

15 September 2023

Global Markets Research

Daily Market Highlights

15 Sep: ECB raised policy rates; China cut RRR

Surprised 25bps hike by ECB amid upgrades in inflation outlook; some preferred a pause

PBoC cut RRR by 25bps to 7.40% to support economic recovery and boost liquidity

Higher energy costs drove up PPI and retail sales in the US

- The Dow Jones Industrial Average rallied the most in over a month as traders cheered the revival of Wall Street's IPO market and a decent batch of economic data. The Dow rallied 1.0% d/d, while the S&P 500 and NASDAQ gained 0.8% d/d each. Shares at Arm surged 24.7% after the chip design company debuted on Thursday.
- In Europe, Stoxx Eur 600 ended 1.5% d/d higher, building on an uptick even before the ECB monetary policy announcement. Notably, the basic resources sector gained after PBoC announced that it would cut the RRR by 25bps. FTSE 100 also added 2.0% d/d. In Asia, Nikkei 225 and Hang Seng closed 1.4% d/d and 0.2% d/d higher respectively, but CSI 300 fell 0.1% d/d.
- UST yields rose after the latest resilient inflation and retail sales readings. The 2Y and 10Y gained 4bps each to 5.01% and 4.29%. 10Y European sovereign bond yields slid between 3-13bps.
- DXY surged 0.6% d/d to its 6-month high of 105.41 as the fresh US economic data was mostly stronger than anticipated. EUR slumped after the ECB signalled it was likely done with its interest rate hike cycle. EUR weakened 0.8% d/d at 1.0643 after falling to as low as 1.0638, its weakest since March. GBP also closed 0.7% d/d weaker. In the region, CNH weakened 0.3% d/d after PBoC said that it would cut banks' RRR. JPY, MYR and SGD depreciated mildly in tune of less than 0.2% each to 147.47, 4.6835 and 1.3635.
- Oil prices stayed biddish, with the West Texas Intermediate (WTI) also topping \$90/barrel as expectations of a tighter supply grew. WTI ended up 1.9% d/d, while Brent jumped 2.0% d/d.

ECB unexpectedly raised policy rates by 25bps on higher inflation outlook

- The European Central Bank unexpectedly raised the interest rates on the main refinancing operations, marginal lending facility and the deposit facility by 25bps each to 4.50%, 4.75% and 4.00% respectively wef Sep 20.
- The increase came amidst an upward revision in inflation outlook. ECB expects 1) Inflation to average 5.6% in 2023, 3.2% in 2024 and 2.1% in 2025. This is an upward revision for 2023 and 2024 on higher energy prices and a downward revision for 2025. 2) ECB revised its core CPI slightly downwards to 5.1% in 2023, 2.9% in 2024 and 2.2% in 2025. 3) The euro area economy is expected to grow by 0.7% in 2023, 1.0% in 2024 and 1.5% in 2025.
- In the accompanying statement, Governing Council considers that the key ECB interest rates "have reached levels that, maintained for a sufficiently long

Key Market Metrics

	Level	d/d (%)
Equities		
Dow Jones	34,907.11	0.96
S&P 500	4,505.10	0.84
NASDAQ	13,926.05	0.81
Stoxx Eur 600	460.86	1.52
FTSE 100	7,673.08	1.95
Nikkei 225	33,168.10	1.41
CSI 300	3,733.51	-0.08
Hang Seng	18,047.92	0.21
Straits Times	3,249.51	0.95
KLCI 30	1,449.58	-0.27
FX		
Dollar Index	105.41	0.61
EUR/USD	1.0643	-0.81
GBP/USD	1.2409	-0.65
USD/JPY	147.47	0.01
AUD/USD	0.6440	0.28
USD/CNH	7.2902	0.25
USD/MYR	4.6835	0.05
USD/SGD	1.3635	0.18
Commodities		
WTI (\$/bbl)	90.16	1.85
Brent (\$/bbl)	93.70	1.98
Gold (\$/oz)	1,914.40	0.00
Copper (\$\$/MT)	8,417.50	0.01
Aluminum(\$/MT)	2,224.50	0.32
CPO (RM/tonne)	3,644.00	-0.19

Source: Bloomberg, HLBB Global Markets Research
* Dated as of 13th Sept for CPO

duration, will make a substantial contribution to the timely return of inflation to the target,” while President Lagarde added that a solid majority of the policy makers supported the outcome but some colleagues would have preferred to pause instead. However, President Lagarde commented that it cannot be said that interest rate has peaked, hence leaving the door open for further hikes going forward.

China cut RRR by 25bps to 7.40% to support economic recovery and boost liquidity

- The People’s Bank of China cut the reserve requirement ratio (RRR) by 25bps to 7.40% effective today. The move, the second such cut this year, is expected to free up nearly \$70bn of reserves and is designed to consolidate the foundation of economic recovery and keep ample liquidity. The cut excludes banks that have already implemented an RRR of 5.00%.

Higher energy costs drove PPI and retail sales higher in the US

- August retail sales came in better than expected, jumping 0.6% m/m (Jul: +0.5% m/m) but was mainly driven by higher gasoline prices (+10.3% m/m). Stripping this and autos, sales slowed to 0.2% m/m (July: +0.7% m/m) as the series of interest rate hikes weighed on consumer spending. Interest rate sensitive categories like furniture were down 1.0% m/m, while discretionary sporting goods contracted 1.6% m/m. Internet sales were flat while spending at restaurants and bars, proxy for services, rose just 0.3% m/m (July: +0.8% m/m).
- Jobless claims increased by 3k to 220k for the week ended Sep 9 (Sep 2: -12k), while continuing claims rose 4k to 1688k (Aug 26: -35k), reaffirming views of a cooling labour market.
- August’s producer price index (PPI) showed core PPI was held in check last month. Core PPI, which excludes food and energy, matched estimates to grow by 0.2% m/m (July: +0.4% m/m) but headline accelerated more than expected to 0.7% m/m (July: +0.4% m/m). Prices of goods jumped 2.0% m/m mainly due to energy, but services costs moderated to +0.2% m/m (July: +0.4% m/m).

Australia’s unemployment rate held steady at 3.7%, employment change higher than expected on part-timers

- A favourable set of Australia’s employment data suggesting that the labour market is holding up well albeit softening. Unemployment rate held steady at 3.7% in August, but employment change jumped more than expected to 64.9k in (Jul: -1.4k). Nonetheless, it should be noted that the vast majority of the job growth was for part-times and the number of hours worked dropped m/m. Separately, Melbourne Institute’s Consumer Inflation Expectations eased for the second month to +4.6% y/y in Sept (Aug: +4.9% y/y).

House View and Forecasts

FX	This Week	3Q-23	4Q-23	1Q-24	2Q-24
DX	103-106	102	101	100	99
EUR/USD	1.05-1.09	1.11	1.12	1.14	1.12
GBP/USD	1.23-1.27	1.29	1.31	1.33	1.30
USD/JPY	144-149	141	139	136	133
AUD/USD	0.62-0.66	0.67	0.68	0.68	0.69
USD/MYR	4.60-4.70	4.69	4.64	4.60	4.55
USD/SGD	1.34-1.38	1.35	1.34	1.33	1.33

Rates, %	Current	3Q-23	4Q-23	1Q-24	2Q-24
Fed	5.25-5.50	5.25-5.50	5.25-5.50	5.00-5.25	4.50-4.75

ECB	4.50	4.50	4.50	4.50	4.50
BOE	5.25	5.50	5.50	5.50	5.00
BOJ	-0.10	-0.10	-0.10	-0.10	-0.10
RBA	4.10	4.10	4.35	4.35	4.35
BNM	3.00	3.00	3.00	3.00	3.00

Source: HLBB Global Markets Research

Up Next

Date	Events	Prior
15-Sep	CH 1-Yr Medium-Term Lending Facility Rate	2.50%
	CH New Home Prices MoM (Aug)	-0.23%
	CH Industrial Production YTD YoY (Aug)	3.80%
	CH Retail Sales YTD YoY (Aug)	7.30%
	CH Fixed Assets Ex Rural YTD YoY (Aug)	3.40%
	CH Surveyed Jobless Rate (Aug)	5.30%
	UK BoE/Ipsos Inflation Next 12 Mths (Aug)	3.50%
	EC Trade Balance SA (Jul)	12.5b
	EC Labour Costs YoY (2Q)	5.00%
	US Import Price Index YoY (Aug)	-4.40%
	US Export Price Index YoY (Aug)	-7.90%
	US Empire Manufacturing (Sep)	-19
	US Industrial Production MoM (Aug)	1.00%
	US U. of Mich. Sentiment (Sep P)	69.5
	US U. of Mich. 1 Yr Inflation (Sep P)	3.50%
16-Sep	US U. of Mich. 5-10 Yr Inflation (Sep P)	3.00%
	UK Rightmove House Prices YoY (Sep)	-0.10%
	SI Non-oil Domestic Exports YoY (Aug)	-20.20%
	US New York Fed Services Business Activity (Sep)	0.6
	US NAHB Housing Market Index (Sep)	50

Source: Bloomberg

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