6 December 2023

Global Markets Research

Daily Market Highlights

6 Dec: Moody's cut China outlook to negative

Moody's reaffirmed China's A1 rating but cut its outlook to negative on rising debt risk

RBA maintained cash rate at 4.35% and saw limited wage growth; AUD weakened

US JOLTS job openings fell more than expected; ISM-Services topped street estimates

- US equity markets closed mostly in the red despite a rebound in tech stocks and another leg down for UST yields. The 30-stock Dow and S&P 500 closed down 0.1-0.2% d/d, while Nasdaq climbed 0.3% d/d. In corporate news, CVS added 3.7% d/d after the pharmacy chain said it was moving to a simpler pricing model to sell drugs.
- European markets closed mixed but Barclays shares slid 2.5% d/d after the Qatar wealth fund moved to sell its stake. Asian markets fell across the board as CSI 300 and Hang Seng dropped to its 4Y and 1Y lows respectively.
- Weaker than expected US JOLTS data sent the 2Y UST yields down 6bps to 4.58% and the 10Y sliding 9bps to 4.17%. Led by UK gilts, 10Y European bond yields plunged between 8-17bps.
- The Dollar found some strength as the markets priced a more easing stance from the ECB than the Fed. This comes after ECB hawk Isabel Schnabel commented that further rate hikes are unlikely. DXY closed up 0.3% d/d to 104.05, while European currencies depreciated between 0.3-0.4% d/d. AUD lost 1.0% d/d after the RBA kept its policy rates steady. In Asia, CNH weakened 0.3% d/d after Moody's cut its outlook to negative. MYR and SGD, meanwhile, also weakened between 0.2-0.3% d/d.
- Oil prices softened further, falling between 1.0-1.1% d/d as traders remained unconvinced that the new OPEC+ export cuts will materially tighten the market and on signs that supplies are outstripping demand. Saudi Energy Minister has said earlier that the OPEC+ cuts could "overcome" an expected inventory build-up in 1Q and could be extended if needed. On Tuesday, Saudi Arabia lowered its official crude selling price to Asia next month, a sign of market weakness.

RBA maintained cash rate target at 4.35%

- As widely expected, the Reserve Bank of Australia (RBA) kept the cash rate target unchanged at 4.35%. Key highlights from the statement include: 1) Whether further tightening is required will depend upon the data and the evolving assessment of risks. 2) Medium-term inflation expectations have been consistent with the inflation target. 3) Wages growth is not expected to increase much further and remains consistent with the inflation target. 4) Outlook for household consumption remains uncertain. 5) There are still significant uncertainties around the outlook due to the Chinese economy, implications of the conflicts abroad and lagged impact on how firms' pricing decisions and wages will respond to the slower growth in the economy.

Key Market Metrics

	Level	d/d (%)
Equities		
Dow Jones	36,124.56	-0.22
S&P 500	4,567.18	-0.06
NASDAQ	14,229.91	0.31
Stoxx Eur 600	467.62	0.40
FTSE 100	7,489.84	-0.31
Nikkei 225	32,775.82	-1.37
CSI 300	3,394.26	-1.90
Hang Seng	16,327.86	-1.91
Straits Times	3,077.16	-0.22
KLCI 30	1,449.46	-0.11
FX		
Dollar Index	104.05	0.33
EUR/USD	1.0797	-0.36
GBP/USD	1.2595	-0.30
USD/JPY	147.15	-0.04
AUD/USD	0.6552	-1.03
USD/CNH	7.1734	0.34
USD/MYR	4.6660	0.20
USD/SGD	1.3411	0.25
Commodities		
WTI ($/bbl)	72.32	-0.99
Brent ($/bbl)	77.20	-1.06
Gold ($/oz)	2,018.50	-0.28
Copper ($$/MT)	8,334.50	-1.29
Aluminum($/MT)	2,160.00	-1.01
CPO (RM/tonne)	3,688.00	-0.89

Source: Bloomberg, HLBB Global Markets Research
** Dated as of 4 Dec for CPO*

Moody's reaffirmed China's A1 rating, cut outlook to negative

- Moody's downgraded its outlook on China's government credit ratings to negative from stable, while retaining China's "A1" long-term rating on the country's sovereign bonds. The outlook change reflects: 1) Rising evidence of financial support by the government for distressed local governments and state-owned enterprises which could diminish China's fiscal, economic and institutional strength. 2) Increased risks related to structurally and persistently lower medium-term economic growth and the ongoing downsizing of the property sector. The rating agency is expecting the economy to slow to 4.0% in 2024 and 2025 and average 3.8% from 2026 to 2030.

Overall upticks in PMI services

- The final S&P Global US Services PMI was left unchanged at 50.8 in November (Oct: 50.6). The latest data signalled the fastest expansion in output since July, albeit only marginal and slower than the long-run series average. Of note, employment growth slowed during the most while cost inflation was at its weakest since October 2020.
- The final Eurozone Services PMI remained contractionary in November despite the upward revision by 0.5ppts to 48.7 (Oct: 47.8). The modest improvement of the activity index does not leave much room for optimism for a swift recovery in the immediate future, as the new business index shrank for the fifth month. Performance across the 4 major economies was also varied. Spain's service sector grew at a moderate pace, France witnessed a rapid contraction, while Germany and Italy found themselves in the realm of stagnation.
- The final UK Services PMI was revised upwards by 0.4ppts to 50.9 in November (Oct: 49.5). The data points to a modest rebound in activity and ended a 3-month period of decline. Rising output reflected a slight rise in new orders, but respondents continued to report subdued demand and low confidence among clients.
- The final Japan PMI Services was revised downwards by 0.9ppts to 50.8 in November (Oct: 51.6). This is the weakest growth since November 2022, but after a year of strong growth. New business rose at a slightly faster rate, employment growth was maintained and the 12-month outlook improved and was among the strongest on record.
- The Caixin China Services PMI rose more than expected to 51.5 in November (Oct: 50.4). Though modest by historical standards, upturns in both activity and new work were the best seen for three months amidst reports of firmer market conditions. Companies were strongly optimistic around the year-ahead outlook, but employment fell fractionally, as some firms maintained a cautious approach to hiring.
- The Singapore Composite PMI increased to 55.8 in November (Oct: 53.7), its fastest pace of expansion since November 2022. New business inflows rose at a faster pace, while forward-looking indicators including the backlogs of work and future output indices also hinted at sustained growth heading into 2024.
- The Hong Kong Composite PMI rose to 50.1 in November (Oct: 48.9), ending a four-month contraction streak. The stabilising operating condition was supported by improvements across both new business and activity gauges. Pessimism among firms was also greatly reduced, but some margin pressures were observed.

Weaker than expected JOLTS job openings for the US; ISM-Services improved more than expected

- JOLTS Job Openings fell more than expected to 8.7m in October (Sep: 9.4k). This is the lowest since March 2021, adding evidence to a cooling labour market. The largest declines in opening were seen in health care & social assistance, finance & insurance as well as real estate & rental and leasing. The quits rate held steady at 2.3% for the fourth month, but down from its peaks of 3.0% in April 2022. A moderation in quit rate suggests that Americans are feeling less confident in their ability to find jobs or a smaller wage premium on offer for job switchers.
- ISM Services Index improved more than expected to 52.7 in November (Oct: 51.8), driven by an increase in business activity and a slight employment growth. Respondents remained concerned about inflation, interest rates and geopolitical events, while rising labor costs and labor constraints remained a challenge. As it is, the services sector remains a source of strength for the US economy and continues to suggest a soft landing for the economy.

Eurozone's PPI slowed; inflation expectations held steady

- Price indicators reaffirm an easing trend moving forward and our expectations that the ECB will maintain its policy rates unchanged next week. Matching expectations, producer price inflation (PPI) slowed for the second month to +0.2% m/m in October (Sep: +0.5% m/m) mainly due to energy prices. Stripping energy, core was unchanged at -0.2% m/m. The ECB 1Y and 3Y inflation expectations, meanwhile, held steady at 4.0% and 2.5% in October. While the former matched its 5-month high previously, the latter remained well below the perceived past inflation rate.

Singapore's retail sales worsened more than expected

- Retail sales worsened more than expected into contractionary territory at -0.1% y/y in October (Sep: +0.8% y/y). Weighing on sales were an 8.1% y/y fall in sales of recreational goods specifically for sporting goods, while sales of furniture & household equipment as well as in department stores also dropped. As it is, sales are expected to be lumpy in 4Q as consumers might front-load some spending given the impending hike in GST rate.

House View and Forecasts

FX	This Week	4Q-23	1Q-24	2Q-24	3Q-24
DXY	101-105	107	107	106	105
EUR/USD	1.07-1.10	1.04	1.04	1.04	1.05
GBP/USD	1.24-1.28	1.20	1.20	1.20	1.21
USD/JPY	145-150	150	147	144	141
AUD/USD	0.65-0.68	0.64	0.65	0.66	0.67
USD/MYR	4.63-4.69	4.74	4.69	4.65	4.60
USD/SGD	1.32-1.35	1.38	1.37	1.35	1.34

Rates, %	Current	4Q-23	1Q-24	2Q-24	3Q-24
Fed	5.25-5.50	5.25.5.50	5.25.5.50	5.25.5.50	5.00-5.25
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	4.35	4.35	4.35	4.35	4.10
BNM	3.00	3.00	3.00	3.00	3.00

Source: HLBB Global Markets Research

Up Next

Date	Events	Prior
6-Dec	AU GDP SA QoQ (3Q)	0.40%
	EC Retail Sales MoM (Oct)	-0.30%
	US MBA Mortgage Applications	0.30%
	US ADP Employment Change (Nov)	113k
	US Trade Balance (Oct)	-$61.5b
	US Unit Labor Costs (3Q F)	-0.80%
7-Dec	JN Leading Index CI (Oct P)	108.9
	MA Foreign Reserves (11263)	$110.5b
	EC GDP SA QoQ (3Q F)	-0.10%
	EC Employment QoQ (3Q F)	0.30%
	US Challenger Job Cuts YoY (Nov)	8.80%
	US Initial Jobless Claims	218k
	CH Exports YoY (Nov)	-6.40%

Source: Bloomberg

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