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Global Markets Research
Daily Market Highlights

7 Feb: Stocks closed lower ahead of Powell's interview

US NFP saw bigger than expected gain of 517k; unemployment rate improved to 3.4%

Bostic said earlier that Fed will need to increase interest rates to a higher peak

DXY and UST yields jumped; oil prices rallied on supply disruptions

- US stocks fell Monday as investors wait to see if Fed Chair Jerome Powell will dampen the bullish reaction to his recent remarks amid bets that the Federal Reserve will keep its grip on policy. Fed Bank of Atlanta President Raphael Bostic, meanwhile, had said earlier that January's strong jobs report raised the possibility that the central bank will need to increase interest rates to a higher peak than had previously expected. Dow Jones Industrial Average lost 0.1% d/d, making up some lost ground earlier in the session. The S&P 500 slid 0.6% d/d, while the Nasdaq Composite dropped 1.0% d/d.
- Geopolitical concerns also simmered in the background with the US preparing to impose a 200% tariff on Russian-made aluminium while US-listed Chinese shares tumbled on Washington's decision to shoot down an alleged surveillance balloon from China. A rout in megacaps like Apple, Amazon and Alphabet also weighed on sentiment.
- Stocks in Europe and Asia-Pacific also mostly fell as the stronger-than-expected job report from the US renewed fear that the Federal Reserve has room for more interest rate hikes. Stoxx 600 index and FTSE 100 each fell 0.8% d/d. Hang Seng index fell 2.0% d/d but Nikkei 225 inched up by 0.7% d/d.
- US Treasuries extended their sell-off as traders ramped up their bets on future tightening. The benchmark 10-year yield jumped 11bps to 3.64% and the 2-year yield added 18bps to 4.47%.
- The Dollar Index jumped 0.7% d/d to 103.62, with EUR weakening 0.6%, while GBP slipped 0.3% d/d. JPY depreciated 1.1% d/d after Nikkei newspaper reported that Bank of Japan Deputy Governor Masayoshi Amamiya was being sounded out to be the next governor. Amamiya is considered the most dovish among the contenders. CNH closed flat, while SGD weakened slightly by 0.3% d/d to close at 1.3278. MYR also depreciated by 0.3% d/d vis-à-vis USD to close at 4.2587 on 3 Feb.
- Oil prices settled higher with the WTI and Brent gaining 1.0% d/d and 1.3% d/d respectively. Amongst the factors supporting higher oil prices were the earthquake in Turkey which halted oil flows to the Ceyhan export terminal and a technical fault at Norway giant's Johan Sverdrop field which lowered production. Gold also edged higher by 0.2% d/d

Key Market Metrics

	Level	d/d (%)
Equities		
Dow Jones	33,891.02	-0.10
S&P 500	4,111.08	-0.61
NASDAQ	11,887.45	-1.00
Stoxx Eur 600	457.16	-0.78
FTSE 100	7,836.71	-0.82
Nikkei 225	27,693.65	0.67
Hang Seng	21,222.16	-2.02
Straits Times	3,385.93	0.05
KLCI 30	1,490.47	0.04
FX		
Dollar Index	103.62	0.69
EUR/USD	1.0726	-0.64
GBP/USD	1.2019	-0.31
USD/JPY	132.66	1.12
AUD/USD	0.6883	-0.58
USD/CNH	6.8056	-0.01
USD/MYR	4.2587	0.28
USD/SGD	1.3278	0.32
Commodities		
WTI (\$/bbl)	74.11	0.98
Brent (\$/bbl)	80.99	1.31
Gold (\$/oz)	1,866.20	0.18
Copper (\$\$/MT)	8,871.50	-1.21
Aluminum(\$/MT)	2,533.50	-1.40
CPO (RM/tonne)	3,691.00	-2.87

Source: Bloomberg, HLBB Global Markets Research
* KLCI 30 and USD/MYR as of 3rd Feb

January PMI Services generally improved; but were mostly contractionary

- The final S&P Global US Services PMI stood 46.8 in January (Dec: 44.7), broadly in line with the earlier released 'flash' estimate of 46.6. Weak client demand hampered business activity, as output fell at a solid pace. The rate of contraction, nevertheless, slowed to the slowest in three months. In a separate release, the ISM Services PMI increased more than expected to 55.2 in January (Dec: 49.2). This is the first expansion since May 2020. The Business Activity Index jumped 6.9ppts to 60.4, while the New Orders Index grew after contracting previously.
- The S&P Global Eurozone Services PMI was revised slightly upwards to 50.8 in January (Dec: 49.8). This marked the first reading above the crucial 50.0 mark since July 2022. That said, the increase in business activity was marginal, mainly supported by companies' efforts to clear their backlogs of work.
- The S&P Global/CIPS UK Services PMI was revised upwards to 48.7 in January (Dec: 49.9), the fourth consecutive month of contraction. Although only marginal, the rate of decline for overall business activity was the fastest since January 2021.
- Caixin China General Services Business Activity Index rose more than expected to 52.9 in January (Dec: 48.0). Businesses expressed greater confidence in an economic recovery following the easing of Covid controls, with the gauge for expectations for future activity hitting the highest since February 2011.
- The au Jibun Bank Japan Services Business Activity Index rose to 52.3 in January (Dec: 51.1), the fifth month running above 50.0 as post-COVID recovery continued. Rate of cost inflation also remained elevated while employment fell for the first time in a year.
- The S&P Global Australia Services PMI edged up to 48.6 in January (Dec: 47.3), marking a fourth consecutive month in which the headline index posted below the 50.0 neutral level to signal a sustained contraction in activity, albeit at the slowest rate in three months. The slowdown has translated into a modest easing of inflation pressures although, capacity constraints, particularly in the labour market, are still evident.
- The S&P Global Hong Kong SAR PMI posted its first expansion since August 2022 at 51.2 in January (Dec: 49.6). Easing restrictions led to a renewal of demand growth and business confidence soared to record high. Selling price also steepened.
- The S&P Global Singapore PMI climbed to 51.2 in January (Dec: 49.1). There was renewed growth in orders and output while overall input inflation soared to record. Vendor performance deteriorates sharply amid supply constraints.

US NFP jumped 517k, unemployment rate improved to a five-decade low at 3.4%

- Nonfarm payroll added more than expected jobs of 517k in January (Dec: +260k upwardly revised from +223k). This is more than double the consensus forecast and is higher than an average of 401k in 2022. For the whole of 2022, job gain was revised higher by an average of 26k a month, a sign of a tight labour market than previously thought.
- Job growth was widespread led by gains in leisure and hospitality, professional and business services as well as health care. Employment also increased in government, partially reflecting the return of workers from a strike. As a result, the unemployment rate unexpectedly improved to 3.4% (Dec: 3.5%), its lowest since 1969, while average hourly earnings rose 0.3%

m/m (Dec: +0.4% m/m). The average workweek for all employees on private nonfarm payrolls also increased to 34.7 hours (Dec: 34.4 hours).

Eurozone's PPI unexpectedly increased on energy prices; investors turned less pessimistic; retail sales fell more than expected

- Eurozone's producer price inflation (PPI) unexpectedly increased +1.1% m/m in December (Nov: -1.0% m/m). Prices were primarily driven by turnaround in energy prices while uptick was also seen for prices of durable consumer goods.
- Sentix Investor Confidence came in better than expected to -8 in February (Jan: -17.5). This is the highest since March 2022, signalling that a recession is off the table for the time being. Instead, the scenario of stagnation is gaining in contour. The absence of an energy crisis and the rosy corporate news were the contributory factors to the turnaround from the original recessionary path.
- On a negative note, retail sales fell more than expected by -2.7% m/m in December (Nov: +1.2% m/m). This is the biggest decline since April of 2021 and is a sign that rising prices and interest rates are weighing on consumer spending. As it is, sales of food, drinks and tobacco recorded the biggest fall.

Australia's retail sales fell; inflation gauge accelerated

- Australia's retail sales fell less than expected at -0.2% q/q in 4Q (3Q: +0.3% q/q). Retail sale volumes fell for the first time since 3Q of 2021, with volumes falling across all non-food industries as consumers tightened discretionary spending in response to mounting cost of living pressures. As it is, separate data by the Melbourne Institute of Applied Economic and Social Research showed that the monthly inflation gauge accelerated to +0.9% m/m in Jan (Dec: +0.2% m/m).

Japan's nominal wages jumped at the fastest pace in 26 years

- Japan's nominal wages rose at the fastest pace since 1997, with nominal cash earnings beating consensus forecast at +4.8% y/y in December (Nov: +1.9% y/y). Hefty increases in winter bonuses, specifically, boosted pay pockets. Despite this, household spending fell more than expected by -1.3% y/y for the same month (Nov: -1.2% y/y).

Hong Kong's retail sales unexpectedly rose 1.1%

- Hong Kong's retail sales unexpectedly rose 1.1% y/y in December (Nov: -4.1% y/y in Nov) driven by sales of electrical goods as well as sales of other consumer goods not elsewhere classified. Looking ahead, the return of economic activities from the epidemic to normalcy and an expected increase in inbound visitors should bode well for retail sales performance. Improved labour market conditions will provide further support.

Singapore's retail sales unexpectedly accelerated

- Singapore's retail sales unexpectedly accelerated to +7.4% y/y in December (Nov: +6.5% y/y), fuelled by year-end festivities, tourist spending and shoppers buying big-ticket items ahead of the GST hike. Sales grew for most categories, with food and alcohol experiencing the largest jump followed by wearing apparel and footwear.

House View and Forecasts

FX	This Week	1Q-23	2Q-23	3Q-23	4Q-23
DX	102-105	98.00	96.04	96.04	96.04

EUR/USD	1.05-1.10	1.10	1.11	1.11	1.11
GBP/USD	1.18-1.23	1.26	1.27	1.27	1.27
USD/JPY	130-135	130	128	128	128
AUD/USD	0.67-0.72	0.70	0.72	0.72	0.72
USD/MYR	4.28-4.35	4.31	4.28	4.28	4.28
USD/SGD	1.30-1.35	1.32	1.30	1.30	1.30

Rates, %	Current	1Q-23	2Q-23	3Q-23	4Q-23
Fed	4.50-4.75	4.75-5.00	4.75-5.00	4.75-5.00	4.75-5.00
ECB	3.00	3.50	3.50	3.50	3.50
BOE	4.00	4.25	4.25	4.25	4.25
BOJ	-0.10	-0.10	-0.10	-0.10	-0.10
RBA	3.10	3.35	3.35	3.35	3.35
BNM	2.75	3.00	3.00	3.00	3.00

Source: HLBB Global Markets Research

Up Next

Date	Events	Prior
7-Feb	JN Labor Cash Earnings YoY (Dec)	0.50%
	JN Household Spending YoY (Dec)	-1.20%
	AU Exports MoM (Dec)	0%
	AU Imports MoM (Dec)	-1%
	AU RBA Cash Rate Target	3.10%
	MA Manufacturing Sales Value YoY (Dec)	11.80%
	MA Industrial Production YoY (Dec)	4.80%
	JN Leading Index CI (Dec P)	97.4
8-Feb	US Trade Balance (Dec)	-\$61.5b
	US Consumer Credit (Dec)	\$27.962b
	JN Bank Lending Incl Trusts YoY (Jan)	2.70%
	JN Eco Watchers Survey Current SA (Jan)	47.9
	JN Eco Watchers Survey Outlook SA (Jan)	47
	US MBA Mortgage Applications	-9.00%
	US Wholesale Trade Sales MoM (Dec)	-0.60%
	US Wholesale Inventories MoM (Dec F)	0.10%

Source: Bloomberg

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