

21 December 2023

## Global Markets Research

### Daily Market Highlights

## 21 Dec: Downside surprises in UK CPI spurred rate cut bets

**US equities snapped a 9-day rally; 10Y UST yield lowest since July; DXY rebounded**

**US existing home sales broke its 5-month losing streak; consumer confidence improved**

**10Y gilt yields plunged on weaker than expected CPI print; GBP notable loser amongst G10**

- US stocks pulled back on Wednesday, snapping a 9-day rally that sent the Dow Jones Industrial Average to record highs. The three major equity indices lost between 1.3-1.5% d/d each and logged their worst days since at least October. FedEx was the biggest laggard, losing 12.1% d/d after it warned of weakening demand and lowered its annual revenue projection. General Mills also fell 3.6% d/d after it reported a drop in sales due to softening demand for snacks and breakfast food.
- European stocks, on the other hand, closed mostly in the green with UK stocks outperforming after its inflation dropped more than expected, fuelling rate cut bets. Asian stocks closed mixed, with Nikkei 225 extending gains to another session (+1.4% d/d) after the BOJ left its ultra-loose monetary policy unchanged but CSI 300 slid 1.1% d/d after the PBoC maintained its benchmark lending rates. With the global rally losing steam, Asian stocks are set to drop today.
- The Treasuries market rallied as rate cut bets deepened, sending the 2Y yield plunging 11bps to 4.33% and the 10Y sliding 8bps to 3.85%, its lowest level since July. 10Y European bonds were also firmer, led by UK gilts. 10Y yield for UK gilts plunged 13bps to 3.52%, its lowest since April. Bund was also lower 5bps at 1.97%, the first time below 2.00% since December 2022.
- DXY was choppy but closed near its day-high at 102.41 (+0.2% d/d), strengthening against all its G10 peers save the JPY. GBP was one of the notable losers, depreciating 0.7% d/d amidst the sharper than expected drop in its inflation. EUR and AUD weakened in tune of 0.4-0.5% d/d against USD, while JPY rebounded 0.2% d/d to 143.57. Regional currencies closed mixed, with CNH and SGD depreciating 0.3-0.4% d/d but MYR appreciated 0.4% d/d to 4.6580.
- Oil prices gained another 0.6-1.1% d/d as Red Sea risks overshadowed a record US oil supply. According to the EIA, US crude output rose to a record 13.3m barrels/ day last week.

#### PBoC maintained key lending rates steady for the 4<sup>th</sup> month

- As expected, the People's Bank of China (PBoC) maintained the 1- and 5Y loan prime rates steady for the fourth month at 3.45% and 4.20%. Given that recent economic data suggests that recovery remains under pressure, PBoC is expected to maintain a loose monetary policy next year

#### US existing home sales broke its 5-month losing streak; consumer confidence improved more than expected

- Mixed slew of housing data. Mortgage applications fell for the first time in 7 weeks by 1.5% w/w for the week ended December 15 (Dec 8: +7.4% m/m),

#### Key Market Metrics

	Level	d/d (%)
<b>Equities</b>		
Dow Jones	37,082.00	-1.27
S&P 500	4,698.35	-1.47
NASDAQ	14,777.94	-1.50
Stoxx Eur 600	477.94	0.19
FTSE 100	7,715.68	1.02
Nikkei 225	33,675.94	1.37
CSI 300	3,297.50	-1.10
Hang Seng	16,613.81	0.66
Straits Times	3,108.03	-0.28
KLCI 30	1,464.56	-0.08
<b>FX</b>		
Dollar Index	102.41	0.24
EUR/USD	1.0942	-0.36
GBP/USD	1.2639	-0.73
USD/JPY	143.57	-0.19
AUD/USD	0.6730	-0.49
USD/CNH	7.1507	0.42
USD/MYR	4.6580	-0.43
USD/SGD	1.3326	0.32
<b>Commodities</b>		
WTI (\$/bbl)	74.22	1.06
Brent (\$/bbl)	79.70	0.59
Gold (\$/oz)	2,034.50	-0.19
Copper (\$\$/MT)	8,582.50	-0.13
Aluminum(\$/MT)	2,241.00	-0.95
CPO (RM/tonne)	3,703.00	1.06

Source: Bloomberg, HLBB Global Markets Research

\* Dated as of 19 Dec for CPO

but existing home sales broke its 5-month slide and improved more than expected by +0.8% m/m in November (Oct: -4.1% m/m). Sales were nonetheless still down 7.3% y/y. Data also showed that the inventory of unsold existing homes slid 1.7% m/m to 1.1m or the equivalent of 3.5 months' supply at the current monthly sales pace (Oct: 3.6), while median existing-home sales price rose 4.0% y/y to \$387.6k, its fifth consecutive month of y/y increase. As it is, the housing market may have likely reached its cyclical low point, and will be supported by lower mortgage rates going forward. Meanwhile, home prices kept marching higher, and only a rise in supply and a sharp slowdown in the economy will dampen price appreciation.

- The Conference Board Consumer Confidence Index increased more than expected to 110.7 in December (Nov: 101.0), with both the Present and Expectations sub-indices improving to 148.5 and 85.6 respectively (Nov: 136.5 and 77.4). The sharp increase in the latter brings expectations back to the levels of optimism last seen in July. Of note, consumers' perceived likelihood of a US recession over the next 12 months fell to its lowest level seen this year, though two-thirds still perceive a downturn is possible in 2024.

#### **Eurozone's consumer confidence rebounded mildly but still below long-term average**

- Mixed data from the Eurozone. Slowdown in inflation rate fed optimism amongst consumers, sending the confidence index rebounding more than expected to -15.1 in November (Oct: -16.9). Nonetheless confidence at this level is still below its long-term average. Construction output, meanwhile, fell by 1.0% m/m and 0.7% y/y in October (Sep: +0.9% m/m and +0.7% y/y).

#### **UK's inflation slowed sharper than expected**

- Headline and core inflation slowed sharper than expected to +3.9% y/y and +5.1% y/y in November (Oct: +4.6% y/y and +5.7% y/y), adding pressure on the BOE to cut rates in 2024. Easing inflationary pressure was widespread but most notably from transport, recreation & culture and food & non-alcoholic beverages. Services inflation, as a whole moderated to +6.3% y/y (Oct: +6.6% y/y). As it is, BOE Deputy Governor has said that it will be awaiting clarity on wage growth before deciding on interest rate cuts and the MPC's November Monetary Policy Report projections were conditioned on a market-implied path for Bank Rate to remain around 5.25% until 3Q of 2024.
- Separate data also factory output and input prices fell 0.2% y/y and 2.6% y/y for the same month (Oct: -0.3% y/y and +2.6% y/y), while the House Price Index contracted at a wider pace of 1.2% y/y (Oct: -0.6% y/y). As it is, producer price inflation rates have been slightly falling since June, but remained substantially higher than their 2021 levels.
- Data this morning showed that Lloyds Business Barometer fell to 35 in December (Nov: 42), mainly due to retreats in the business activity and prices charged over the next 12 months sub-indices.

#### **House View and Forecasts**

FX	This Week	4Q-23	1Q-24	2Q-24	3Q-24
DX	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
21-Dec	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
22-Dec	UK CBI Total Dist. Reported Sales (Dec)	-9
	JN Natl CPI YoY (Nov)	3.30%
	MA CPI YoY (Nov)	1.80%
	UK Retail Sales Inc Auto Fuel MoM (Nov)	-0.30%
	UK GDP QoQ (3Q F)	0.00%
	MA Foreign Reserves	\$112.3b
	US Personal Income (Nov)	0.20%
	US Personal Spending (Nov)	0.20%
	US Durable Goods Orders (Nov P)	-5.40%
	US PCE Core Deflator YoY (Nov)	3.50%
	US Cap Goods Orders Nondef Ex Air (Nov P)	-0.30%
	US New Home Sales MoM (Nov)	-5.60%
	US U. of Mich. Sentiment (Dec F)	69.4
	US U. of Mich. 1 Yr Inflation (Dec F)	3.10%
	US U. of Mich. 5-10 Yr Inflation (Dec F)	2.80%
	US Kansas City Fed Services Activity (Dec)	1

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](mailto:HLMarkets@hlbb.hongleong.com.my)

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