Hong Leong Bank

14 November 2023

Global Markets Research

Daily Market Highlights

14 Nov: Tame markets as investors await US CPI print

Markets shrugged off Moody's downgrade on US ratings outlook to "negative"
RBA upped GDP, inflation forecasts; considered holding rates steady in its latest meeting
UK's 3Q GDP growth stagnated; Japan's PPI slowed below 1% for the first time since 2021

- The S&P 500 ended Monday's session slightly down 0.1% d/d as investors awaited the key US CPI data due tonight. Nasdaq also slid 0.2% d/d, but Dow Jones Industrial Average climbed 0.2% d/d lifted by Boeing shares. Market largely shrugged off Moody's ratings outlook downgrade on the US government to "negative" from "stable", pointing to rising risks to the nation's fiscal strength. Just a recap, Moody's had cut US outlook on Friday due to its very large fiscal deficits and partisan gridlock in Washington but reaffirmed America's credit rating at Aaa.
- Elsewhere, European markets mostly made a positive start to the week as investors look ahead to high-stakes talks between the US and China, while Asian markets closed mixed. As it is, futures point to positive openings for the latter today.
- Treasury yields closed flattish despite the Moody's outlook downgrade. The 10Y UST yield fell 1bps to 4.64%, while the 2Y declined 3bps to 5.04%. Trading in 10Y European bond yields was muted, closing mixed between -2 to +1bps.
- DXY closed slightly lower by 0.2% d/d at 105.63 ahead of the CPI print. Amongst its G10 peers; European currencies led gains with notable gainer from GBP (+0.4% d/d) after news of changes to the make-up of the UK government. JPY, on the other hand, depreciated 0.1% d/d to close at 151.72 after weakening as low as 151.91 during the day. Asian currencies closed mixed, while MYR closed 0.3% d/d weaker last Friday at 4.7087.
- Oil prices rose between 1.3%-1.4% d/d after OPEC's monthly market report eased worries about waning demand in the United States and China. OPEC Secretariat also argued that "overblown negative sentiment" is dominating global oil markets.

US consumer sentiment slipped for the 4th month; long-run inflation expectations highest in 12 years

- The University of Michigan Sentiment slipped for the fourth straight month and more than expected to 60.4 in November (Oct: 63.8). Weighing on sentiment was concerns over the high interest rates, long-run economic outlook as well as ongoing wars in Gaza and Ukraine. Year-ahead inflation expectations, meanwhile, inched up to 4.4%, its highest since April, while long-run inflation expectations accelerated to 3.2%, its highest in 12 years due to gas price expectations.

Key Market Metrics

	Level	d/d (%)
Equities		
Dow Jones	34,337.87	0.16
S&P 500	4,411.55	-0.08
NASDAQ	13,767.74	-0.22
Stoxx Eur 600	446.62	0.75
FTSE 100	7,425.83	0.89
Nikkei 225	32,585.11	0.05
CSI 300	3,579.41	-0.20
Hang Seng	17,426.21	1.30
Straits Times	3,106.68	-0.91
KLCI 30	1,445.18	-0.49
FX		
Dollar Index	105.63	-0.22
EUR/USD	1.0698	0.11
GBP/USD	1.2279	0.43
USD/JPY	151.72	0.13
AUD/USD	0.6377	0.25
USD/CNH	7.2928	-0.19
USD/MYR	4.7087	0.33
USD/SGD	1.3590	-0.11
Commodities		
WTI ($/bbl)	78.26	1.41
Brent ($/bbl)	82.52	1.34
Gold ($/oz)	1,950.20	0.65
Copper ($$/MT)	8,167.00	1.64
Aluminum($/MT)	2,223.50	0.38
CPO (RM/tonne)	3,657.50	0.12

Source: Bloomberg, HLBB Global Markets Research
** Dated as of 9 Nov for CPO, 10 Nov for USD/MYR, KLCI, Straits Times*

UK's 3Q GDP beat estimates but slowed to zero growth

- UK's 3Q GDP beat street estimates with no growth in 3Q but slowed from 2Q's +0.2% q/q. On the supply side, the 0.1% q/q contraction in the services sector offset the 0.1% q/q increase in construction output and broadly flat production sector. In expenditure terms, an increase in the volume of net trade was offset by falls in business investment, household spending and government consumption. The latest data offers hope that the economy may dodge a recession despite the strains of higher interest rates on consumers and businesses and reaffirms our view that the BOE will leave its rates unchanged for the rest of 2023.

RBA upped GDP, inflation forecasts; considered holding rates steady

- Key highlights from RBA's latest statement on monetary policy include: 1) At its November meeting, the Board considered the option to continue to hold policy rates steady at 4.10%. 2) While growth in the Australian economy is expected to remain below trend over 2023 and 2024, the economy has proved to be more resilient in recent quarters than previously expected. Hence, the outlook for growth has been revised up to 2.0% in 2023, 1.8% In 2024 and 2.3% in 2025 (Aug forecast: 1.5%, 1.3%, 2.0%). 3) The inflation forecasts out to 2025 have also been revised higher, forecasted at 3.5% by the end of 2024 and 2.9% at the end of 2025. 4) The near-term outlook for employment growth was also revised higher (2024: +1.5%, 2025: +1.4%) because of the stronger outlook for domestic activity and on assumption of stronger growth in the working-age population. 5) Wages growth is forecast to be close to its peak and to decline gradually as the labour market eases.
- Both the CBA Household Spending and Westpac Consumer Sentiment index fell 1.0% m/m in October Sep: +0.3% m/m) and 2.6% m/m in November (Oct: +2.9% m/m). For the latter, the index at 79.9 suggests a deeply pessimistic levels as RBA's November rate put renewed pressure on sentiment. Spending, could nonetheless, be volatile due to the upcoming summer holiday season.

Japan's PPI slowed below 1% for the first time since 2021

- PPI decelerated sharply to its lowest since 2021 to +0.8% y/y in October (Sep: +2.2% y/y). Prices were below consensus estimates and were led by declines in lumber and utilities costs. Still, the yen's recent weakness could put upward pressure on imported inflation. The latest data reaffirms BOJ's view that cost-push inflation will wane and must be replaced by demand driven inflation in order for it to consider ending ultra-low interest rates.

Still anaemic China credit growth

- China's aggregate financing slowed sharper than expected to 1.9tn yuan in October (Sep: 4.1tn yuan) as monthly new loans dropped to 0.7tn yuan (Sep: 2.3tn yuan). Government funding lifted the headline number, while corporate funding weakened to its lowest since August 2022 and household loans fell m/m due to weak sentiment in the housing market, adding to the case for PBoC rate cuts.

Hong Kong's final 3Q GDP left unchanged at +4.1% y/y and +0.1% q/q

- Hong Kong's final GDP was left unchanged at +4.1% y/y in 3Q and rebounded by +0.1% on a q/q basis (2Q: +1.5% y/y and -1.3% q/q). Although an acceleration from 2Q, growth was nevertheless below consensus forecast. Largely driving the stronger y/y growth was investment due to low base effect (+18.4% y/y vs 2Q: -0.5% y/y), while household spending moderated slightly to +6.3% y/y (2Q: +7.7% y/y). In terms of the external sector, exports of goods remained contractionary amidst a weak external environment and increasing geopolitical tension (-8.6% y/y vs. -15.1% y/y), while exports of services expanded notably further thanks to the continued revival of visitor arrivals (+23.9% y/y vs. +22.8% y/y).

- In tandem with the release of the 3Q result, the Government slashed its 2023 forecasts to 3.2% from 4.0%-5.0% previously. Averaging GDP growth of 3.8% for the first 9 months of the year, this suggests that the Hong Kong economy would have to grow by 4.3% in 4Q to reach its target. We believe that this is achievable at this juncture and is in fact, in line with consensus estimates of between 3.2-4.0%.

House View and Forecasts

FX	This Week	4Q-23	1Q-24	2Q-24	3Q-24
DXY	104-108	107	107	106	105
EUR/USD	1.05-1.08	1.04	1.04	1.04	1.05
GBP/USD	1.21-1.24	1.20	1.20	1.20	1.21
USD/JPY	149-153	150	147	144	141
AUD/USD	0.62-0.66	0.64	0.65	0.66	0.67
USD/MYR	4.64-4.73	4.74	4.69	4.65	4.60
USD/SGD	1.34-1.37	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	4.35	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
14-Nov	AU NAB Business Conditions (Oct)	11
	UK Payrolled Employees Monthly Change (Oct)	-11k
	UK Average Weekly Earnings 3M/YoY (Sep)	8.10%
	EC ZEW Survey Expectations (Nov)	2.3
	EC GDP SA QoQ (3Q P)	-0.10%
	EC Employment QoQ (3Q P)	0.20%
	US NFIB Small Business Optimism (Oct)	90.8
	US CPI Ex Food and Energy YoY (Oct)	4.10%
	US Real Avg Weekly Earnings YoY (Oct)	-0.10%
15-Nov	JN GDP SA QoQ (3Q P)	1.20%
	AU Wage Price Index QoQ (3Q)	0.80%
	CH 1-Yr Medium-Term Lending Facility Rate	2.50%
	CH Industrial Production YTD YoY (Oct)	4.00%
	CH Retail Sales YTD YoY (Oct)	6.80%
	CH Fixed Assets Ex Rural YTD YoY (Oct)	3.10%
	CH Surveyed Jobless Rate (Oct)	5.00%
	JN Industrial Production MoM (Sep F)	0.20%
	UK CPI Core YoY (Oct)	6.10%
	UK PPI Input NSA MoM (Oct)	0.40%
	UK House Price Index YoY (Sep)	0.20%
	EC Industrial Production SA MoM (Sep)	0.60%
	EC Trade Balance SA (Sep)	11.9b
	EC EU Commission Economic Forecasts	
	US MBA Mortgage Applications	2.50%
	US Retail Sales Advance MoM (Oct)	0.70%

Hong Leong Bank Berhad
Fixed Income & Economic Research, Global Markets
Level 8, Hong Leong Tower
6, Jalan Damanlela
Bukit Damansara
50490 Kuala Lumpur
Tel: 603-2081 1221
Fax: 603-2081 8936
HLMarkets@hlbb.hongleong.com.my

US PPI Final Demand YoY (Oct)	2.20%
US Empire Manufacturing (Nov)	-4.6

Source: Bloomberg