2 March 2023

Global Markets Research
Daily Market Highlights

2 March: 10-yr UST yield topped 4% as ISM-prices leaped

Markets unnerved by continued hawkishness in Fed rhetoric and inflation concerns
DXY pulled back further to 104.48; CNH gained on PMI; EUR rallied on elevated inflation
Softer than expected 4Q GDP growth and inflation shall lift the pressure off RBA

- Wall Street fell for the second day, with the S&P 500 falling 0.5% d/d to its lowest level in nearly 6 weeks. The tech-heavy Nasdaq Composite lost 0.7% d/d, while the blue-chip Dow Jones ended the day just above the flatline. Investors remained cautious after Fed officials reinforced their hawkish stance. Atlanta Fed's Raphael Bostic called for continued rate hikes to above 5.00% to make sure inflation does not pick up again, while Minneapolis Fed President Neel Kashkari said that he is concerned that there isn't much indication that Fed's hikes are slowing down the services sector.

- In Europe, Stoxx 600 closed 0.7% d/d lower after data showed that Germany's harmonized inflation unexpectedly accelerated to +9.3% y/y in February. FTSE 100, on the other hand, gained 0.5% d/d. Asia-Pacific markets got a boost after China's official manufacturing PMI came above expectations at 52.6 in February, the highest since April 2012. CSI 300 gained 1.4% d/d, Hang Seng jumped 4.2% d/d while Nikkei 225 edged up by 0.3% d/d.

- The benchmark 10-year Treasury yield briefly topped 4.00% for the first time since November 2022 after the prices paid component of the ISM index jumped back into expansion territory at 51.3, fanning inflationary concern. The yield for the 10-year closed the day up 7bps to 3.99%, while the yield on the 2-year Treasury was up 6bps at 4.88%.

- The Dollar Index slumped 0.4% d/d to 104.48 on Wednesday, while CNH gained 1.1% d/d after the release of upbeat China's official PMI data. EUR also strengthened by 0.9% d/d post Germany's CPI numbers. GBP and JPY closed near flat, while MYR and SGD appreciated by 0.3% d/d and 0.4% d/d respectively to 4.4720 and 1.3425.

- Oil prices settled up after an erratic session with record US exports slowing inventory build-up. The West Texas Intermediate rose 0.8% d/d, while the Brent gained 0.5% d/d. Price of gold gained 0.5% d/d as strong Chinese economic data dented the dollar and drove some bets for better physical demand from the top bullion consumer.

Chinese PMIs surprised on the upside; contractions prevailed in most other economies

- The US Manufacturing PMI was revised 0.5ppts down to 47.3 in February (Jan: 46.9). The latest data indicated a solid deterioration in the health of the goods-producing sector, despite the pace of decline softening to the slowest for three months.

Key Market Metrics

	Level	d/d (%)
Equities		
Dow Jones	32,661.84	0.02
S&P 500	3,951.39	-0.47
NASDAQ	11,379.48	-0.66
Stoxx Eur 600	457.68	-0.74
FTSE 100	7,914.93	0.49
Nikkei 225	27,516.53	0.26
Hang Seng	20,619.71	4.21
Straits Times	3,255.08	-0.23
KLCI 30	1,450.20	-0.27
FX		
Dollar Index	104.48	-0.37
EUR/USD	1.0668	0.87
GBP/USD	1.2029	0.06
USD/JPY	136.19	0.01
AUD/USD	0.6761	0.48
USD/CNH	6.8789	-1.09
USD/MYR	4.4720	-0.34
USD/SGD	1.3425	-0.44
Commodities		
WTI ($/bbl)	77.69	0.83
Brent ($/bbl)	84.31	0.50
Gold ($/oz)	1,845.40	0.47
Copper ($$/MT)	9,100.50	1.56
Aluminum($/MT)	2,431.50	2.47
CPO (RM/tonne)	4,150.00	-0.68

Source: Bloomberg, HLBB Global Markets Research

- The final reading of the Eurozone Manufacturing PMI was left unchanged at 48.5 in February (Jan: 48.8). The index was pulled lower by the sub-components for suppliers' delivery times and stocks of purchases. These two factors together offset the positive influences that the output, new orders and employment indices had on the headline measure.
- The UK Manufacturing PMI was revised slightly up by 0.1ppt to 49.3 in February (Jan: 47.0). As it is, the sector is showing encouraging signs of resilience with output rising for the first time in 8 months boosted by weaker cost inflation and reduced supply chain disruptions.
- Caixin China General Manufacturing PMI grew more than expected to 51.6 in February (Jan: 49.2). This is the first expansion in 7 months and a new high since June. In tandem with this, the National Bureau of Statistics reported that the official manufacturing PMI shot up to 52.6 (Jan: 50.1), the highest reading since April 2012, while the official non-manufacturing PMI increased to 56.3 (Jan: 54.4). The latter was led by the construction and services sub-indices. As it is, the recovery in economic activities came as the most recent wave of Covid-19 infections subsided and should sustain momentum at least in 1Q in view of pent-up demand post reopening as well as growth supportive policies.
- The au Jibun Bank Japan Manufacturing PMI was revised upwards slightly to 47.7 in February (Jan: 48.9). Nevertheless, this is still the sharpest deterioration since September 2020 and is likely to be sustained in the near-term in the absence of a revival in new orders amidst dampened client confidence.
- Following 3 months of contraction, the Vietnam Manufacturing PMI rebounded back to above 50 at 51.2 in February (Jan: 47.4). Key characteristics include renewed rises in output, new orders and employment. Supplier lead times shortened for the second month running, while cost inflation hit a 8-month high.
- The Malaysia Manufacturing PMI rose to 48.4 in February (Jan: 46.5), its highest reading in four months. The index has now, however, pointed to six consecutive months of challenging business conditions. Of note is that both output and new orders moderated to much lesser degrees than was the case in January, with firms looking to maintain their purchasing activity and workforce numbers.

US ISM improved marginally to 47.7; mortgage applications and construction spending fell

- ISM Manufacturing increased a shade lower than expected at 47.7 in February (Jan: 47.4). This marks the third month of contraction and on average, the index for the past 2 months has been the lowest since May 2020. Demand eased, with the new orders contracting at a slower rate and new export orders still below 50 but continuing to improve. Customers' inventories remained at 'too low' levels, a positive for future production, while backlog of orders index recovered for a third month but still in moderate contraction. Of the 6 biggest manufacturing industries, transportation equipment and petroleum & coal products registered growth for the month.
- After a brief revival in January, mortgage applications fell for 3 straight weeks by -5.7% w/w for the week ending February 24 (Feb 17: -13.3% w/w). The purchase index, specifically, was at a 28-year low for a second consecutive week, declining 5.6% w/w and 43.7% y/y. Separate data also showed that construction spending unexpectedly slid 0.1% m/m in January (Dec: -0.7% m/m), led by a 0.6% m/m contraction in private residential construction.

UK house prices post sharpest annual fall in a decade

- Nationwide house prices fell more than expected by 1.1% y/y in February (Jan: +1.1% y/y). This is the first annual decline since June 2020 and the sharpest contraction since November 2012. As it is, housing market activity has remained subdued, likely reflecting the lingering impact on confidence as well as cumulative impact of the financial pressures. It will be hard for the market to regain much momentum in the near term since economic headwinds look set to remain relatively strong.
- Mortgage approvals fell for the fifth month to their lowest level in more than two years, albeit better than expectation at 39.6k in January (Dec: 40.5k). Households also borrowed an additional £1.6bn in consumer credit for the month (Dec: £0.8).

Australia's GDP unexpectedly slowed to +0.5%; Inflation eased more than expected to +7.4%

- Australia's 4Q GDP unexpectedly slowed to +0.5% q/q in 4Q (3Q:0.7% q/q). Softer consumer spending (+0.3% q/q vs 3Q: +0.6% q/q) was the key drag, as higher income was more than offset by higher interest and inflation rates.
- Inflation rate eased more than expected to +7.4% y/y in January (Dec: +8.4% y/y). The most significant contributions to inflation for the month were housing (+9.8% y/y vs +10.1% y/y), food and non-alcoholic beverages (+8.2% y/y vs Jan: 9.5% y/y) as well as recreation and culture (+10.2% y/y vs Jan: +14.4% y/y).

Japan's capex spending decelerated, corporate profits fell because of manufacturing

- In 4Q, growth in Japan's capital spending decelerated less than forecast at +7.7% y/y (3Q: +9.8% y/y). Softer capex spending was seen in both manufacturing and non-manufacturing sectors and supported by sustained company sales at +6.1% y/y (3Q: +8.1% y/y). Nevertheless, we note that current profits turnaround to contract by 2.8% y/y (+18.3% y/y), driven solely by a contraction in profits for the manufacturing sector.

House View and Forecasts

FX	This Week	1Q-23	2Q-23	3Q-23	4Q-23
DXY	103-105	105	104	103	102
EUR/USD	1.05-1.07	1.05	1.06	1.06	1.06
GBP/USD	1.18-1.20	1.20	1.21	1.21	1.21
USD/JPY	133-135	134	132	132	131
AUD/USD	0.67-0.69	0.69	0.69	0.70	0.71
USD/MYR	4.45-4.50	4.40	4.36	4.30	4.25
USD/SGD	1.33-1.35	1.33	1.31	1.29	1.27

Rates, %	Current	1Q-23	2Q-23	3Q-23	4Q-23
Fed	4.50-4.75	4.75-5.00	5.25-5.50	5.25-5.50	5.25-5.50
ECB	3.00	3.50	3.75	3.75	3.75
BOE	4.00	4.25	4.25	4.25	4.25
BOJ	-0.10	-0.10	-0.10	-0.10	-0.10
RBA	3.35	3.60	3.60	3.60	3.60
BNM	2.75	3.00	3.00	3.00	3.00

Source: HLBB Global Markets Research

Up Next

Date	Events	Prior
2-March	AU Building Approvals MoM (Jan)	18.50%
	JN Consumer Confidence Index (Feb)	31

	HK Retail Sales Value YoY (Jan)	1.10%
	EC CPI Estimate YoY (Feb)	8.60%
	EC Unemployment Rate (Jan)	6.60%
	SI Purchasing Managers Index (Feb)	49.8
	SI Electronics Sector Index (Feb)	49.1
	US Nonfarm Productivity (4Q F)	3.00%
	US Unit Labor Costs (4Q F)	1.10%
	US Initial Jobless Claims	192k
	US Continuing Claims	1654k
3-March	AU Judo Bank Australia PMI Services (Feb F)	49.2
	JN Tokyo CPI YoY (Feb)	4.40%
	JN Jobless Rate (Jan)	2.50%
	AU Home Loans Value MoM (Jan)	-4.30%
	JN Jibun Bank Japan PMI Services (Feb F)	53.6
	SI S&P Global Singapore PMI (Feb)	51.2
	HK S&P Global Hong Kong PMI (Feb)	51.2
	CH Caixin China PMI Services (Feb)	52.9
	SI Retail Sales SA MoM (Jan)	1.30%
	EC S&P Global Eurozone Services PMI (Feb F)	53.0
	UK S&P Global/CIPS UK Services PMI (Feb F)	53.3
	EC PPI YoY (Jan)	24.60%
	US S&P Global US Services PMI (Feb F)	50.5
	US ISM Services Index (Feb)	55.2

Source: Bloomberg

Hong Leong Bank Berhad
Fixed Income & Economic Research, Global Markets
Level 8, Hong Leong Tower
6, Jalan Damanlela
Bukit Damansara
50490 Kuala Lumpur
Tel: 603-2081 1221
Fax: 603-2081 8936
HLMarkets@hlbb.hongleong.com.my

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