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Global Markets Research

Daily Market Highlights

2 Nov: 2Y UST yields fell below 5% after Fed rate pause

FOMC: tighter financial and credit conditions likely to weigh on economic activity, hiring, inflation
UST yields plunged 14-21bps across the curve; DXY strengthened but off intraday peak
BOE and BNM in focus today; expect no change in both policy rates

- US stocks rallied on Wednesday after the FOMC kept interest rates unchanged for a second consecutive time and investors expectations that the central bank could stay pat in December. The Dow Jones Industrial Average advanced 0.7% d/d, the S&P 500 climbed 1.1% while Nasdaq added 1.6% d/d. Information technology stocks outperformed, led by AMD and Micron Technology at 9.7% d/d and 3.8% d/d respectively. In Europe, Stoxx Eur 600 and FTSE 100 closed up 0.7% and 0.3% d/d respectively as investors await Fed's decision, while Japan led gains in Asia again after BOJ's mild tweak to its YCC. Nikkei 225 closed 2.4% d/d higher but Hang Seng and CSI 300 closed mildly lower by less than 0.1% d/d each.
- The yield on the 2Y UST fell 14bps to 4.94% after the Federal Reserve left its policy rates unchanged, while the 10Y plunged 20bps to 4.73%. Elsewhere, the Treasury Department released details on upcoming bond sales as fears grow about the government's debt load. As it is, the Treasury is planning to auction \$112bn in debt next week. 10Y European bond yields fell, meanwhile, between 1-7bps.
- DXY tested 107.11 overnight but retreated to close at 106.88 (+0.2% d/d) following Treasuries lead and dovish interpretations of the Fed funds trajectory. European currencies closed just below the flatline while trading in regional currencies were mixed. JPY shaved some of its prior day's losses and strengthened 0.5% d/d to 150.95. CNH and SGD appreciated 0.1% d/d each, but MYR depreciated by 0.2% d/d to 4.7717.
- Oil plunged between 0.7-3.2% d/d as investors continued to assess risks from the Israel-Hamas war and after the Energy Information Administration (EIA) reported that US stockpiles rose nationally and at Cushing hub.

FOMC held key rates at 5.25%-5.50%

- In a widely expected move, the FOMC unanimously agreed to hold the key Fed funds rate in a target range between 5.25%-5.50%. Key highlights from the statement and press conference include: 1) Economic activity expanded at a **strong** pace in the third quarter. This is compared to September's statement of expanding at a **solid** pace 2) Job gains have moderated (Sep statement: slowed) since earlier in the year but remain strong, and the unemployment rate has remained low. 3) Inflation remains elevated. 4) Tighter financial and credit conditions for households and businesses are likely to weigh on economic activity, hiring, and inflation. Tighter financial conditions were newly added into the statement. 5) In the press conference,

Key Market Metrics

	Level	d/d (%)
Equities		
Dow Jones	33,274.58	0.67
S&P 500	4,237.86	1.05
NASDAQ	13,061.47	1.64
Stoxx Eur 600	436.57	0.67
FTSE 100	7,342.43	0.28
Nikkei 225	31,601.65	2.41
CSI 300	3,571.03	-0.04
Hang Seng	17,101.78	-0.06
Straits Times	3,076.77	0.00
KLCI 30	1,435.33	-0.47
FX		
Dollar Index	106.88	0.21
EUR/USD	1.0570	-0.05
GBP/USD	1.2152	-0.01
USD/JPY	150.95	-0.48
AUD/USD	0.6393	0.88
USD/CNH	7.3357	-0.08
USD/MYR	4.7717	0.18
USD/SGD	1.3681	-0.12
Commodities		
WTI (\$/bbl)	80.44	-0.72
Brent (\$/bbl)	84.63	-3.18
Gold (\$/oz)	1,987.50	-0.34
Copper (\$\$/MT)	8,109.50	-0.01
Aluminum(\$/MT)	2,236.50	-0.67
CPO (RM/tonne)	3,560.00	-1.93

Source: Bloomberg, HLBB Global Markets Research
 * Dated as of 31 Oct for CPO

Chair Jerome Powell said that the FOMC is attentive to the increase in longer-term term yields and a persistent change in tightening of broader financial conditions can have implications for the path of monetary policy.

- The ISM Manufacturing continued to contract and at a faster rate in October, unexpectedly dropping to 46.7 (Sep: 49.0) and with only one of the biggest manufacturing industries reporting growth. Demand remains soft, but production execution is stable compared to September as companies continue to manage outputs, material inputs and more aggressively, labor cost.
- In a sign of a still resilient labour market, the increase in private sector employment according to ADP picked up to +113k in October (Sep: +89k), while the number of job openings, according to JOLTS, topped forecasts at 9.6k in September (Aug: 9.5k). Job openings increased in accommodation & food services and in arts, entertainment & recreation, while for the former, leisure & hospitality as well as education & health care drove hiring. Nonetheless pay growth slowed to its 2-year low, with job-stayers reporting a 5.7% y/y increase and job-changers at +8.4% y/y.
- Mortgage applications declined for the third straight week by 2.1% w/w for the week ended 27-October (20-Oct: -1.0% m/m) as mortgage rates remained elevated. The purchase index continued to fall (-1.4% vs -2.2% w/w), while the refinancing index saw a dip of -3.5% w/w (+1.8% w/w). Separate data also showed that construction spending matched expectations to slow to +0.4% m/m in September (Aug: +1.0% m/m) as investment into residential construction slowed to +0.6% m/m while spending on manufacturing construction projects fell 0.4% m/m.

China Caixin Manufacturing PMI back to contractionary level; PMIs remained contractionary by and large except in the US

- The final US Manufacturing PMI was left unchanged at 50.0 in October (Sep: 49.8), its highest since April amid a renewed rise in new order inflows and firmer output growth. Nonetheless, the employment sub-index recorded its first fall since July 2020.
- The final UK Manufacturing PMI was revised downwards by 0.4pps to 44.8 in October (Sep: 44.3). Risks to the outlook remain skewed to the downside as business optimism dipped to a 10-month low and manufacturers cut employment, purchasing and inventories.
- The final headline au Jibun Bank Japan Manufacturing PMI was revised upwards by 0.2ppts to 48.7 in October (Sep: 48.5), a reading indicative of a modest deterioration in operating conditions. The survey recorded its first decline in employment since early-2021 but confidence remains high that growth will return in 2024.
- Caixin China Manufacturing PMI signalled a renewed deterioration in overall manufacturing conditions, albeit marginal in October. The index unexpectedly fell back below 50 to 49.5 (Sep: 50.6) as firms recorded a fresh fall in production amid slower growth in sales due to the external sector. Employment also fell at a quicker pace, while manufacturers signalled the quickest increase in average input prices since January.
- Malaysia's PMI was unchanged at 46.8 in October as firms continued to struggle with demand weakness, both at home and abroad. The ongoing depletion of backlogs of work reached its peak during the month, while cost inflation quickened, but remained relatively muted.
- Vietnam's PMI dipped to 49.6 in October (Sep: 49.7), the second monthly deterioration. New orders continued to rise, but only at a modest pace. Other

notable developments include more positive news on the employment front as a seven-month period of job cutting came to an end and there was further intensification of inflationary pressures due to higher oil prices and weak currency.

UK's Nationwide House Price index strengthened

- October saw the Nationwide House Price index unexpectedly rising by 0.9% m/m (Sep: +0.1% m/m) while on a y/y basis, the contraction narrowed to -3.3% (Sep: -5.3% y/y) in September. All in, housing market activity has and is expected to remain weak as affordability remains stretched. Market interest rates have moderated but they are still well above the 2021 lows. According to Nationwide, the uptick in house prices most likely reflects limited supply and that there is little sign of forced selling.

Building approval in Australia fell m/m

- Building approvals worsened more than expected to -4.6% m/m in September (Aug: +8.1% m/m) as approvals for private sector houses dropped 4.6% m/m (Aug: +7.2% m/m).

Hong Kong retail sales still logging double-digit growths

- Thanks to a revival in inbound tourism and consumer spending, retail sales continued to register double digit-growth, albeit softer than expected at +13.0% y/y in October (Sep: 13.7% y/y). Driving sales were discretionary items like jewellery, watches & clocks & valuable gifts as well as electrical goods and other consumer durable goods. Moving forward, continued recovery in tourism, improvement in household income and the Government's various support initiatives, including the "Night Vibes Hong Kong" Campaign, should continue to support sales.

House View and Forecasts

FX	This Week	4Q-23	1Q-24	2Q-24	3Q-24
DX	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
2-Nov	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%
3-Nov	AU Judo Bank Australia PMI Services (Oct F)	47.6
	SI S&P Global Singapore PMI (Oct)	54.2
	HK S&P Global Hong Kong PMI (Oct)	49.6
	AU Retail Sales Ex Inflation QoQ (3Q)	-0.50%
	CH Caixin China PMI Services (Oct)	50.2
	SI Retail Sales SA MoM (Sep)	1.70%
	UK S&P Global/CIPS UK Services PMI (Oct F)	49.2
	EC Unemployment Rate (Sep)	6.40%
	US Change in Nonfarm Payrolls (Oct)	336k
	US Unemployment Rate (Oct)	3.80%
	US Average Hourly Earnings MoM (Oct)	0.20%
	US Average Weekly Hours All Employees (Oct)	34.4
	US S&P Global US Services PMI (Oct F)	50.9
	US ISM Services Index (Oct)	53.6

Source: Bloomberg

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