3 November 2023

Global Markets Research

Daily Market Highlights

3 Nov: Relief market rally amid rate pause decisions

Extended rate pauses sent cheers to markets; equities rallied while bond yields and DXY retreated

BOE voted 6-3 to keep rates on hold; not closing the door for more rate hikes ahead

BNM paused; neutral policy statement signalled extended pause in 2024

- Global financial markets rallied on rate pause decisions, first from the FOMC and followed through to the BOE. The seemingly dovish pause by both the major central banks offered much needed relieves over fear that further rate hikes would lead to severe economic fallout. Although both the Fed and BOE have not closed the door for more hikes going forward, investors are not convinced of more increases going forward. Market pricing for a hike at the next meeting in December stood at a mere 22% for the Fed and 20% for the BOE.

- Equities and bonds rallied whilst the DXY further retreated amid risk on sentiments. The three benchmark US equity indices jumped 1.7-1.9% on broad rally across led by energy and consumer discretionary counters. European and Asian equities also ended in the green earlier. The FTSE100, UK gilts and the sterling all advanced after the BOE announcement to keep rates unchanged and pushed back expectations for a rate cut. Asian markets are poised to open higher this morning following the positive vibes from overnight markets.

- In the sovereign bond space, broad advances pushed yields down again. The benchmark UST yields fell 2-13bps from the 5Y onwards (the 2s added 5bps to 4.99%) while European bond yields added 5-10bps. The 10Y UK gilt rallied pushing yields down 12bps to 4.38%.

- The Dollar Index shed 0.5% d/d to 106.15, as the greenback weakened against all G10s and major Asian currencies (save for the HKD and PHP). The USD continued to lose its shine in Asian trading yesterday post-FOMC, slipping to a low of 105.81 after BOE's announcement before recouping its intraday losses to close above the 106s, the big figure it has been hanging on in the last eight trading days. The GBP strengthened 0.4% to 1.2203 as at yesterday's close. Commodity currencies led gainers in the G10 space in the midst of positive risk sentiments and gains in oil prices. The CNH, MYR and SGD strengthened 0.1-0.5% d/d to 7.3266, 4.7502, and 1.3648 against the USD respectively. BNM's neutral policy rhetoric signalling an extended OPR pause helped supported the MYR.

BNM stood pat; neutral statement reinforced our view for an extended pause in OPR through 2024

- BNM left the OPR unchanged at 3.00% as widely expected. This marked its third straight meeting of a rate pause, as BNM assessed that the growth and

Key Market Metrics

	Level	d/d (%)
Equities		
Dow Jones	33,839.08	1.70
S&P 500	4,317.78	1.89
NASDAQ	13,294.19	1.78
Stoxx Eur 600	443.47	1.58
FTSE 100	7,446.53	1.42
Nikkei 225	31,949.89	1.10
CSI 300	3,554.19	-0.47
Hang Seng	17,230.59	0.75
Straits Times	3,082.49	0.00
KLCI 30	1,439.77	0.31
FX		
Dollar Index	106.15	-0.45
EUR/USD	1.0622	0.49
GBP/USD	1.2203	0.42
USD/JPY	150.45	-0.33
AUD/USD	0.6434	0.64
USD/CNH	7.3266	-0.12
USD/MYR	4.7502	-0.45
USD/SGD	1.3648	-0.24
Commodities		
WTI ($/bbl)	82.48	1.95
Brent ($/bbl)	86.96	2.43
Gold ($/oz)	1,993.30	0.10
Copper ($$/MT)	8,179.50	0.88
Aluminum($/MT)	2,234.50	-0.16
CPO (RM/tonne)	3,606.00	1.29

Source: Bloomberg, HLBB Global Markets Research
** Dated as of 1 Nov for CPO*

inflation outlook pens out largely as expected with little change in both upside and downside risks.

- The key takeaway from the statement is BNM's comment that the persistently stronger US dollar arising from expectations for a higher for longer interest rate environment in the US has affected both major as well as emerging market currencies including the Ringgit, but these are not expected to derail Malaysia's growth prospects. The central bank continues to assure that domestic financial conditions remain conducive to sustain credit growth. This should quell speculations that BNM would resort to raising interest rates to stem currency weakness. We therefore expect BNM to keep OPR unchanged at 3.00% for an extended period likely through 2024.

BOE voted 6-3 to keep rates unchanged at 5.25% as widely expected

- The Bank of England (BOE) left its bank rates unchanged at 5.25% as widely expected in anticipation of further easing in inflation. The decision was however not unanimous, with three out of nine policy makers opted for 25bps hike. Its projection for inflation has been revised lower, falling to 4.75% in 4Q23, 4.5% in 1Q24, and 3.75% in 2Q24 on the back of lower energy, core goods and food price inflation. The BOE projects that CPI will most likely return to the 2.0% target only towards the end of 2025. Risk to inflation remains tilted to the upside as second round price and wage effects are expected to take longer to unwind. The BOE also acknowledged there are signs of impact of tighter monetary policy on the labour market and momentum in the real economy. Similar to the Fed rhetoric, BOE also indicated that monetary policy will likely need to be restrictive for an extended period of time, and that further tightening would be required if there were evidence of more persistent inflationary pressures. We maintain our house view that the BOE would continue to pause before cutting in mid-2024.

US initial jobless claims rose to 217k; factory orders quickened to +2.8% m/m in September

- Initial jobless claims unexpectedly rose 5k to 217k for the week ended 28-October while continuing claims also rose more than expected from a revised 1783k to 1818k for the week ended 21-October. Other labour market indicators were however more positive. Nonfarm productivity improved more than expected to 4.7% in 3Q (2Q: 3.6%), the most in three years but unit labour costs unexpectedly fell 0.8% in 3Q (2Q: 3.2% revised). The mixed labour market data suggests there are pockets of weakness in the US labour market that supported the Fed rate pause a day ago.
- Factory orders grew at a faster than expected pace of 2.8% m/m in September (Aug: +1.0% revised), its best since Jan-2021 spurred by a sharp turnaround in capital and durable goods orders. However, orders ex-transport slowed to 0.8% (Aug: +1.5%), pointing to more subdued growth in the underlying orders. Durable goods orders meanwhile rebounded to increase slightly less than the preliminary estimate of 4.7% m/m in September, by 4.6% (Aug: -0.1% m/m). Ex transportation, orders grew a much slower 0.4% during the month.

Eurozone PMI manufacturing remained contractionary for the 16th straight month

- Eurozone Manufacturing PMI eased less than initially estimated to 43.1 in October final print (Sept: 43.4), but remaining in contractionary levels since July last year, offering no signs the Euro region is emerging from its economic slump. New orders fell further in October (39.0 vs 39.2), reaffirming the case of further weakness in the region going forward.

Australia's home loans moderated; trade surplus narrowed as exports contracted, imports rebounded

- Home loans slowed more than expected to +0.6% m/m in September (Aug: +2.4% m/m) and remains below the all-time highs seen throughout the COVID-19 pandemic. Nonetheless, since February, the value of new housing loan commitments has trended upwards, with total growth in investor loans exceeding owner-occupier loans.
- Trade surplus narrowed more than expected to $6.8bn in September (Aug: $10.2bn) as export growth turned contractionary at -1.4% m/m while imports rebounded to +7.5% m/m (Aug: +4.6% m/m and -0.8% m/m). The latter was driven by industrial transport equipment and the former, non-monetary gold.
- Final PMI services confirmed activities pulled back sharply to a contraction level of 47.9 in October (Sept: 51.8), although this was revised up from the preliminary estimate of 47.6. Employment index fell to 51.5 from 53.0 in September while prices changed fell to its lowest since Mar-23.

Singapore PMI inched up to 50.2 in October

- PMI notched 0.1pt up to 50.2 in October, underpinned by a similar move in the electronics sector index (49.9 vs 49.8). This marked its first back-to-back above 50-reading since August last year, driven by broad-based improvement including new orders, new exports, output, and employment.

House View and Forecasts

FX	This Week	4Q-23	1Q-24	2Q-24	3Q-24
DXY	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
3-Nov	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
6-Nov	AU Melbourne Institute Inflation YoY (Oct)	5.70%
	JN Jibun Bank Japan PMI Services (Oct F)	51.1
	EC HCOB Eurozone Services PMI (Oct F)	47.8
	EC HCOB Eurozone Composite PMI (Oct F)	46.5
	EC Sentix Investor Confidence (Nov)	-21.9
	UK S&P Global/CIPS UK Construction PMI (Oct)	45

Source: Bloomberg

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