

2 October 2023

## Global Markets Research

### Daily Market Highlights

## 2 Oct: US averted a government shutdown

**US Congress passed short-term funding bill to keep federal agencies running until 17<sup>th</sup> Nov**

**US Core-PCE prices moderated below 4.0%; Eurozone's inflation hit 2-year low**

**China PMIs above 50; divergence between official and Caixin, large and small enterprises**

- The US equities market ended 3Q on a weak note, with the Dow Jones retreating 0.5% d/d on Friday, the S&P 500 dropping 0.3% d/d but Nasdaq traded up 0.1% d/d. Weighing on investor sentiment was looming threats of a US government shutdown as well as FOMC's higher-than-longer stance despite slower core-PCE prices print. For the former, the Congress passed an 11<sup>th</sup> hour funding Bill on Saturday to keep federal agencies running until November 17<sup>th</sup>. Signs of cooling Eurozone inflation and a rally in luxury shares, meanwhile, drove Stoxx Eur 600 up 0.4% d/d. FTSE 100 also gained 0.1% d/d, while Asian markets largely climbed led by Hang Seng at +2.5% d/d. Nikkei 225 fell marginally by 0.1% d/d.
- In the Treasuries market, the 10Y pulled back from its fresh 15Y high after the core-PCE prices showed signs of easing inflation. 10Y yield fell less than 1bps to close at 4.57%, while the 2Y yield slipped 2bps to 5.04%. The 30Y dipped 1bps to 4.70%. 10Y European bond yields declined between 5-13bps.
- DXY narrowed losses from the day low of 105.66 to close at 106.17 (-0.1% d/d), above the 106-handle for the 4<sup>th</sup> straight session. Trading in European currencies against USD was largely muted (+/-0.1% d/d), while in Asia, JPY remains in focus as it trades near the 150 level, heightening odds of an intervention from the BOJ. The currency closed mildly weaker by less than 0.1% d/d at 149.37. MYR, on the other hand, strengthened 0.3% d/d to close at 4.6953.
- Oil settled lower between 0.1%-1.0% d/d but ended the quarter strongest in more than a year amidst tight global supply. In a news update, industry data showed that Russia plans to export almost no diesel in October in order to tame domestic prices.

### US core PCE price moderated to 3.9%, personal spending slowed

- Matching expectations, headline PCE prices accelerated to +3.5% y/y in Aug (Jul: +3.4% y/y) while core moderated to +3.9% y/y (Jul: +4.3% y/y). Accompanying data also showed that despite personal income accelerating to +0.4% m/m (Jul: +0.2% m/m), personal spending slowed to +0.4% m/m (Jul: +0.9% m/m), and was primarily supported by spending on necessities, namely housing and utilities, transportation and health care. Softening core inflation and consumer spending bolster the case for the fed funds rates to peak soon for this cycle.
- Trade deficit unexpectedly narrowed to \$84.3bn in August (Jul: \$90.9bn) as exports expanded by 2.2% m/m (Jul: +1.7% m/m) while imports declined 1.2%

### Key Market Metrics

	Level	d/d (%)
<b>Equities</b>		
Dow Jones	33,507.50	-0.47
S&P 500	4,288.05	-0.27
NASDAQ	13,219.32	0.14
Stoxx Eur 600	450.22	0.38
FTSE 100	7,608.08	0.08
Nikkei 225	31,857.62	-0.05
CSI 300	3,689.52	-0.30
Hang Seng	17,809.66	2.51
Straits Times	3,217.41	0.32
KLCI 30	1,424.17	-1.11
<b>FX</b>		
Dollar Index	106.17	-0.05
EUR/USD	1.0573	0.07
GBP/USD	1.2199	-0.03
USD/JPY	149.37	0.04
AUD/USD	0.6435	0.12
USD/CNH	7.2928	-0.03
USD/MYR	4.6953	-0.28
USD/SGD	1.3662	0.03
<b>Commodities</b>		
WTI (\$/bbl)	90.79	-1.00
Brent (\$/bbl)	95.31	-0.07
Gold (\$/oz)	1,848.10	-0.66
Copper (\$\$/MT)	8,270.50	0.64
Aluminum(\$/MT)	2,347.00	3.05
CPO (RM/tonne)	3,670.50	0.74

Source: Bloomberg, HLBB Global Markets Research

\* Dated as of 27 Sep for CPO

m/m (Jul: +2.1% m/m). The acceleration in exports was driven by industrial supplies, capital and consumer goods, while the contraction in imports was seen across all categories except for industrial supplies. The same press release also showed that wholesale inventories dipped 0.1% m/m (Jul: -0.2% m/m), while the buildup in retail inventories picked up to 1.1% m/m (Jul: +0.5% m/m).

- MNI Chicago PMI fell more than expected to 44.1 in September (Aug: 48.7), partially reversing the rebound the previous month. New orders, production and employment were the biggest downside drivers to the index during the month.
- The final University of Michigan Consumer Sentiment index for September was revised upwards by 0.4ppts to 68.1 (Aug: 69.5), while its 1Y and 5-10Y inflation expectations were revised upwards by 0.1ppts each to 3.2% and 2.8% respectively (Aug: 3.5% and 3.0%). A small decline in consumer expectations over their personal finances was offset by a modest improvement in expected business conditions, while the 1Y inflation expectations is the lowest since March 2021.

#### **Eurozone's inflation hit the lowest in nearly 2 years**

- Both the headline and core inflation cooled more than expected to +4.3% y/y and +4.5% y/y in Sept (+5.2% y/y and +5.3% y/y) with all main broad categories reporting slower price prints while energy prices contracted y/y. The ECB, in its latest monetary policy meeting has signalled that the latest rate hike was the final one for this cycle, and the larger than expected deceleration in prices will give policy makers confidence to maintain its key refinancing rate unchanged at 4.50%.

#### **UK's final 2Q GDP was left unchanged at +0.2% q/q; consumer credit accelerated but mortgage approvals fell**

- The final UK GDP was left unchanged at +0.2% q/q in 2Q (1Q: upwardly revised +0.3% q/q). There has been minimal impact from the revision in the GDP components but we saw a downward revision in both consumer and government spending as well as net exports.
- Net consumer credit rose more than expected by £1.6bn in Aug (Jul: £1.3bn) largely driven by increased borrowing through other forms of consumer credit such as car dealership finance and personal loan. Borrowing on credit cards saw a small increase. Net mortgage approvals also fell to 45.4k in August (Jul: 49.5k), the lowest level in six months, suggesting that the housing slump persists.

#### **Weaker consumer confidence and housing starts for Japan; Tankan survey improved more than expected**

- Consumer confidence index unexpectedly slid for the second month to 35.2 in September (Aug: 36.2), largely driven by the employment and willingness to buy durable goods sub-indices and to a lesser extent, overall livelihood and income growth. Housing starts also fell more than expected by 9.4% y/y in August (Jul: -6.7% y/y).
- Confidence amongst large manufacturers, as shown by the Tankan index, rose more than expected to 9 in 3Q (2Q: 5), while confidence amongst non-manufactures also increased to 27 (2Q: 23). The broad improvement reaffirms BOJ's view of a moderate recovery path. The tankan survey also showed that companies are expecting JPY to trade at 135.75 for this fiscal year (2Q: 132.43) and capital investment to grow by +13.6% y/y (2Q: +13.4% y/y).

### **All China PMIs above 50; official prints surpassed expectations while Caixin disappointed**

- The official manufacturing and services PMIs rose more than expected to 50.2 and 51.7 in September (Aug: 49.7 and 51.0). September marks the first expansion in 6 months for the former and was largely driven by large firms. In contrast, both the Caixin manufacturing and services PMI unexpectedly softened to 50.6 and 50.2 respectively for the same month (Aug: 51.0 and 51.8), with the latter at its 9-month low.
- Of note, production in the official manufacturing sector also outpaced new orders, suggesting that the sector, and probably the overall Chinese economy has stabilised, but no means out of the words yet. With this, the implementation and effectiveness of the multiple economic stabilization policies should be the next focus.

### **Hong Kong retail sales slowed but still robust**

- Driven by ongoing recovery in inbound tourism, retail sales continued to register double-digit growth, albeit slower than expected at +13.7% y/y in August (Jul: +16.7% y/y). Moving forward, the retail sector is expected to stay robust, as reflected by the strong discretionary spending, benefitting from continued inbound tourism, positive consumer sentiment amid improved labour market conditions and the "Night Vibes Hong Kong" campaign.

### **Australia's credit growth accelerated on businesses**

- Private sector credit unexpectedly accelerated to +0.4% m/m in Aug (Jul: +0.3% n/n) largely driven by demand from the business segment. Demand for housing credit, meanwhile, remained stable.
- Data this morning showed that the final Judo Bank Australia Manufacturing PMI was revised upwards by 0.5ppts to 48.7 in September (Aug: 49.6) while the Melbourne Institute inflation expectations eased to +5.7% y/y (Aug: +6.1% y/y).

### **Vietnam's 3Q GDP surprised on the upside again at +5.3% y/y on manufacturing and exports**

- Economic growth picked up for the second quarter, accelerating more than expected to +5.3% y/y in 3Q (2Q: 4.1% y/y). Growth was predominantly driven by the manufacturing sector on the supply side and exports on the demand front. Consumer spending remained resilient. Other data released this morning also surprised on the upside, raising hopes that growth of 6.5% will be achieved but we remain sceptical at this juncture. YTD, the economy grew by 4.2% y/y, suggesting that the economy will have to achieve double-digit growth in 4Q to achieve the Government's growth target.
- Inflation, meanwhile, accelerated for the third month to +3.7% y/y in September (Aug: +3.0% y/y) on higher price pressures for food, transport and education but remains mild below the government's target of 4.00% y/y. Although the State Bank of Vietnam (SBV) has cut the refinancing rates by a cumulative 150bps to 4.50%, the latest price print will give the central bank room to cut its policy rate further to 4.00% by the end of 2023.

### **House View and Forecasts**

<b>FX</b>	<b>This Week</b>	<b>3Q-23</b>	<b>4Q-23</b>	<b>1Q-24</b>	<b>2Q-24</b>
DX	105-107	102	101	100	99
EUR/USD	1.04-1.07	1.11	1.12	1.14	1.12
GBP/USD	1.21-1.23	1.29	1.31	1.33	1.30

USD/JPY	146-150	141	139	136	133
AUD/USD	0.63-0.65	0.67	0.68	0.68	0.69
USD/MYR	4.68-4.72	4.69	4.64	4.60	4.55
USD/SGD	1.35-1.37	1.35	1.34	1.33	1.33

Rates, %	Current	3Q-23	4Q-23	1Q-24	2Q-24
Fed	5.25-5.50	5.25-5.50	5.50-5.75	5.50-5.75	5.50-5.75
ECB	4.50	4.50	4.50	4.50	4.50
BOE	5.25	5.25	5.25	5.25	5.25
BOJ	-0.10	-0.10	-0.10	-0.10	-0.10
RBA	4.10	4.10	4.35	4.35	4.35
BNM	3.00	3.00	3.00	3.00	3.00

Source: HLBB Global Markets Research

## Up Next

Date	Events	Prior
2-Oct	JN Jibun Bank Japan PMI Mfg (Sep F)	48.6
	MA S&P Global Malaysia PMI Mfg (Sep)	47.8
	VN S&P Global Vietnam PMI Mfg (Sep)	50.5
	UK Nationwide House PX MoM (Sep)	-0.80%
	EC HCOB Eurozone Manufacturing PMI (Sep F)	43.4
	UK S&P Global/CIPS UK Manufacturing PMI (Sep F)	44.2
	EC Unemployment Rate (Aug)	6.40%
	AU CoreLogic House Px MoM (Sep)	1.00%
	US S&P Global US Manufacturing PMI (Sep F)	48.9
	US Construction Spending MoM (Aug)	0.70%
	US ISM Manufacturing (Sep)	47.6
	AU Home Loans Value MoM (Aug)	-1.20%
3-Oct	AU Building Approvals MoM (Aug)	-8.10%
	AU RBA Cash Rate Target	4.10%
	SI Purchasing Managers Index (Sep)	49.9
	US JOLTS Job Openings (Aug)	8827k

Source: Bloomberg

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