

20 March 2023

Global Markets Research
Daily Market Highlights

20 March: UBS buys Credit Suisse for CHF3bn

Wall Street closed lower as regional banks slid; 2Y UST yield dived 32bps; DXY fell 0.7%

Six major central banks joined hands to boost liquidity; China cut RRR by 25bps

OECD: World GDP growth of 2.6% for 2023 and 2.9% for 2024; below trend

- US stocks fell as investors pulled back from positions in First Republic and other bank shares amid lingering concerns over the state of the US banking sector. The Dow Jones Industrial Average lost 1.2%, S&P 500 slid 1.1%, while Nasdaq Composite was down 0.7% d/d. First Republic dived 32.8% d/d after the company detailed its financial conditions and suspended its dividend.

Europe stocks closed its worst week of the year as Credit Suisse continued to rattle sentiment. Stoxx 600 closed 1.2% d/d lower with Credit Suisse slipping 8.0% d/d. FTSE 100 dipped 1.0% d/d. Asia markets closed higher Friday in response to the First Republic Bank deposit pledge the previous day. Nikkei 225 and Hang Seng gained 1.2% and 1.6% d/d respectively.

Asia markets may open in a mixed note this morning despite the UBS-Credit Suisse bail-out deal amid ongoing banking system saga. It should be noted that UBS has agreed to buy its embattled rival Credit Suisse for CHF3bn on Sunday. The terms of the deal will see Credit Suisse shareholders receive 1 UBS share for every 22.48 Credit Suisse shares they hold. The Swiss National Bank also pledged a loan of up to CHF100bn to support the takeover.

- Treasuries extended gains sharply amidst the ongoing jitters over the banking system. The 2-year led rally with its yield diving 32bps to 3.84%, while the 10-year fell 15bps to 3.43%, steepening the curve. European sovereign bond yields all fell, to the tune of 18bps for the 10s and 27bps for the 2Y bonds.
- DXY skidded 0.7% d/d to 103.71, with JPY leading gains against the greenback at +1.4% d/d. EUR and GBP strengthened between 0.5%-0.6%, while CNY was 0.1% d/d stronger. MYR appreciated 0.4% d/d to close at 4.4860, while SGD strengthened 0.3% d/d to 1.3423.
- The banking crisis also shook the commodity markets, with oil prices reversing their earlier gains to dive over 2.0% d/d. On the other hand, the price of gold surged 2.6% d/d, also partially supported by bets of a less aggressive Federal Reserve.

China cut reserve requirement by 25bps

- The People's Bank of China (PBoC) will cut the reserve requirement ratio (RRR) by 25bps for all banks effective March 27, except those that have implemented a 5% reserve ratio. The reduction followed a 25bps cut in December and the average RRR for financial institutions will stand at around 7.6% after the cut.

Key Market Metrics

| | Level | d/d (%) |
|--------------------|-----------|---------|
| Equities | | |
| Dow Jones | 31,861.98 | -1.19 |
| S&P 500 | 3,916.64 | -1.10 |
| NASDAQ | 11,630.51 | -0.74 |
| Stoxx Eur 600 | 436.31 | -1.21 |
| FTSE 100 | 7,335.40 | -1.01 |
| Nikkei 225 | 27,333.79 | 1.20 |
| Hang Seng | 19,518.59 | 1.64 |
| Straits Times | 3,183.28 | 0.88 |
| KLCI 30 | 1,411.73 | 1.45 |
| FX | | |
| Dollar Index | 103.71 | -0.68 |
| EUR/USD | 1.0670 | 0.57 |
| GBP/USD | 1.2173 | 0.53 |
| USD/JPY | 131.85 | -1.41 |
| AUD/USD | 0.6697 | 0.62 |
| USD/CNH | 6.8861 | -0.13 |
| USD/MYR | 4.4860 | -0.38 |
| USD/SGD | 1.3423 | -0.34 |
| Commodities | | |
| WTI (\$/bbl) | 66.74 | -2.36 |
| Brent (\$/bbl) | 72.97 | -2.32 |
| Gold (\$/oz) | 1,973.50 | 2.63 |
| Copper (\$\$/MT) | 8,580.00 | 0.73 |
| Aluminum(\$/MT) | 2,274.00 | 0.29 |
| CPO (RM/tonne) | 4,170.50 | -0.75 |

Source: Bloomberg, HLBB Global Markets Research

- The central bank said that the cut was aimed at maintaining reasonable and sufficient liquidity and ensuring that money supply increases in line with nominal economic growth. PBoC added that it won't engage in "flood irrigation", which refers to large stimulus.

OECD: Economic outlook slightly more optimistic but fragile

- Key highlights from OECD's Economic Outlook Interim Report include: 1) Global growth is projected to remain at below trend rates at 2.6% and 2.9% respectively in 2023 and 2024 (2022: 3.2%), with policy tightening continuing to take effect. Nonetheless, a gradual improvement is projected through 2023-24 as the drag on incomes from high inflation recedes. 2) US GDP growth projected to slow to 1.5% in 2023 and 0.9% in 2024. Euro area projected to be 0.8% in 2023, but pick up to 1.5% in 2024 as the effects of high energy prices fade. Growth in China is expected to rebound to 5.3% this year and 4.9% in 2024. 3) Inflation is projected to moderate gradually over 2023 and 2024 but to remain above central bank objectives until the latter half of 2024 in most countries. Headline inflation in the G20 economies is expected to decline to 4.5% in 2024 from 5.9% in 2023 (2022: 8.1%). Core inflation in the G20 advanced economies is projected to average 4.0% in 2023 and 2.5% in 2024 (2022: 4.2%).

US IPI and consumer sentiment fell, manufacturing output increased for the second month

- Matching expectations, the Conference Board Leading Economic Index (LEI) fell again by 0.3% m/m in February (Jan: -0.3% m/m), marking its eleventh consecutive monthly decline. Negative or flat contributions from 8 of the index's 10 components more than offset improving stock prices and a better-than-expected reading for residential building permits. While the rate of m/m declines in the LEI have moderated, the leading economic index still points to risk of recession in the US economy. As it is, the most recent financial turmoil in the US banking sector is not reflected in this LEI data but will have a negative impact on the outlook if it persists.
- The University of Michigan's consumer sentiment unexpectedly fell for the first time in 4 months to 63.4 in March (Feb: 70.7). It should be noted that 85% of the survey was conducted prior to the failure of SVB, and thus, it is unclear to what extent confidence will be hit in the final reading. On a positive note, year-ahead inflation expectations receded to 3.8% (Feb: 4.1%), the lowest reading since April 2021, while long run expectations softened slightly to 2.8% (Feb: 2.9%).
- Manufacturing output unexpectedly rose for a second month by +0.1% m/m in February (Jan: +1.3% m/m). Total output, meanwhile, was unchanged (Jan: +0.3% m/m) while capacity utilization stood at 78.0% (Feb: 78.0%). By market groups, output of consumer goods increased, reflecting a gain in energy. However, production of business equipment and consumer durables such as autos fell. As it is, the deceleration in output showed producers' concern over excess inventory as new orders slowed, as reflected in PMIs.

Eurozone inflation cooled but prices pick up

- Eurozone labour costs jumped in 4Q of 2022 and 3Q was revised upwards, but the rise of the wage component was still roughly half the increase in consumer inflation. Labour costs accelerated to 5.7% y/y (3Q: +3.7% y/y) while the final print of February's consumer inflation (CPI) was reaffirmed at +8.5% y/y (Jan: +8.6% y/y). Similarly, core inflation was maintained at 5.6% y/y (Jan: +5.3%

y/y), with the highest contribution for inflation from food, alcohol & tobacco, non-energy industrial goods and energy.

Singapore's NODX remained in contraction mode

- Singapore's non-oil domestic exports (NODX) plunged more than expected by 8.0% m/m in February (Jan: +0.9% m/m). On a y/y basis, exports came slightly above expectations at -15.6% (Jan: -25.0%). Electronic NODX contracted for the seventh month by 26.5% y/y (Jan: -26.8% y/y). NODX to the top 10 markets also declined as a whole declined, with shipments to EU27, Hong Kong and Taiwan falling the most.

House View and Forecasts

| FX | This Week | 1Q-23 | 2Q-23 | 3Q-23 | 4Q-23 |
|---------|-----------|-------|-------|-------|-------|
| DXY | 103-105 | 105 | 104 | 103 | 102 |
| EUR/USD | 1.05-1.07 | 1.05 | 1.06 | 1.06 | 1.06 |
| GBP/USD | 1.19-1.22 | 1.20 | 1.21 | 1.21 | 1.21 |
| USD/JPY | 131-135 | 134 | 132 | 132 | 131 |
| AUD/USD | 0.65-0.67 | 0.69 | 0.69 | 0.70 | 0.71 |
| USD/MYR | 4.47-4.53 | 4.40 | 4.36 | 4.30 | 4.25 |
| USD/SGD | 1.34-1.36 | 1.33 | 1.31 | 1.29 | 1.27 |

| Rates, % | Current | 1Q-23 | 2Q-23 | 3Q-23 | 4Q-23 |
|----------|-----------|-----------|-----------|-----------|-----------|
| Fed | 4.50-4.75 | 4.75-5.00 | 5.25-5.50 | 5.25-5.50 | 5.25-5.50 |
| ECB | 3.50 | 3.50 | 3.75 | 3.75 | 3.75 |
| BOE | 4.00 | 4.25 | 4.25 | 4.25 | 4.25 |
| BOJ | -0.10 | -0.10 | -0.10 | -0.10 | -0.10 |
| RBA | 3.60 | 3.60 | 3.85 | 3.85 | 3.85 |
| BNM | 2.75 | 2.75 | 3.00 | 3.00 | 3.00 |

Source: HLBB Global Markets Research

Up Next

| Date | Events | Prior |
|----------|--|--------|
| 20-March | UK Rightmove House Prices MoM (Mar) | 0.00% |
| | CH 5-Year Loan Prime Rate | 4.30% |
| | CH 1-Year Loan Prime Rate | 3.65% |
| | EC Trade Balance SA (Jan) | -18.1b |
| | MA Imports YoY (Feb) | 2.30% |
| | MA Trade Balance MYR (Feb) | 18.16b |
| | MA Exports YoY (Feb) | 1.60% |
| 21-March | AU RBA Minutes of March Policy Meeting | |
| | EC ZEW Survey Expectations (Mar) | 29.7 |
| | US Philadelphia Fed Non-Manufacturing Activity (Mar) | 3.2 |
| | US Existing Home Sales MoM (Feb) | -0.70% |

Source: Bloomberg

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