-23
Fed	4.50-4.75	4.75-5.00	4.75-5.00	4.75-5.00	4.75-5.00
ECB	2.50	3.00	3.00	3.00	3.00
BOE	3.50	4.00	4.00	4.00	4.00
BOJ	-0.10	-0.10	-0.10	-0.10	-0.10
RBA	3.10	3.35	3.35	3.35	3.35
BNM	2.75	3.00	3.00	3.00	3.00

Source: HLBB Global Markets Research

Up Next

Date	Events	Prior
2-Feb	AU Private Sector Houses MoM (Dec)	-2.50%

	AU NAB Business Confidence (4Q)	9
	UK Bank of England Bank Rate	3.50%
	US Challenger Job Cuts YoY (Jan)	129.10%
	SI Purchasing Managers Index (Jan)	49.7
	EC ECB Main Refinancing Rate	2.50%
	US Unit Labor Costs (4Q P)	2.40%
	US Initial Jobless Claims	186k
	US Continuing Claims	1675k
	US Factory Orders (Dec)	-1.80%
	US Durable Goods Orders (Dec F)	5.60%
	US Cap Goods Orders Nondef Ex Air (Dec F)	-0.40%
3-Feb	JN Jibun Bank Japan PMI Services (Jan F)	52.4
	SI S&P Global Singapore PMI (Jan)	49.1
	HK S&P Global Hong Kong PMI (Jan)	49.6
	CH Caixin China PMI Services (Jan)	48
	SI Retail Sales YoY (Dec)	6.20%
	HK Retail Sales Value YoY (Dec)	-4.20%
	EC S&P Global Eurozone Services PMI (Jan F)	50.7
	UK S&P Global/CIPS UK Services PMI (Jan F)	48.0
	EC PPI MoM (Dec)	-0.90%
	US Change in Nonfarm Payrolls (Jan)	223k
	US Unemployment Rate (Jan)	3.50%
	US Average Hourly Earnings MoM (Jan)	0.30%
	US S&P Global US Services PMI (Jan F)	46.6
	US ISM Services Index (Jan)	49.6

Source: Bloomberg

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