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Global Markets Research

Daily Market Highlights

21 Sep: Fed and PBoC maintained key policy rates

FOMC: Hawkish pause with one more 25bps hike for 2023; dial-back in rate cuts outlook

PBoC: Ample policy room, warned against FX speculation, to focus on domestic demand

Downside surprises in UK inflation will provide room for the BOE to signal a pause

- A hawkish pause by the Fed sent US equity markets tumbling on Wednesday. The S&P 500 fell 0.9% d/d, while the Dow Jones Industrial Average lost 0.2% d/d. Nasdaq slid 1.5% d/d, weighed down by Microsoft, Apple, Amazon, Nvidia and Alphabet. As it is, investors had been snapping up tech shares and other growth stocks this year in hopes that Fed would already be done tightening policy at this point. While European stocks closed up in tune of 0.9% d/d as markets awaited Fed's decision, major Asian indices closed lower. Nikkei 225 was down 0.7% d/d, while Hang Seng index and CSI 300 slumped 0.6% d/d and 0.4% d/d after China left its 1Y and 5Y loan prime rates unchanged.

- UST yields spiked led by the front end. The 2Y jumped 9bps to 5.18%, while the 10Y rose 5bps to 4.41%. 10Y European bond yields plunged between 2-13bps.

- DXY benefitted from the hawkish Fed stance and climbed to as high 105.44 from its earlier low of 104.67. The index closed the day up 0.2% d/d at 105.33, marking the fifth straight session above the 105 level. In Europe, GBP was volatile and closed 0.4% d/d lower near its 4-months low at 1.2344 after its inflation data fell short of expectations and dented BOE rate outlook. EUR also weakened 0.2% d/d. Asian currencies closed mixed, with JPY, CNH and SGD depreciating, but MYR strengthened 0.2% d/d to 4.6863.

- Oil prices eased slightly between 0.8%-1.0% d/d in a risk-off mood after the Fed signalled possibilities of additional rate hikes. The EIA also reported that oil inventories fell 2.1m barrels last week in the US.

Fed maintained benchmark rates at 5.25%-5.50%; pencilled in one more 25bps hike this year

- As widely expected, the Federal Reserve unanimously voted to maintain the target range for the Federal funds rate at 5.25%-5.50%. Key highlights from the statement and economic projections include: 1) In the statement, Fed pointed out that economic activity has been expanding at a "solid pace" rather than at a "moderate pace" in its previous statement. Job gains have "slowed" in recent months rather than "robust" in the previous statement. 2) The median forecast for end-2023 fed funds rate remains at 5.6%, but the forecast for 2024 and 2025 was revised 50bps upwards to 5.1% and 3.9% respectively (July: 4.6% and 3.4%). It should be noted that 12 out of 19 participants pencilled in an additional hike by year end in the dot plot. 3) Real GDP growth projection was revised upwards to 2.1% and 1.5% for 2023 and

Key Market Metrics

	Level	d/d (%)
Equities		
Dow Jones	34,440.88	-0.22
S&P 500	4,402.20	-0.94
NASDAQ	13,469.13	-1.53
Stoxx Eur 600	460.66	0.91
FTSE 100	7,731.65	0.93
Nikkei 225	33,023.78	-0.66
CSI 300	3,705.69	-0.40
Hang Seng	17,885.60	-0.62
Straits Times	3,242.00	0.04
KLCI 30	1,451.56	-0.42
FX		
Dollar Index	105.33	0.19
EUR/USD	1.0661	-0.17
GBP/USD	1.2344	-0.39
USD/JPY	148.34	0.32
AUD/USD	0.6448	-0.09
USD/CNH	7.3074	0.05
USD/MYR	4.6863	-0.22
USD/SGD	1.3653	0.04
Commodities		
WTI ($/bbl)	90.28	-1.01
Brent ($/bbl)	93.53	-0.86
Gold ($/oz)	1,948.60	0.69
Copper ($$/MT)	8,345.50	0.64
Aluminum($/MT)	2,256.00	1.83
CPO (RM/tonne)	3,630.00	-1.73

Source: Bloomberg, HLBB Global Markets Research
** Dated as of 19th Sept for CPO*

2024 (Previous: +1.0% and +1.1%) and left unchanged at 1.8% for 2025. 4) Unemployment rate was revised downwards for 2023, 2024 and 2025 to 3.8%. 4.1% and 4.1% (Previous: 4.1%, 4.5% and 4.5%). 5) Core-PCE inflation was revised downwards by 0.2ppts to 3.7% for 2023 and is expected to moderate further to 2.6% and 2.3% in 2024 and 2025 (Previous: 3.9%, 2.6%, 2.2%). 6) In the press conference, Fed chair Jerome Powell said that soft landing is the primary objective for the Fed and that the Fed decided to hold "in light of how far we've come." We are changing our view to incorporate one more 25bps hike this year, while pushing back our expectations for any rate cut to 2H2024.

- Despite elevated mortgage rates (30Y fixed mortgage rates at 7.31%, its highest in 4 weeks), mortgage applications rebounded to increase 5.4% w/w for the week ended Sep 15 (Sep: -0.8% w/w). The refinance index was up 13.2% w/w, while the purchase index gained 2.3% w/w. Both indices, however, were more than 20% y/y lower.

China maintained key lending rates

- As widely expected, the People's Bank of China maintained the 1Y and 5Y loan prime rates unchanged at 3.45% and 4.20% respectively. Key highlights from the briefing includes: 1) The central bank has ample policy room to react. 2) Warned against currency speculation, adding that the economic recovery will stabilise the yuan. 3) Chinese authorities will focus on expanding domestic demand, boosting confidence and preventing risks to achieve its 2023 GDP growth target.

UK inflation milder than expected

- Headline inflation unexpectedly decelerated to 6.7% y/y in August (Jul: +6.8% y/y) while core CPI tapered off more than expected to 6.2% y/y in the same month in review (Jul: +6.9% y/y), its lowest in 18 months and largely reflected downward effects from hotels and food. There is no change in our call that the Bank of England will raise its cash rate by 25bps to 5.50% today, but the latest data will give scope for the central bank to pause subsequent to that.
- Separate data also slowed that producer prices remained contractionary at -0.4% y/y (input) and -2.3% y/y (output) (July: -0.7% y/y and -3.2% y/y), while growth in the House Price Index decelerated more than expected to +0.6% m/m in July (June: +1.9% m/m).

Australia's Leading Index signals improved, but below trend growth

- Westpac Leading Index fell 0.04% m/m in August (July: +0.01%), while the six-month annualised growth rate rose slightly to –0.50% (Jul: –0.56%). The negative prints suggest that the economy is likely to grow at a below-trend pace. Component wise, consumer expectations and labour market assessments steadied and there have been more positive signals from both Australia's dwelling approvals and US IPI.

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	5.50.5.75	5.50-5.75	5.50-5.75
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
21-Sep	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
22-Sep	AU Judo Bank Australia PMI Mfg (Sep P)	49.6
	AU Judo Bank Australia PMI Services (Sep P)	47.8
	UK GfK Consumer Confidence (Sep)	-25
	JN Natl CPI Ex Fresh Food, Energy YoY (Aug)	4.30%
	JN Jibun Bank Japan PMI Mfg (Sep P)	49.6
	JN Jibun Bank Japan PMI Services (Sep P)	54.3
	MA CPI YoY (Aug)	2.00%
	UK Retail Sales Inc Auto Fuel MoM (Aug)	-1.20%
	MA Foreign Reserves (42248)	$112.5b
	EC HCOB Eurozone Manufacturing PMI (Sep P)	43.5
	EC HCOB Eurozone Services PMI (Sep P)	47.9
	EC HCOB Eurozone Composite PMI (Sep P)	46.7
	UK S&P Global/CIPS UK Manufacturing PMI (Sep P)	43
	UK S&P Global/CIPS UK Services PMI (Sep P)	49.5
	UK CBI Trends Total Orders (Sep)	-15
	US S&P Global US Manufacturing PMI (Sep P)	47.9
	US S&P Global US Services PMI (Sep P)	50.5
	JN BOJ Policy Balance Rate	-0.10%

Source: Bloomberg

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