20 December 2023

Global Markets Research

Daily Market Highlights

20 Dec: BOJ stayed pat and offered no rate hike clues

Bostic expects two rate cuts in 2H; RBA considered rate hike, saw stronger case for pause
US housing starts scaled to its 6-month high; DXY weakened further
Malaysia's exports fell at a faster pace for the first time in 3 months

- The US equity indices closed up between 0.5-0.7% d/d as the Federal Reserve's recent dovish shift continued to lift stocks. Expectations of a soft landing also supported the market, reaffirmed by the stronger-than-expected housing starts data overnight. The S&P 500 is approaching its record high, while the tech-heavy Nasdaq closed above the 15k level for the first time since January 2022. All sectors gained for the S&P, led by energy and communication services stocks. Amongst individual stocks, Walgreens Boots Alliance, Caterpillar and solar stocks led the way. In Fed speak, Atlanta President Raphael Bostic reiterated that he expects two rate cuts in 2H of 2024.
- European markets also posted small gains, with travel and leisure stocks outperforming again due to the Red Sea shipping concerns. In individual moves, UBS surged more than 3% d/d after activist investor Cevian Capital AB took a €1.2bn stake. Asian markets closed mostly in green, with Nikkei 225 jumping 1.4% d/d after the BOJ left its main policy rate unchanged. With this, Asian equity markets are set to track Wall Street year-end rally today,
- The Treasury market closed mixed and mild, with yields ending +/-1bps as markets are winding down ahead of the holidays. Yields to the 2Y inched down 1bps to 4.44%, while the 10Y closed flat at 3.93%. Led by Italian sovereign bonds, 10Y European bond yields fell between 4-13bps.
- DXY slid 0.4% d/d to 102.17, broadly softer against other majors except for JPY and weighed down by expectations of Fed funds rate cuts next year. European currencies strengthened 0.5-0.7% d/d against USD, while JPY plunged 0.7% d/d to 143.84 after the BOJ kept rates steady. CNH, MYR and SGD, meanwhile, appreciated 0.3-0.4% d/d to close at 7.1209, 4.6783 and 1.3284.
- Oil prices remained at its highest in 2 weeks as shippers and tankers shunned the Red Sea amidst a spike in vessel attack along the international shipping route. The WTI was up 1.3% d/d to $73.44/barrel, while Brent gained 1.6% d/d to $79.23/barrel.

BOJ stayed pat and offered no rate hike signals

- As widely anticipated, the Bank of Japan (BOJ) unanimously decided to maintain its short-term rate at -0.1% and its target for the 10Y JGB yield at 0% with an upper bound of 1.0%. Key highlights from the statement and accompanying press conference include: 1) The statement offered no guidance on whether the central bank might scrap the negative interest rate policy next year and reiterated its view that the central bank will not hesitate to take additional easing measures if necessary. 2) With extremely high uncertainties surrounding economies and financial markets in Japan and

Key Market Metrics

	Level	d/d (%)
Equities		
Dow Jones	37,557.92	0.68
S&P 500	4,768.37	0.59
NASDAQ	15,003.22	0.66
Stoxx Eur 600	477.04	0.36
FTSE 100	7,638.03	0.31
Nikkei 225	33,219.39	1.41
CSI 300	3,334.04	0.14
Hang Seng	16,505.00	-0.75
Straits Times	3,116.62	0.11
KLCI 30	1,465.67	0.03
FX		
Dollar Index	102.17	-0.38
EUR/USD	1.0981	0.52
GBP/USD	1.2732	0.66
USD/JPY	143.84	0.74
AUD/USD	0.6763	0.83
USD/CNH	7.1209	-0.32
USD/MYR	4.6783	-0.35
USD/SGD	1.3284	-0.30
Commodities		
WTI ($/bbl)	73.44	1.34
Brent ($/bbl)	79.23	1.64
Gold ($/oz)	2,038.40	0.60
Copper ($$/MT)	8,593.50	1.31
Aluminum($/MT)	2,262.50	-0.90
CPO (RM/tonne)	3,664.00	0.94

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

abroad, the central bank will ***patiently continue with monetary easing***. 3) BOJ made cautious tweaks to its assessments of consumer spending saying that personal consumption has continued to increase moderately but removing the word "steadily" from its previous assessment. 4) In the press conference, BOJ Governor Kazuo Ueda said that some smaller firms are struggling to pass on higher raw material and labour costs and the chance of inflation accelerating towards target is gradually heightening. The BOJ will continue to scrutinise whether a positive wage-inflation cycle will fall in place. 5) Chances are low that the BOJ will announce any shift in policy in the next meeting.

- Sluggish and worse than expected trade data this morning. Exports fell 0.2% m/m (Oct: +1.6% m/m) while the contraction in imports narrowed to -11.9% y/y (Oct: -12.5% y/y). The former marks the first contraction in 3 months, a fresh sign that the economy is sputtering. As it is, the BOJ in its October outlook has said that exports and production "are projected to be more or less flat for the time being, affected by the slowdown in the pace of recovery in overseas economies."

RBA considered interest rate hike, saw case for pause stronger

- Key highlights from the minutes to the latest RBA meeting include: 1) Policy makers considered raising rates, but the case to leave the cash rate target unchanged was the "stronger one." 2) There was sufficient value in waiting for further data to assess how the balance of risks evolve, reiterating whether further tightening of monetary policy may be required will depend on the incoming data. 3) There is the possibility of a larger rise in the unemployment rate than expected but reiterated that the current unemployment rate is still very low. RBA also added that households are experiencing a painful squeeze on their finances. 4) RBA staff sees CPI return to the top of the target band by the end of 2025, rather than the midpoint of the band. 5) RBA's approach of holding the bonds to maturity remained appropriate but agreed to keep this under active consideration.
- Westpac Leading Index improved by +0.07% m/m in November (Oct: -0.04% m/m), marking its first positive, above-trend read since mid-2022. While some of the surprised upticks in sub-indices were due to temporary factors, underlying momentum is shifting towards stabilisation.

US housing starts scaled to its 6-month high

- Mixed slew of housing data for November. Housing starts unexpectedly accelerated by +14.8% m/m (Oct: +0.2% y/y) to its highest level in 6 months, suggesting that the crunch in residential housing may be easing. Coupled with declining mortgage rates in recent weeks, this should draw potential buyers in the market and will be supportive of home sales going forward. Building permits, an indicator of future construction nonetheless, worsened more than expected to -2.5% m/m (Oct: +1.8% m/m) due to a drop in multifamily projects.

Eurozone's final headline and core CPI prints left unchanged at +2.4% and +3.6%

- The final headline and core CPI prints were left unchanged at +2.4% y/y and +3.6% y/y for November (Oct: +2.9% y/y and +4.2% y/y). Despite the easing price pressures, there is not enough solid evidence for the ECB to cut rates at this juncture especially since the large driver to the drop in inflation was services (+4.0% y/y and +4.6% y/y). The latter remained elevated at this level and was primarily driven by volatile travel-related items.

Hong Kong's unemployment rate low and steady at 2.9%

- Unemployment rate held low and steady at 2.9% for the 3-months ended November and remains tight in the near term. Though the still unfavourable external environment might have some negative effects, further recovery of inbound tourism and private consumption would continue to underpin labour demand.

Malaysia's exports fell at a faster pace for the first time in 3 months

- Exports fell at a faster than expected pace, by 5.9% y/y in November (Oct: -4.5% y/y revised), dragged by a surprisingly bigger fall in E&E exports and broad declines in shipment to all major export destinations. This marked the first faster decline in exports in three months, but we believe this is just a blip and unlikely to derail expectations for a recovery in exports going forward. Meanwhile, imports bounced back to positive growth for the first time in nine months, rising by 1.7% y/y in November (Oct: -0.3% y/y revised), spearheaded by an exceptional spike in capital goods imports. On a m/m basis, exports and imports shrank by 3.2% and 3.1% m/m respectively, leaving the trade surplus little changed at RM12.4bn in November (Oct: RM12.9bn).

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
20-Dec	CH 5-Year Loan Prime Rate	4.20%
	CH 1-Year Loan Prime Rate	3.45%
	UK CPI Core YoY (Nov)	5.70%
	UK PPI Output NSA YoY (Nov)	-0.60%
	UK PPI Input NSA YoY (Nov)	-2.60%
	UK House Price Index YoY (Oct)	-0.10%
	US MBA Mortgage Applications	7.40%
	US Existing Home Sales MoM (Nov)	-4.10%
	US Conf. Board Consumer Confidence (Dec)	102
21-Dec	UK Lloyds Business Barometer (Dec)	42
	HK CPI Composite YoY (Nov)	2.70%
	US GDP Annualized QoQ (3Q T)	5.20%
	US Initial Jobless Claims	202k
	US Philadelphia Fed Business Outlook (Dec)	-5.9
	US Leading Index (Nov)	-0.80%
	US Kansas City Fed Manf. Activity (Dec)	-2
21-27 Dec	UK CBI Total Dist. Reported Sales (Dec)	-9

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

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