

14 December 2023

Global Markets Research

Daily Market Highlights

14 Dec: Strongest signal that Fed fund rates have peaked

FOMC maintained policy rates at 5.25-5.50%; Fed dot plot pencilling 3 rate cuts in 2024

Dow Jones closed at its all-time high on dovish Fed; UST yields and DXY sank

UK's GDP shrank 0.3% m/m in October on services; maintain rate pause view for BOE

- US equity markets largely hovered near the flatline until the Federal Reserve unanimously decided to hold rates steady and hinted that they could begin cutting rates next year. The Dow Jones Industrial Average jumped 1.4% d/d to its record high 37,090, while S&P 500 and Nasdaq also surged 1.4% d/d each. The climb essentially reflects optimism that the Fed will orchestrate a soft landing and drove big banking shares like Bank of America and Wells Fargo as well as real estate stocks like Home Depot up.
- Elsewhere, the European and Asian markets closed mixed, but CSI 300 led declines among Asian markets at -1.7% d/d as investors weighed in on Beijing's plan to boost domestic demand. Today, a dovish Fed is expected to boost Asian markets.
- Treasuries surged after the Fed hinted on the rate cuts, sending yields down between 13-30bps across the curve. The 2Y yield plunged 30bps to 4.43%, while the 10Y slid 18bps to 4.02%. Led by UK gilts, 10Y European bond yield fell in tune of 5-14bps.
- DXY plunged 1.0% d/d to 102.87 after the FOMC's decision and its economic projections, weakening against all its G10 peers. As neither the ECB nor BOE are expected to show similarly dovish hold today, EUR and GBP strengthened 0.7% d/d and 0.4% d/d against the Dollar. JPY also appreciated by a whopping 1.8% d/d to 142.89. Regional currencies closed mixed, with CNH and SGD strengthening in tune to 0.6-0.8% d/d, but MYR weakened 0.5% d/d to 4.7075.
- Oil prices rallied 1.3-1.4% d/d as a large drawdown in the US stockpile eased excess supply concerns. According to the US Energy Information Administration, oil inventories fell 4.3m barrels during the week ended December 8. Elsewhere, the COP28 conference reached an historic deal to begin reducing the global consumption of fossil fuels.

FOMC maintained policy rates at 5.25-5.50%

- As widely expected, the FOMC unanimously decided to maintain the target Fed funds rate at 5.25-5.50%. Key highlights from the statement and press conference includes: 1) Recent indicators suggest that **"economic activity has slowed"** from its strong pace in the third quarter. 2) In a strongest signal that rates have peaked, the statement said that the committee would take multiple factors into account for **"any"** additional policy tightening, a word that had not appeared previously. 3) Assuming 25bps each, the FOMC pencilled in 3 rate cuts in 2024 (Sep projection: 2 vs Market: 4) and 4 rate cuts or -1ppts in 2025. 4) Fed officials see core-PCE prices falling to 3.2% in 2023, 2.4% in 2024, 2.2% in 2025, and 2.0% target in 2026 (Sep projection: 3.7%, 2.6%, 2.3% 2.0%). 5) Fed officials are expecting the economy to grow by 2.6% in 2023, 1.4% in 2024, 1.8% in 2025 and 1.9% in 2026 (Sep projection: 2.1%,

Key Market Metrics

	Level	d/d (%)
Equities		
Dow Jones	37,090.24	1.40
S&P 500	4,707.09	1.37
NASDAQ	14,733.96	1.38
Stoxx Eur 600	472.46	-0.06
FTSE 100	7,548.44	0.08
Nikkei 225	32,926.35	0.25
CSI 300	3,369.61	-1.67
Hang Seng	16,228.75	-0.89
Straits Times	3,104.26	0.06
KLCI 30	1,448.04	0.06
FX		
Dollar Index	102.87	-0.96
EUR/USD	1.0874	0.74
GBP/USD	1.2618	0.44
USD/JPY	142.89	-1.76
AUD/USD	0.6662	1.57
USD/CNH	7.1384	-0.77
USD/MYR	4.7075	0.50
USD/SGD	1.3331	-0.62
Commodities		
WTI (\$/bbl)	69.47	1.25
Brent (\$/bbl)	74.26	1.39
Gold (\$/oz)	1,982.30	0.23
Copper (\$\$/MT)	8,330.00	-0.30
Aluminum(\$/MT)	2,140.00	0.90
CPO (RM/tonne)	3,653.00	0.03

Source: Bloomberg, HLBB Global Markets Research

* Dated as of 12 Dec for CPO

1.5%, 1.8%, 1.9%). 6) Projection rate for unemployment rate was left unchanged, low at 3.8% in 2023 and 4.1% for 2024-25.

- Headline and core producer price inflation (PPI) was muted in November (Oct: -0.4% m/m and 0%), aided by a sharp drop in energy prices and adding to signs that inflation rate will continue to ease going forward. Services prices were unchanged for the second month, while good prices were also unchanged after a steep drop in October (-1.4% m/m). Energy costs fell 1.2% m/m (Oct: -6.7% m/m).
- Mortgage applications accelerated for the second week to +7.4% w/w for the week ended December 8 (Dec 1: +2.8% w/w) as both the refinance and purchase volume picked up in response to further declines in mortgage rates. The average 30Y fixed mortgage rate slid to its lowest since July at 7.07%.

Eurozone's IPI fell more than expected to its 3Y low

- Industrial production fell more than expected to its 3-year low in October, raising recession risks for the economic bloc and as weak global demand continued to weigh on European exporters. IPI fell 0.7% m/m (Sep: -1.0% m/m) as production of capital goods plunged 1.4% m/m (Sep: +0.3% m/m), but this was cushioned by rebound in energy output (+1.1% m/m vs -1.5% m/m). All the 5 biggest economies saw declines during the month.

UK's economy shrank more than expected by 0.3% m/m

- Monthly GDP worsened more than expected to -0.3% m/m in October (Sep: +0.2% m/m) as higher cost of living and wet weather took a toll on the economy. Services output was the main contributor to the contraction, falling by 0.2% m/m (Sep: +0.2% m/m) and was weighed down by the information and communication sector. Production output also slid 0.8% m/m (Sep: 0), driven by widespread declines in the manufacturing sector. The construction sector, meanwhile, fell by 0.5% m/m (Sep: +0.4% m/m).
- Data this morning showed that the RICS House Price Balance index, and all its sub-indices, improved more than expected but remained contractionary at -43% in November (Oct: -61%).

Australia's household spending remained solid

- The CBA Household Spending Insights (HSI) index rose by a solid 1.8% m/m in November (Oct: -0.6% m/m), partially due the Black Friday/Cyber Monday sales which provided a boost to sales of household goods. Gains were also observed for recreation, communication & digital as well as household services but spending is expected to moderate going into 2024 as a fall in real household disposable income and higher interest rates are expected to put pressure on household budgets. Data this morning from the Melbourne Institute also showed that consumer inflation expectations eased to +4.5% in December (Nov: +4.9%).

Japan's core machinery orders slowed on non-manufacturing

- Core machinery orders slowed less than expected to +0.7% m/m in October (Sep: +1.4% m/m), weighed down by orders from the non-manufacturing sector (+1.2% m/m vs +5.7% m/m) while orders from the manufacturing sector rebounded (+0.2% m/m vs -1.8% m/m). The former was mainly due to contraction in demand from the construction sector as well as telecommunication and goods leasing, while the uptick for the latter was due to food & beverages, general purpose machinery & production machinery, business-oriented machinery as well as iron & steel.

House View and Forecasts

FX	This Week	4Q-23	1Q-24	2Q-24	3Q-24
DXY	102-105	107	107	106	105
EUR/USD	1.06-1.10	1.04	1.04	1.04	1.05
GBP/USD	1.24-1.28	1.20	1.20	1.20	1.21
USD/JPY	141-146	150	147	144	141
AUD/USD	0.65-0.68	0.64	0.65	0.66	0.67
USD/MYR	4.64-4.70	4.74	4.69	4.65	4.60
USD/SGD	1.32-1.36	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
14-Dec	AU Employment Change (Nov)	55.0k
	AU Unemployment Rate (Nov)	3.70%
	JN Industrial Production MoM (Oct F)	1.00%
	HK Industrial Production YoY (3Q)	2.60%
	UK Bank of England Bank Rate	5.25%
	EC ECB Main Refinancing Rate	4.50%
	US Retail Sales Advance MoM (Nov)	-0.10%
	US Initial Jobless Claims	220k
	US Import Price Index YoY (Nov)	-2.00%
	US Export Price Index YoY (Nov)	-4.90%
15-Dec	AU Judo Bank Australia PMI Mfg (Dec P)	47.7
	AU Judo Bank Australia PMI Services (Dec P)	46
	UK GfK Consumer Confidence (Dec)	-24
	JN Jibun Bank Japan PMI Mfg (Dec P)	48.3
	JN Jibun Bank Japan PMI Services (Dec P)	50.8
	CH 1-Yr Medium-Term Lending Facility Rate	2.50%
	CH Industrial Production YTD YoY (Nov)	4.10%
	CH Retail Sales YTD YoY (Nov)	6.90%
	CH Fixed Assets Ex Rural YTD YoY (Nov)	2.90%
	CH Surveyed Jobless Rate (Nov)	5.00%
	EC HCOB Eurozone Manufacturing PMI (Dec P)	44.2
	EC HCOB Eurozone Services PMI (Dec P)	48.7
	UK S&P Global/CIPS UK Manufacturing PMI (Dec P)	47.2
	UK S&P Global/CIPS UK Services PMI (Dec P)	50.9
	UK S&P Global/CIPS UK Manufacturing PMI (Dec P)	47.2
	EC Trade Balance SA (Oct)	9.2b
	EC Labour Costs YoY (3Q)	4.50%
	US Empire Manufacturing (Dec)	9.1
	US Industrial Production MoM (Nov)	-0.60%
	US S&P Global US Manufacturing PMI (Dec P)	49.4
	US S&P Global US Services PMI (Dec P)	50.8

Source: Bloomberg

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