Global Markets Research

Daily Market Highlights

4 April: UST yields fell sharply on reduced rate hike fears

Softer than expected US PCE prices; Eurozone's core-CPI hit all time high of 5.7%

China PMIs beat expectations; services sector at a 12-year high

Oil prices rallied further on supply concerns; aggravated by OPEC+ production cut

- Wall Street rose sharply on Friday with the S&P 500 adding 1.4% d/d, the Nasdaq Composite advancing 1.7% d/d and the Dow Jones Industrial Average gaining 1.3% d/d. All the primary S&P 500 sectors were in the green after Fed's preferred inflation gauge rose less than expected. In Fed speak, New York Federal Reserve President John Williams said that he will be particularly focused on assessing the evolution of credit conditions and their effects on the outlook for growth, employment, and inflation.

- In Europe, Stoxx 600 index closed up 0.7% d/d after Eurozone's consumer prices cooled, while FTSE 100 added 0.2% d/d. In Asia, Nikkei 225 rose 0.9% d/d as Tokyo's inflation print continued to show lower levels from its recent peak of 4.4% d/d seen in January. Hang Seng, meanwhile, closed 0.5% d/d higher as Chinese PMIs data beat expectations.

- Treasury yields closed sharply lower on reduced fears of rate hikes and quarter-end demand. The 10Y Treasury yield fell 8bps to 3.47%, while the yield on the 2Y dipped 9bps to 4.03%. The 2Y European bond yields fell between 0-9bps, while the 10Y fell 3-14bps.

- The Dollar Index bounced up 0.4% d/d to 102.51, with the EUR and GBP weakening 0.6% and 0.4% d/d against USD respectively. Currencies in Asia closed mixed. CNH strengthened slightly less than 0.1% d/d, while JPY weakened by 0.1% d/d to 132.86. MYR appreciated by 0.1% d/d to 4.4152, but SGD depreciated by 0.3% d/d to 1.3309.

- The West Texas Intermediate and Brent jumped by 1.8% and 0.6% d/d respectively as supplies in the Kurdistan region remained off line and after US PCE prices came below expectations. In an unexpected move, OPEC+ members announced an oil production cut of more than 1m barrels per day over the weekend as a "precautionary measure aimed at supporting the stability of the oil market" and abandoning its previous assurance that it would hold oil supply steady. Saudi Arabia led the cartel, pledging its own 500k barrel-a-day supply reduction. The initial impact will be felt starting next month and will add to about 1.1m barrels per day. From July, due to the extension of Russia's existing supply cut, this will translate to about 1.6m barrels a day less of crude in the market. Price of gold, meanwhile, eased by 0.6% d/d.

US headline and core PCE prices decelerated

- The headline and core Personal Consumption Expenditure (PCE) prices rose less than expected by +5.0% y/y (Jan: +5.3% y/y) and +4.6% y/y (Jan: +4.7%

Key Market Metrics

	Level	d/d (%)
Equities		
Dow Jones	33,274.15	1.26
S&P 500	4,109.31	1.44
NASDAQ	12,221.91	1.74
Stoxx Eur 600	457.84	0.66
FTSE 100	7,631.74	0.15
Nikkei 225	28,041.48	0.93
Hang Seng	20,400.11	0.45
Straits Times	3,258.90	0.05
KLCI 30	1,422.59	-0.14
FX		
Dollar Index	102.51	0.35
EUR/USD	1.0839	-0.61
GBP/USD	1.2337	-0.40
USD/JPY	132.86	0.12
AUD/USD	0.6685	-0.40
USD/CNH	6.8703	-0.07
USD/MYR	4.4152	-0.13
USD/SGD	1.3309	0.25
Commodities		
WTI ($/bbl)	75.67	1.75
Brent ($/bbl)	79.77	0.63
Gold ($/oz)	1,969.00	-0.57
Copper ($$/MT)	8,993.00	-0.09
Aluminum($/MT)	2,413.00	1.13
CPO (RM/tonne)	4,151.00	1.74

Source: Bloomberg, HLBB Global Markets Research y/y) respectively in February. Nevertheless, the stickiness of services inflation partly due to wage growth risks keeping price growth above the Fed's target for a foreseeable future. Services inflation accelerated to +5.7% y/y (Jan: +5.6% y/y). In our view, the faster rate than expected disinflation, coupled with concerns over tightened credit conditions after the SVB collapse, suggests that the peak for fed funds rate is near and our expectations is that the Federal Reserve will raise rates by another 25bps to end the year at 5.00%-5.25%.

- The report also suggests resilient but more discerning consumer spending, as seen in personal spending decelerating more than forecast by +0.2% m/m (Jan: +2.0% m/m), largely pulled down by durable goods. Yet, the savings rate rose to 4.6% (Jan: 4.4%) while personal income grew more than expected by +0.3% m/m (Jan: +0.6% m/m).
- The final reading of University of Michigan's consumer sentiment was revised downwards by 1.4ppts to 62.0 in March (Feb: 67.0). According to the accompanying statement, the month's turmoil in the banking sector had limited impact on consumer sentiment, which was already exhibiting downward momentum prior to the collapse of SVB. Year-ahead inflation expectations were also shaved by 0.2ppts to 3.6% (Feb: 4.1%), the lowest reading since April 2021, but long-run inflation expectations were revised upwards by 0.1ppts to 2.9% (Feb: 2.9%).
- The Chicago Business Barometer unexpectedly inched up to 43.8 in March (Feb: 43.6). Despite increasing for the first time since December 2022, the headline index signalled a seventh consecutive month of contraction. Of note, new orders and supplier deliveries declined, with the latter recording the steepest fall since February 2022.

Eurozone's core-CPI hit all time high of 5.7%, unemployment rate steady at 6.6%

- Eurozone inflation rate softened sharper than expected to +6.9% y/y in March (Feb: +8.5% y/y), driven mainly by large effects from the energy sector. Nevertheless, we do not expect this data to give strong enough evidence that the ECB will consider pausing its rate-hiking cycle especially since other components of inflation remained stubbornly high. Food prices continued to increase rapidly by 15.4% y/y (Feb: +15.0% y/y), while services inflation picked-up again to 5.0% y/y (Feb: +4.8% y/y). This sent the core-CPI to an all-time record of 5.7% y/y (Feb: 5.6% y/y). The labour market, meanwhile, remained robust and steady with unemployment rate remaining steady at 6.6% for the month of February.

UK 4Q GDP revised up to +0.1% q/q

- UK's 4Q GDP was revised upwards by 0.1ppts to +0.1% q/q in 4Q (3Q: -0.1% q/q), in its final print. The higher growth during the quarter reflects a pick-up in household spending by +0.2% q/q (3Q: -0.3% q/q).
- Nationwide House Price fell more than expected and at the largest pace since July 2009 by 3.1% y/ in March (Feb: -1.1% y/y). Moving forward, it will be hard for the market to regain much momentum in the near term since consumer confidence remains weak and household budgets are under pressure from high inflation and mortgage rates.
- Lloyd's Business Barometer climbed to a 10-month high of 32 in March (Feb: 21) with economic optimism and trading prospects bolstering firms. Of note, while hiring intentions improved, there are tentative signs of easing wage pressures.

Australia's Manufacturing PMI below 50; Private credit unexpectedly decelerated to +0.3%

- The Judo Bank Australia Manufacturing PMI fell to 49.1 in March (Feb: 50.5), the first contraction since May 2020 but an upward revision from its first estimate of 48.7. There are some emerging concerns about the economic outlook, with the future output index falling in each of the last two months. Manufacturers confidence has also fallen to 63.6 in March, well below the long-term average level of 74.4 and is the lowest reading we have seen since the initial COVID-19 lockdowns back in 2020.
- Separately, lending to Australia's private sector unexpectedly decelerated to +0.3% m/m in February (Jan: +0.4% m/m), led by other-personal as well as business sectors. On a positive note, the CoreLogic House Price Index rebounded to grow by 0.8% m/m in March (Feb: -0.1% m/m).

Japan's unemployment rate inched up, retail sales and IPI beat expectations

- Tokyo's headline and core inflation rate retreated less than expected by +3.3% y/y in March (Feb: +3.4% y/y) and +3.2% y/y (Feb: 3.3% y/y) in March. The reading, which usually heralds a similar trend in nationwide inflation data indicates that while government subsidies on utilities helped ease some cost pressures, high food and household goods prices kept inflation elevated.
- Economic indicators on the national front were mixed. Labour market condition worsened slightly in February, with the unemployment rate unexpectedly increasing to 2.6% (Jan: 2.4%) and the jobs to applicant ratio unexpectedly edging down to 1.34 (Jan: 1.35). Despite this, retail sales rose more than expected by 1.4% m/m for the same month (Jan: +0.8% m/m) and the fastest pace in over two years. Industrial output also rebounded more than expected by 4.5% m/m (Jan: -5.3% m/m) but this is partly due to a slump in January due to the Lunar New Year holiday. Housing starts meanwhile, fell less than forecast by 0.3% y/y (Jan: +6.6% y/y).

China PMIs beat expectations, with the services sector at a 12-year high

- China's rapid economic recovery remained robust in March, as highlighted by the business sentiment in the services and construction sectors hitting a 12-year high and suggesting that the economy is gaining traction. The official non-manufacturing PMI unexpectedly rose to 58.2 in March (Feb: 56.3), while the manufacturing PMI came above consensus forecast but eased to 51.9 (Feb: 52.6). As it is, the pick-up in the services sector reflects the local government's efforts to promote consumption and household's willingness to spend and travel. Warmer weather also boosted construction activities during the month.

Growth in Hong Kong retail sales doubled consensus forecast

- Hong Kong's retail sales jumped more than expected by +31.3% y/y in February (Jan: +6.9% y/y), the fastest pace since February 2010. Sales were boosted by Lunar New Year spending as well as improved consumer sentiment and a sharp rebound in visitor arrivals.

House View and Forecasts

FX	This Week	1Q-23A	2Q-23	3Q-23	4Q-23
DXY	101-103	103	104	103	102
EUR/USD	1.08-1.10	1.08	1.06	1.06	1.06
GBP/USD	1.22-1.25	1.23	1.21	1.21	1.21
USD/JPY	130-134	133	132	132	131
AUD/USD	0.66-0.68	0.67	0.69	0.70	0.71
USD/MYR	4,38-4.44	4.42	4.36	4.30	4.25

USD/SGD	1.32-1.34	1.33	1.31	1.29	1.27

Rates, %	Current	1Q-23A	2Q-23	3Q-23	4Q-23
Fed	4.75-5.00	4.75-5.00	5.00-5.25	5.00-5.25	5.00-5.25
ECB	3.50	3.50	4.00	4.00	4.00
BOE	4.25	4.25	4.25	4.25	4.25
BOJ	-0.10	-0.10	-0.10	-0.10	-0.10
RBA	3.60	3.60	3.85	3.85	3.85
BNM	2.75	2.75	3.00	3.00	3.00

Source: HLBB Global Markets Research

Up Next

Date	Events	Prior
3-April	AU Judo Bank Australia PMI Mfg (Mar F)	48.7
	JN Tankan Large Mfg Index (1Q)	7
	JN Jibun Bank Japan PMI Mfg (Mar F)	48.6
	MA S&P Global Malaysia PMI Mfg (Mar)	48.4
	VN S&P Global Vietnam PMI Mfg (Mar)	51.2
	AU Melbourne Institute Inflation MoM (Mar)	0.40%
	AU Home Loans Value MoM (Feb)	-5.30%
	AU Building Approvals MoM (Feb)	-27.60%
	CH Caixin China PMI Mfg (Mar)	51.6
	EC S&P Global Eurozone Manufacturing PMI (Mar F)	47.1
	UK S&P Global/CIPS UK Manufacturing PMI (Mar F)	48.0
	SI Purchasing Managers Index (Mar)	50
	US S&P Global US Manufacturing PMI (Mar F)	49.3
	US ISM Manufacturing (Mar)	47.7
4-April	AU RBA Cash Rate Target	3.60%
	EC PPI YoY (Feb)	15.00%
	US Factory Orders (Feb)	-1.60%
	US JOLTS Job Openings (Feb)	10824k
	US Durable Goods Orders (Feb F)	-1.0%
	US Cap Goods Orders Nondef Ex Air (Feb F)	0.20%

Source: Bloomberg

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