

22 September 2023

Global Markets Research

Daily Market Highlights

22 Sep: Markets remained in risk-off mode

Continuous selloff in global equities and bonds; DXY hang on to 105s on safety bids

BOE delivered a dovish pause with a 5-4 split vote; likely marking an end to rate hike cycle

Japan's core CPI held steady in August; all eyes on BOJ today

- Global equities were submerged in a sea of red as the rippling effects from the Fed's hawkish pause stayed extended. Major US stock indices fell 1.0-1.8% d/d while its European and Asian counterparts saw selloffs generally in excess of 1.0% yesterday. Futures are pointing to generally lower opening in Asia markets this morning.
- Risk-off market sentiments arising from renewed fear that potential further increase in the Fed funds rate could dampen growth outlook in the US economy was further bolstered by a surprised BOE pause accompanied by bearish comments on growth. Expectations are becoming more entrenched that the global policy tightening is nearing the end, if not already ended; and that downside growth risks have risen. SNB also sprang surprises, delivering a surprised pause at 1.75% while the Riksbank hiked 25bps to 4.00% as expected. In the region, Taiwan, Philippines and Indonesia all kept rates unchanged at 1.875%, 5.75% and 5.75% respectively as widely expected.
- Selling was also evident in the global sovereign bond space, pushing yields higher. US treasuries however traded a little mixed, with yields at the front end seemingly fell while the 5Y onwards increased, steepening the curve significantly with the 2/10 spread widened 7bps to -65bps. 10Y German bunds rose 4bps to 2.732% while the UK gilts added 8bps to 4.29%.
- On the FX front, the Dollar Index hang on to the 105s handle, printing a mild 0.03% gain d/d to 105.36 at close. The USD strengthened against 6 G10s including the GBP which was hit by BOE's surprised pause. The sterling came under severe selling pressure following the dovish pause, falling to an intraday low of 1.2239 before regaining some grounds to close the day only 0.4% d/d down at 1.2298. The JPY advanced on flight to safety bids, strengthening 0.5% d/d to 147.59 ahead of BOJ meeting today. Against the major Asian currencies, the greenback also traded generally stronger, the most vs the KRW, TWD and CNY.
- Global oil prices fell for the 3rd straight day, with larger decline in WTI (-0.7% d/d) and smaller fall in Brent (-0.3% d/d), dented by risk-off sentiments, setting the stage for its first weekly drop this month.

Key Market Metrics

	Level	d/d (%)
Equities		
Dow Jones	34,070.42	-1.08
S&P 500	4,330.00	-1.64
NASDAQ	13,223.99	-1.82
Stoxx Eur 600	454.67	-1.30
FTSE 100	7,678.62	-0.69
Nikkei 225	32,571.03	-1.37
CSI 300	3,672.45	-0.90
Hang Seng	17,655.41	-1.29
Straits Times	3,202.81	-1.21
KLCI 30	1,448.21	-0.23
FX		
Dollar Index	105.36	0.03
EUR/USD	1.0661	0.00
GBP/USD	1.2298	-0.37
USD/JPY	147.59	-0.51
AUD/USD	0.6416	-0.50
USD/CNH	7.3141	0.09
USD/MYR	4.6933	0.15
USD/SGD	1.3666	0.10
Commodities		
WTI (\$/bbl)	89.63	-0.72
Brent (\$/bbl)	93.30	-0.25
Gold (\$/oz)	1,921.20	-1.41
Copper (\$\$/MT)	8,194.00	-1.82
Aluminum(\$/MT)	2,212.00	-1.95
CPO (RM/tonne)	3,689.50	1.64

Source: Bloomberg, HLBB Global Markets Research

* Dated as of 20th Sept for CPO

BOE delivered a surprised pause at 5.25%; expect no further increase ahead

- BOE delivered a surprised pause, keeping interest rate unchanged at 5.25% at its policy meeting yesterday given the downside surprises in August inflation prints. This marked its first pause after 14 consecutive hikes, from 0.10% in Nov-21 to the current 5.25%. Loosening labour market and softening business confidence were also other reasons cited for the pause.
- We opine the BOE would have done with its current policy tightening cycle. The latest decision was a close call with 5 policy makers voted for a hold vs 4

who voted for a hike. Policy makers acknowledged that inflation has fallen a lot recently and will continue to do so in the near term despite rising oil prices; while underlying growth in 2H2023 is expected to come in weaker. The MPC also voted to reduce the stock of gilts by GBP100 billion in 12 months starting October.

- In a separate release this morning, GfK consumer confidence turned less downbeat with a -21 print in September (Aug: -25).

Overall weaker US data except for the surprised decline in initial jobless claims

- Initial jobless claims fell 20k to 201k for the week ended 16-September (prior 221k revised), against expectations for an increase to 225k. Continuing claims also unexpectedly fell to 1662k for the week ended 9-September (prior 1683k revised), suggesting a still firm labour market.
- Leading Index saw extended decline, down 0.4% m/m in August (Jul: -0.3%), marking its 17th straight month of decline and the longest losing streak since 2008/09, signalling odds of a recession remain valid.
- Existing home sales reported a surprised 0.7% m/m decline in August (Jul: -2.2%), denting hopes for a rebound although this marked its smallest decline in three months. Limited inventories and high mortgage rates will continue to exert a drag on the housing market going forward.
- Philadelphia Fed Business Outlook plunged more than expected to -13.5 in September, dragged by new orders and shipment. This proved last month's rebound to a positive print of 12.0 was just a blip. The index has been seeing back-to-back negative readings since last September, offering little signs of any improvement in manufacturing activities in the district.

Eurozone consumer confidence fell to a 6-month low

- Consumer confidence weakened more than expected to -17.8 in September (Aug: -16.0), its worst in six months as higher energy costs are hitting consumers and dampening growth outlook.

Japan's headline CPI eased less than expected; core steadied

- National headline CPI tapered off less than expected to 3.2% y/y in August (Jul: +3.3% y/y) as inflation in food and housing were little changed at 8.6% and 1.1% y/y respectively (Jul: +8.8% and +1.1%) while utilities saw a bigger decline of 12.3% y/y during the month (Jul: -9.6% y/y). Meanwhile, core CPI excluding fresh food and energy held steady at 4.3% y/y as expected. Today's CPI print added to signs of price stickiness which could pose some risks to BOJ's expectation that inflation would peak later this year and fall back below its 2% target next year, hence potentially prompting BOJ to end its ultraloose monetary policy sooner than later although we do not expect any move today.

Australia PMI manufacturing eased but services picked up

- PMI manufacturing weakened to 48.2 in September (Aug: 49.2), staying in contractionary mode for the 7th straight month amid deeper declines in new orders and output. Meanwhile services PMI bounced back above the 50-threshold to 50.5 in September (Aug: 47.8), snapping two straight months of contraction, spurred by bigger gains in employment.

House View and Forecasts

FX	This Week	3Q-23	4Q-23	1Q-24	2Q-24
DX	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	5.25	5.25	5.25	5.25
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
22-Sep	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%
25-Sep	SI CPI YoY (Aug)	4.10%
	UK CBI Total Dist. Reported Sales (Sep)	-26
	US Chicago Fed Nat Activity Index (Aug)	0.12
	US Dallas Fed Manf. Activity (Sep)	-17.2
25-30 Sep	VN GDP YoY (3Q)	4.14%
	VN CPI YoY (Sep)	2.96%
	VN Exports YoY (Sep)	-7.60%
	VN Industrial Production YoY (Sep)	2.60%
	VN Retail Sales YoY (Sep)	7.60%

Source: Bloomberg

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