18 December 2023

Global Markets Research

Daily Market Highlights

18 Dec: Fed official talked down rate cuts

Fed Williams said that Fed isn't really talking about rate cuts right now; DXY closed firmer
Composite PMIs for the majors improved in December except the Eurozone
Mixed China data; PBoC maintained 1Y MLF rate; injected 800bn yuan to support liquidity

- Wall Street closed little changed and mixed on Friday although the Dow Jones Industrial Average continued to scale fresh high during the day. The Dow and Nasdaq closed up 0.2% d/d and 0.4% d/d respectively, while S&P 500 closed just below the flatline as investors continued to adjust to Fed dovish pivot. In Fed speak, New York Fed President John Williams pushed back talks of rate cuts early next year, saying that the central bank isn't really talking about rate cuts right now. Shares of Costco, meanwhile, closed up 4.5% d/d after the retailer surpassed Wall Street's estimates for quarterly results and issued a $15 dividend. Shares of DocuSign also spiked 12.5% d/d after reports that the company is exploring a sale.
- Elsewhere, Stoxx Eur 600 closed just above the flatline on optimism after the ECB's rate pause. Miners and tech stocks outperformed but real estate and telco stocks were laggards. Maersk shares jumped 7.9% d/d after the shipping giant paused all container shipments through the Red Sea. Hang Seng index led gains in Asia, although CSI 300 reversed earlier gains and closed the day 0.3% d/d lower post-PBOC's liquidity stimulus.
- The Treasury market closed mixed, with the long-end outperforming. The 2Y yield increased 6bps to 4.44%, but the 10Y slipped 1bps to 3.91%. With the exception of the Norwegian bonds, 10Y European bond yields closed lower between 6-11bps.
- DXY firmed to 102.55 (+0.6% d/d) after Fed's Williams talked down rate cuts. USD strengthened against most of its G10 peers save for the NOK, CAD and NZD. Specifically, European currencies weakened 0.7-0.9% d/d, while JPY depreciated by 0.2% d/d. Asian currencies closed mixed, with CNH and SGD closing 0.2-0.4% d/d weaker against USD but MYR strengthened 0.1% d/d to 4.6693.
- Crude oil prices finished at a small loss of 0.1-0.2% d/d following a see-saw session. Gains in early session gave way after Fed's Williams comments, but oil later pared these losses.

PBoC maintained 1Y MLF rate at 2.50%, injected a record 800bn of yuan to support liquidity

- As per market consensus, the People's Bank of China (PBoC) held its 1Y medium-term lending facility rate (MLF) at 2.50% while injecting a record 800bn yuan of liquidity to support credit expansion and the economy. As it is, data released during the day was mixed. Retail sales fell short of expectations at +10.1% y/y for November, but an uptick from October's +7.6% y/y, while IPI accelerated more than expected to +6.6% y/y (Oct: 4.6% y/y). Fixed asset investment held steady, although lower than expected at +2.9% y/y YTD as property investment remained a drag (YTD: -9.4% y/y). Jobless rate was

Key Market Metrics

	Level	d/d (%)
Equities		
Dow Jones	37,305.16	0.15
S&P 500	4,719.19	-0.01
NASDAQ	14,813.92	0.35
Stoxx Eur 600	476.61	0.01
FTSE 100	7,576.36	-0.95
Nikkei 225	32,970.55	0.87
CSI 300	3,341.55	-0.31
Hang Seng	16,792.19	2.38
Straits Times	3,116.51	-0.21
KLCI 30	1,462.45	0.43
FX		
Dollar Index	102.55	0.58
EUR/USD	1.0895	-0.89
GBP/USD	1.2681	-0.67
USD/JPY	142.15	0.18
AUD/USD	0.6699	0.00
USD/CNH	7.1346	0.15
USD/MYR	4.6693	-0.07
USD/SGD	1.3327	0.40
Commodities		
WTI ($/bbl)	71.43	-0.21
Brent ($/bbl)	76.55	-0.08
Gold ($/oz)	2,021.10	-0.45
Copper ($$/MT)	8,549.00	-0.03
Aluminum($/MT)	2,247.50	1.70
CPO (RM/tonne)	3,630.00	-0.04

Source: Bloomberg, HLBB Global Markets Research
** Dated as of 14 Dec for CPO*

unchanged at 5.0%. In its accompanying statement, the NBS said that there are still a lot of external instabilities and uncertainties and that domestic demand appears insufficient. NBS also added that the economy's recovery foundation needs to be solidified.

S&P Composite PMIs for the majors improved in December save for the Eurozone

- Overall business activity in the US rose at the fastest pace in 5 months in December supported by the sharpest increase in new orders since July. Nonetheless, rates of expansion remained historically subdued as manufacturers (48.2 vs 49.4) registered a further downturn while the service sector (51.3 vs 50.8) continued to drive growth. Cost pressures gained momentum while employment grew at the fastest pace in three months.
- Business activity in the euro area fell at a steeper rate in December, closing off 4Q at its lowest in 11 years barring the pandemic. Downturns were again recorded across both manufacturing (Nov-Dec: 44.2) and services (48.1 vs 48.7), with both sectors reporting further steep falls in inflows of new business. Jobs were cut for a second month. Inflation signals were mixed, but selling price inflation remained notably elevated by historical standards.
- UK Composite PMI edged up to 51.7 in December (Nov: 50.7), pointing to the fastest rise in activity since June, albeit still modest and below the long-run average of 53.6. A moderate upturn in the services sector (52.7 vs Nov: 50.9) underpinned the rebound in the headline, with tentative signs of a revival seen in customer demand, especially for technology and financial services. Higher cost-of-living pressures and subdued construction sector, meanwhile, continued to pose headwinds to growth. The manufacturing sector, meanwhile, expectedly worsened to 46.4 (Nov: 47.2).
- Preliminary Japan PMIs signalled a renewed, albeit subdued increase in business activity, supported by a stronger expansion in the services sector (52.0 vs 50.8) which offset a quicker contraction in manufacturing output (47.0 vs 47.2). A lack of new work forced firms to deplete their backlogs, while employment broadly stagnated. Business confidence softened due to less upbeat forecasts for the service sector. The latest survey also indicated a renewed pick up in inflationary pressures amid reports that a weaker exchange rate and higher labour and raw material costs had pushed up expenses.

Rebound in auto output post UAW strike, tech-boost supported manufacturing output in the US

- Manufacturing output rebounded, albeit less than expected by +0.3% m/m in November (Oct: -0.8% m/m), largely reflecting a pick-up in activities for the auto sector following the end of the United Auto Workers' (UAW) strike. Motor-vehicle output jumped +7.1% m/m and stripping this, output remained weak and fell for the second month by 0.2% m/m, weighed down by output of apparel, paper, textiles and furniture, largely reflecting the impact of a tighter monetary policy on discretionary spending. Production of computer and electronics continued to report growth in line with improved chip demand and investment in AI.
- The Empire Manufacturing index worsened more than expected to -14.5 in December (Nov: +9.1 vs average of around -8.6 the past year). New orders fell for a third consecutive month, employment declined modestly while input price increases moderate. After reporting a steep drop in the outlook last

month, firms were a little more positive in December, but their optimism remained quite subdued.

Eurozone's trade surplus widened; labour costs accelerated

- Trade balance widened to €11.1bn in October 2023 (Sep: +€10.0bn and Oct 2022: -€28.7bn) as the contraction in exports outpaced imports at -16.3% y/y and -2.4% y/y respectively. As it is, YTD data suggests that the shift from deficit to a surplus this year largely reflects lower energy imports, especially from Russia while exports rose due to machinery, including vehicles. Separate data also showed that labour costs accelerated again to +5.3% y/y in 3Q (2Q: +4.5% y/y) keeping wage-push inflationary pressures in check.

House View and Forecasts

FX	This Week	4Q-23	1Q-24	2Q-24	3Q-24
DXY	100-104	107	107	106	105
EUR/USD	1.08-1.12	1.04	1.04	1.04	1.05
GBP/USD	1.25-1.29	1.20	1.20	1.20	1.21
USD/JPY	139-145	150	147	144	141
AUD/USD	0.65-0.69	0.64	0.65	0.66	0.67
USD/MYR	4.63-4.69	4.74	4.69	4.65	4.60
USD/SGD	1.31-1.34	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
18-Dec	US New York Fed Services Business Activity (Dec)	-11.9
	US NAHB Housing Market Index (Dec)	34
	SI Non-oil Domestic Exports YoY (Nov)	-3.40%
18-24 Dec	UK CBI Trends Total Orders (Dec)	-35
19-Dec	AU RBA Minutes of Dec. Policy Meeting	
	MA Exports YoY (Nov)	-4.40%
	HK Unemployment Rate SA (Nov)	2.90%
	EC CPI Core YoY (Nov F)	3.60%
	US Building Permits MoM (Nov)	1.10%
	US Housing Starts MoM (Nov)	1.90%

Source: Bloomberg

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

DISCLAIMER

This report is for information purposes only and does not take into account the investment objectives, financial situation or particular needs of any particular recipient. The information contained herein does not constitute the provision of investment advice and is not intended as an offer or solicitation with respect to the purchase or sale of any of the financial instruments mentioned in this report and will not form the basis or a part of any contract or commitment whatsoever.

The information contained in this publication is derived from data obtained from sources believed by Hong Leong Bank Berhad ("HLBB") to be reliable and in good faith, but no warranties or guarantees, representations are made by HLBB with regard to the accuracy, completeness or suitability of the data. Any opinions expressed reflect the current judgment of the authors of the report and do not necessarily represent the opinion of HLBB or any of the companies within the Hong Leong Bank Group ("HLB Group"). The opinions reflected herein may change without notice and the opinions do not necessarily correspond to the opinions of HLBB. HLBB does not have an obligation to amend, modify or update this report or to otherwise notify a reader or recipient thereof in the event that any matter stated herein, or any opinion, projection, forecast or estimate set forth herein, changes or subsequently becomes inaccurate.

HLB Group, their directors, employees and representatives do not have any responsibility or liability to any person or recipient (whether by reason of negligence, negligent misstatement or otherwise) arising from any statement, opinion or information, expressed or implied, arising out of, contained in or derived from or omission from the reports or matter.

Potential and actual conflict of interest may arise from the activities of HLB Group. HLB Group constitute a diversified financial services group. These entities engage in a wide range of commercial and investment banking, brokerage, funds management, hedging transactions and other activities for their own account or the account of others. In the ordinary course of their business, HLB Group may effect transactions for their own account or for the account of their customers and hold long or short positions in the financial instruments. HLB Group, in connection with its business activities, may possess or acquire material information about the financial instruments. Such activities and information may involve or have an effect on the financial instruments. HLB Group have no obligation to disclose such information about the financial instruments or their activities.

The past performance of financial instruments is not indicative of future results. Whilst every effort is made to ensure that statements of facts made in this report are accurate, all estimates, projections, forecasts, expressions of opinion and other subjective judgments contained in this report are based on assumptions considered to be reasonable as of the date of the document in which they are contained and must not be construed as a representation that the matters referred to therein will occur. Any projections or forecasts mentioned in this report may not be achieved due to multiple risk factors including without limitation market volatility, sector volatility, corporate actions, the unavailability of complete and accurate information. No assurance can be given that any opinion described herein would yield favourable investment results. Recipients who are not market professional or institutional investor customer of HLBB should seek the advice of their independent financial advisor prior to taking any investment decision based on the recommendations in this report.

HLBB may provide hyperlinks to websites of entities mentioned in this report, however the inclusion of a link does not imply that HLBB endorses, recommends or approves any material on the linked page or accessible from it. Such linked websites are accessed entirely at your own risk. HLBB does not accept responsibility whatsoever for any such material, nor for consequences of its use.

This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation. This report is for the use of the addressees only and may not be redistributed, reproduced or passed on to any other person or published, in part or in whole, for any purpose, without the prior, written consent of HLBB. The manner of distributing this report may be restricted by law or regulation in certain countries. Persons into whose possession this report may come are required to inform themselves about and to observe such restrictions. By accepting this report, a recipient hereof agrees to be bound by the foregoing limitations.