15 December 2023

Global Markets Research

Daily Market Highlights

15 Dec: ECB and BOE maintained key policy rates

Lagarde: ECB did not discuss any rate cuts and will not lower its guard
BOE: Restrictive policy for an extended period, further tightening maybe required
Fed-fuelled rally for the second day; 10Y UST yields tumbled below 4%; DXY slid below 102

- The US equity markets continued with its Fed-fuelled rally for the second day, sending all the 3 major indices up between 0.2-0.4% d/d. Further supporting this asset class was a retreat in UST yields as well as a surprise gain in retail sales which boosted investors' confidence that the US economy is on track for a soft landing. Moderna was amongst the best performers after the drugmaker announced positive trials for a vaccine that cuts return of skin cancer by half.
- The rally also extended beyond the US, sending most European markets in the green. Asian markets closed mixed but are expected to edge higher today as Treasuries held gains.
- The 10Y UST yield dropped below 4.00% for the first time since August, plunging 10bps to 3.92%, while the 2Y fell 4bps to 4.39%. 10Y European bond yields fell between 3-14bps.
- DXY slipped for the second day to 101.96 (-0.9% d/d), weakening against all its G10 peers as well as regional currencies after Fed's dovish pivot. EUR and GBP were notable gainers, strengthening 1.1% and 1.2% d/d respectively, the former supported by ECB'S push back against imminent interest rate cuts, while the former after BOE left rates unchanged but said that interest rates needed to stay high for an extended period. JPY also appreciated by 0.7% d/d against USD, while CNH, MYR and SGD strengthened by 0.2%, 0.7% and 0.4% d/d.
- Oil prices extended gains for the second day, by 3.1-3.2% d/d on a slightly improved global demand outlook for 2024. The International Energy Agency expects global oil demand to grow by 1.1m barrels/day in 2024, up slightly from its previous forecast of 930k barrels/day.

ECB maintained key refinancing rate at 4.50%; no rate cuts discussed at the meeting

- As widely expected, the European Central Bank (ECB) decided to leave the interest rates on the main refinancing operations, marginal lending facility and the deposit facility unchanged at 4.50%, 4.75% and 4.00% respectively. Key highlights from the statement include: 1) Downward revision in its inflation forecast to 5.4% in 2023, 2.7% in 2024, 2.1% in 2025 and 1.9% in 2026 but maintained its view that domestic price pressures remain elevated, primarily owing to strong growth in unit labour costs. 2) ECB sees growth picking up from an average of 0.6% for 2023 to 0.8% for 2024, and to 1.5% for both 2025 and 2026 on the back of rising real incomes and improving foreign demand. 3) ECB continues to reiterate that future decisions will ensure that its policy rates will be set at sufficiently restrictive levels for as long as necessary. 4) In the press conference, ***ECB President Christine Lagarde added***

Key Market Metrics

	Level	d/d (%)
Equities		
Dow Jones	37,248.35	0.43
S&P 500	4,719.55	0.26
NASDAQ	14,761.56	0.19
Stoxx Eur 600	476.57	0.87
FTSE 100	7,648.98	1.33
Nikkei 225	32,686.25	-0.73
CSI 300	3,351.96	-0.52
Hang Seng	16,402.19	1.07
Straits Times	3,122.95	0.60
KLCI 30	1,456.26	0.57
FX		
Dollar Index	101.96	-0.89
EUR/USD	1.0993	1.09
GBP/USD	1.2767	1.18
USD/JPY	141.89	-0.70
AUD/USD	0.6699	0.56
USD/CNH	7.1236	-0.21
USD/MYR	4.6725	-0.74
USD/SGD	1.3274	-0.43
Commodities		
WTI ($/bbl)	71.58	3.04
Brent ($/bbl)	76.61	3.16
Gold ($/oz)	2,030.20	2.42
Copper ($$/MT)	8,551.50	2.66
Aluminum($/MT)	2,210.00	3.27
CPO (RM/tonne)	3,631.50	-0.59

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

that the council did not discuss any rate cuts at the meeting and pushed back on market pricing for the rate cuts in March and April, saying that the ECB will not lower its guard. 5) The ECB also announced that reinvestments under its pandemic emergency purchase programme would complete at the end of 2024.

BOE maintained bank rate at 5.25% in a 6-3 majority

- As widely expected, the Bank of England (BOE), by a majority of 6-3, maintained the bank rate at 5.25%. Three members preferred to increase the bank rate by 0.25ppts to 5.50%. Key takeaways from the statement includes: 1) One member flagged risks of overtightening policy, citing lagged effects of monetary policy meant that sizable impacts from past rate increases were still to come through. 2) BOE maintained its hawkish view stating that "the Committee continued to judge that ***monetary policy was likely to need to be restrictive for an extended period of time***" and added that ***further tightening would be required if there were more persistent inflationary pressures***. 3) BOE said that key indicators of UK inflation persistence remained elevated. BOE expects CPI to be just under 4.5% at the end of this year, around 4.8% in January before falling back closer to 4.0% in February. 4) BOE expects GDP to be broadly flat in 4Q (Nov projection: + 0.1%) and over coming quarters. 5) The moderation in the annual private sector pay growth has brought it somewhat more into line with other indicators of pay growth.
- Matching estimates, data this morning showed that the GfK Consumer Confidence index improved slightly to -22 in December (Nov: -24). All the sub-indices remained in contractionary mode but improved, except for the Savings Intentions sub-index which dipped slightly to +27 (Nov: +29).

US retail sales unexpectedly rose 0.3% m/m

- Retail sales unexpectedly rose 0.3% m/m in November (Oct: -0.2% m/m) as the holiday shopping season kicked off to a brisk start amid deep discounts and will likely keep the economy on a moderate growth path in 4Q. 8 out of the 13 categories posted increases, led by restaurants & bars as well as sporting goods and online retailers. Nonetheless, sales of electronics and electrical goods contracted, suggesting that consumers are wary of spending on big-ticket items. Control-group sales, used to calculate GDP increased 0.4% m/m (Oct: 0%). Supporting sales were the still resilient labour market. Separate data showed that jobless claims unexpectedly fell 19k to 202k for the week ended December 9 (Dec: +2k). Continuing claims increased by 20k to 1876k the week prior (Nov 25: -69k).
- Led by lower fuel prices, import prices fell 0.4% m/m in November (Oct: -0.6% m/m), while export prices fell for the second month by -0.9% m/m. Lower prices for the latter was due to industrial supplies and materials, capital and consumer goods as well as automotive.

Australia's unemployment rate inched up to 3.9% despite higher job gains; Softer contraction in S&P PMIs

- Employment change unexpectedly improved to +61.5k in November (Oct: +42.7k) but the unemployment rate worsened to 3.9% (Oct: 3.8%) due to a surge in labour participation rate. In trend terms, many of the key indicators still point to a tight labour market. However, increasing unemployment rate since November 2022, along with in hours growth, suggest that the labour market has started to soften.

- The December S&P PMI report showed some minor improvements in business activity heading into year-end but reaffirmed expectations of a soft-landing trajectory for the economy. The Services PMI edged up from its cyclically low of 46.0 in November to 47.6, while the Manufacturing PMI was largely unchanged at 47.8 (Nov: 47.7). All in, demand conditions remained under pressure, input cost inflation eased while employment continued to grow.

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
15-Dec	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
18-Dec	SI Non-oil Domestic Exports YoY (Nov)	-3.40%
	US New York Fed Services Business Activity (Dec)	-11.9
	US NAHB Housing Market Index (Dec)	34
18-24 Dec	UK CBI Trends Total Orders (Dec)	-35

Source: Bloomberg

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