20 September 2023

Global Markets Research

Daily Market Highlights

20 Sep: UST yields rose to its highest since 2007

All eyes on Fed's dot plot and economic projections tonight; likely a "hawkish pause"

OECD raised inflation forecasts; raised GDP growth projection for 2023 but cut 2024's

Malaysia's exports slumped; steeper fall for manufacturing exports

- US equity indices closed slightly weaker between 0.2%-0.3% d/d each as investors largely stayed cautious ahead of the FOMC decision tonight. UST bond yields rose to its highest levels since 2007, also weighing on stocks. Stocks were hammered across the board, with Amazon shares leading declines amongst consumer discretionary staples at 1.7% d/d. Shares of Disney also slid 3.6% d/d after announcing plans to nearly double its investment in its cruise and parks businesses.

- European stock markets were little changed, with FTSE 100 gaining 0.1% d/d but Stoxx Eur 600 closed just below the flatline. Retail stocks made the biggest losses, while banks and energy stocks led gains. In Asia, Nikkei 225 and CSI 300 lost 0.9% d/d and 0.2% d/d respectively, but Hang Seng gained 0.4% d/d. With this, Asian stocks are set for cautious start today with the Fed in focus.

- In the US treasuries market, the 10Y finished up 6bps at 4.36%, while the 2Y climbed 4bps to 5.09%. 10Y European bond yields generally saw modest 1-3bps increase except for the 10Y UK gilts, where yields fell 5bps to 4.34%.

- DXY trimmed most of its losses in early European session to close only 0.1% d/d lower at 105.13. Amongst its G10 peers; EUR weakened 0.1% d/d, but GBP gained 0.1% d/d ahead of BOE's decision on Thursday. Expectations are that officials will deliver its final rate hike for this cycle. AUD also strengthened 0.3% d/d after minutes of the latest RBA meeting suggests that possibilities of more interest rate hikes could not be discounted. Regional currencies, meanwhile, depreciated in tune of 0.1%-0.6% d/d.

- Oil prices closed between 0.1%-0.3% d/d lower, but Brent largely held steady near the $95/barrel and WTI above $91/barrel. Saudi minister Prince Abdulaziz bin Salman defended OPEC+ supply cuts, saying that they are working to keep markets stable and improve energy security.

OECD: Global growth is expected to remain weak; core inflation remains persistent

- Highlights from the latest OECD Economic Outlook: 1) With monetary policy becoming increasingly visible and a weaker-than-expected recovery in China, growth outlook remains weak. The world economy is expected to grow by 3.0% in 2023 (+0.3ppts as compared to June projection) and 2.7% in 2024 (-0.2ppts), with a disproportionate share of global growth coming from Asia. 2) While headline inflation has been declining, core inflation remains persistent, driven by the services sector and still relatively tight labour markets. Headline inflation

Key Market Metrics

	Level	d/d (%)
Equities		
Dow Jones	34,517.73	-0.31
S&P 500	4,443.95	-0.22
NASDAQ	13,678.19	-0.23
Stoxx Eur 600	456.52	-0.04
FTSE 100	7,660.20	0.09
Nikkei 225	33,242.59	-0.87
CSI 300	3,720.50	-0.19
Hang Seng	17,997.17	0.37
Straits Times	3,240.75	-0.69
KLCI 30	1,457.66	-0.02
FX		
Dollar Index	105.13	-0.07
EUR/USD	1.0679	-0.12
GBP/USD	1.2392	0.07
USD/JPY	147.86	0.17
AUD/USD	0.6454	0.26
USD/CNH	7.3036	0.17
USD/MYR	4.6965	0.14
USD/SGD	1.3648	0.11
Commodities		
WTI ($/bbl)	91.20	-0.31
Brent ($/bbl)	94.34	-0.10
Gold ($/oz)	1,935.30	0.01
Copper ($$/MT)	8,292.50	-0.80
Aluminum($/MT)	2,215.50	-0.20
CPO (RM/tonne)	3,694.00	-0.90

Source: Bloomberg, HLBB Global Markets Research
** Dated as of 18th Sept for CPO*

in the G20 economies is projected to ease to 6.0% in 2023 and 4.8% in 2024 (-0.1ppts and +0.1ppts) and core from 4.3% in 2023 to 2.8% in 2024 (+0.1ppts for both years). 3) GDP growth in the US is expected to slow from 2.2% in 2023 to 1.3% in 2024 (+0.6ppts and +0.3ppts) as tighter financial conditions moderate demand pressures. 4) In the euro area where demand is already subdued, GDP growth is projected to ease to 0.6% in 2023 but edge up to 1.1% in 2024 (-03ppts and -0.4ppts) as the adverse impact of high inflation on real incomes fades. 5) Growth in China is expected to be held back by subdued domestic demand and structural stresses in property markets, easing to 5.1% in 2023 and 4.6% in 2024 (-0.3ppts and -0.5ppts).

RBA minutes: Board members considered raising rates; further tightening may be required

- Highlights from the minutes to the latest RBA meeting: 1) Board members considered raising the cash rate target by a further 25bps but decided to hold rates steady as members recognised the value of allowing more time to see the full effects of the tightening of monetary policy. 2) Reiterated that some further tightening in policy may be required and reaffirmed their determination to return inflation to target within a reasonable timeframe. 3) Longer term market-based inflation expectations had remained stable. 4) Recent developments have not changed their assessment that the economy is on a narrow path to soft landing. 5) Downside risks from China on Australia's services sector and global output.

US housing starts hit 3Y low; surge in permits point to turnaround

- Housing starts plunged more than expected by 11.3% m/m in Aug (Jul: +2.0% m/m) to its lowest level since June 2020, but the jump in permits, a proxy for future construction, indicates optimism over future demand. The latter unexpectedly rose by 6.9% m/m (Jul: +0.1% m/m), fastest pace since May 2020.

Eurozone's headline inflation revised down to 5.2%, core maintained at +5.3%

- Eurozone's consumer inflation was revised downward by 0.1ppts to 5.2% y/y in Aug (Jul: +5.3% y/y) while core was left unchanged at +5.3% y/y (Jul: +5.5% y/y). The drivers for inflation during the month include food, alcohol & tobacco, services and non-energy industrial goods.

Japan's exports fell for the second month, albeit less than expected

- Japan's exports fell for the second month, but narrower than forecast by -0.8% y/y in Aug (Jul: -0.3% y/y), while imports contracted for the fifth month by -17.8% y/y (Jul: -13.6% y/y). As it is, slower demand from China and US, coupled with global electronics slump probably contributed to the latest contraction in external demand, and bodes ill for overall GDP growth. This is especially so since consumers and businesses have started to pare down spending at home.

Hong Kong's unemployment rate low and stable at 2.8%

- The ongoing recovery in inbound tourism and local consumption supported and will continue to support the labour market in Hong Kong. Matching expectations, the unemployment rate remained low and stable at 2.8% in August, but showed diverse trends within the industries in the past 3 months.

Steeper fall in Malaysia's manufacturing exports; smaller decline in commodity exports

- Exports fell more than expected for a 2nd straight month, by 18.6% y/y in August (Jul: -13.1% y/y), while imports also registered a bigger than expected contraction of 21.2% y/y (Jul: -15.9% y/y). This marked its 6th straight month of decline and the worst since May-2020 during the peak of the pandemic era, reaffirming a still weak external trade environment that would impede on overall growth in 3Q. Trade surplus however inched marginally higher m/m to RM17.3bn in August (Jul: RM17.1bn), as imports fell at a faster pace (-1.6% m/m) relative to exports (-1.4% m/m).
- No change to our take on a soft external trade outlook in the next few months but we are hopeful that telltale signs of a bottoming in the semiconductor downcycle as well as signs of improvement in the China economy could help narrow the fall in exports towards the later part of the year. Meanwhile, global manufacturing activities appeared to have regained some grounds, ticking up for the first time in six months in August, potentially suggesting a bounce higher from the trough. This could translate into higher demand for Malaysia's exports in the next three to six months, in line with our projection for a pick-up in 4Q growth and further recovery in 2024.

House View and Forecasts

FX	This Week	3Q-23	4Q-23	1Q-24	2Q-24
DXY	103-107	102	101	100	99
EUR/USD	1.05-1.08	1.11	1.12	1.14	1.12
GBP/USD	1.22-1.27	1.29	1.31	1.33	1.30
USD/JPY	144-149	141	139	136	133
AUD/USD	0.63-0.66	0.67	0.68	0.68	0.69
USD/MYR	4.62-4.72	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
20-Sep	AU Westpac Leading Index MoM (Aug)	-0.03%
	CH 5-Year Loan Prime Rate	4.20%
	CH 1-Year Loan Prime Rate	3.45%
	UK CPI Core YoY (Aug)	6.90%
	UK PPI Output NSA YoY (Aug)	-0.80%
	UK PPI Input NSA YoY (Aug)	-3.30%
	US MBA Mortgage Applications	-0.80%
21-Sep	US FOMC Rate Decision (Upper Bound)	5.50%
	US FOMC Rate Decision (Lower Bound)	5.25%
	UK Bank of England Bank Rate	5.25%
	US Initial Jobless Claims	220k
	US Philadelphia Fed Business Outlook (Sep)	12
	US Existing Home Sales MoM (Aug)	-2.20%
	US Leading Index (Aug)	-0.40%
	EC Consumer Confidence (Sep P)	-16

Source: Bloomberg

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