25 January 2023

Global Markets Research

Daily Market Highlights

25 Jan: Global stocks closed mixed

S&P and Nasdaq slipped marginally as investors parsed through corporate earnings

China maintained lending rates; downside risk persists

Malaysia's inflation rate tapered off to 3.8%; Japan's hit 41-year high

- The Dow Jones Industrial Average closed higher Tuesday as investors parsed through the latest batch of corporate earnings reports for insight into the state of the economy. The Dow gained 0.3% d/d, while the S&P 500 traded relatively flat (-0.1% d/d). The Nasdaq Composite dipped 0.3% d/d. Earnings season continued with mixed results. 3M fell 6.2% d/d on disappointing guidance while Microsoft shares closed the day 0.2% lower despite reporting fiscal 2Q earnings that topped analysts' estimates.

- European markets closed lower despite the better-than-expected PMI data from the Eurozone in January. Stoxx 600 and FTSE 100 fell 0.2%-0.4% d/d each. Stocks in Asia-Pacific were mostly closed as Lunar New Year holidays were observed in most of the region, but Nikkei 225 rose 1.5% d/d.

- The yield on the benchmark 10-year Treasury fell 6bps to 3.45%, while the 2-year Treasury yield dipped 2bps to 4.21%.

- USD briefly rose before declining against EUR after data showed US business activity contracting for the seventh straight month in January. Dollar Index closed the day 0.2% d/d lower at 101.92, while EUR strengthened 0.1% d/d. EUR itself was supported through the day after Euro area data showed that business activity made a surprised return to modest growth in January. GBP was one of the worst-performing major currencies against USD, depreciating 0.4% d/d. Over in Asia, JPY appreciated 0.4% d/d against USD. MYR and SGD, meanwhile, closed mixed last Friday. MYR strengthened 0.5% to 4.2850, while SGD weakened 0.1% d/d to 1.3196.

- The West Texas Intermediate (WTI) retreated to near $80/barrel as corporate earnings disappointment raised demand outlook concerns. WTI fell 1.8% d/d, while the Brent dropped 2.4% d/d. Prices of gold also wavered, but closed the day 0.4% d/d higher.

China maintained lending rates

- As per expectations, the People's Bank of China maintained its 1-year and 5-year lending rates unchanged at 3.65% and 4.30% respectively. Still, more policy support maybe needed to support the economy, especially to stabilise the property market. As such, we would not discount the possibility of PBOC slashing its policy rates, which would prompt banks to cut their lending rates.

Key Market Metrics

	Level	d/d (%)
Equities		
Dow Jones	33,733.96	0.31
S&P 500	4,016.95	-0.07
NASDAQ	11,334.27	-0.27
Stoxx Eur 600	453.38	-0.24
FTSE 100	7,757.36	-0.35
Nikkei 225	27,299.19	1.46
Hang Seng	22,044.65	1.82
Straits Times	3,293.71	0.54
KLCI 30	1,500.33	0.27
FX		
Dollar Index	101.92	-0.22
EUR/USD	1.0887	0.14
GBP/USD	1.2334	-0.36
USD/JPY	130.17	-0.38
AUD/USD	0.7046	0.24
USD/CNH	6.7840	0.11
USD/MYR	4.2850	-0.52
USD/SGD	1.3196	0.11
Commodities		
WTI ($/bbl)	80.13	-1.83
Brent ($/bbl)	86.13	-2.34
Gold ($/oz)	1,935.40	0.35
Copper ($$/MT)	9,314.50	-0.44
Aluminum($/MT)	2,650.50	0.53
CPO (RM/tonne)	3,860.00	0.27

Source: Bloomberg, HLBB Global Markets Research
**Closing for Hang Seng, Straits Times, KLCI 30, USD/MYR as of 20th Jan*

S&P PMIs mostly contractionary; Euro Services PMI treaded above 50

- The S&P Global Flash US Manufacturing PMI unexpectedly rose to 46.8 in January (Dec: 46.2), signalling continuous decline in operating conditions. Although softening, the rate of decline was the second-fastest since May 2020 as manufacturing demand conditions remained subdued. The S&P Global Flash US Services Business Activity Index, meanwhile, rose more than expected to 46.6 (Dec: 44.7), but remained as one of the softest since last October.
- The seasonally adjusted S&P Global 'flash' Eurozone PMI saw manufacturing output contracting less than expected at 48.8 in January (Dec: 47.8), the smallest drop in factory production since last June. Services sector rose more than expected to above the 50-threshold, the first time since July to 50.7 (Dec: 49.8). Growth was driven by the technology as well as healthcare and pharmaceutical sectors.
- In the UK, the S&P Global / CIPS Flash UK Output Index saw the manufacturing production index increasing more than expected to 46.7 (Dec: 45.3). The rate of contraction was the least since July 2022. Nevertheless, the service sector fell more than expected and at the steepest pace for two years at 48.0 (Dec: 49.9).
- The au Jibun Bank Japan Manufacturing PMI was unchanged at 48.9 in January as demand conditions remained subdued and reportedly led to sustained reductions in output and new orders, though rates of decline softened to 3-month lows in both cases. The au Jibun Bank Flash Japan Services Business Activity Index, meanwhile, rose to 52.4 in January (Dec: 51.1), supported by the Nationwide Travel Discount Programme and the recent relaxation of COVID-19 related restrictions. However, for the first time in a year, employment levels decreased and at the most pronounced rate since May 2020.
- Judo Bank Flash Australia Manufacturing PMI fell to 49.8 in January (Dec: 50.2), the first contraction in 32 months. The Judo Bank Flash Australia Services PMI Business Activity Index, on the other hand, improved to 48.3 for the same month (Dec: 47.3), supported by international demand and interest in Australian services.

US leading index declined sharply; existing home sales fell to the lowest since 2010

- The Conference Board Leading Economic Index declined sharper than expected by 1.0% m/m in December (Nov: -1.1% m/m). There was widespread weakness, indicating deteriorating conditions for labour markets, manufacturing, housing construction, and financial markets in the months ahead.
- Existing-home sales declined for the 11th consecutive month, albeit at a slower than expected pace of 1.5% m/m in December (Nov: -7.9% m/m). At 4.02m (Nov: 4.08m) however, it is the lowest since 2010. On a y/y basis, sales also sagged 34.0%, as rapidly escalating interest rate environment weighed on the residential real estate market. As a result, median existing-home price also rose at the slowest pace since May 2020 at +2.3% y/y (Nov: +4.0% y/y). Inventory sat at a 2.9-month supply at the current sales pace (Nov: 3.3 months), while properties typically remained on the market for 26 days (Nov: 24 days).
- Richmond Fed's Business Condition Index fell more than expected to -11 in January (Dec: +1). Each of its three component indices declined, with the index for new orders plummeting to -24 (Dec: −4).

Eurozone’s consumer confidence highest in nearly a year

- Eurozone’s consumer confidence indicator rose to its highest since last February, albeit at a weaker than expected pace of -20.9 in January (Dec: -20.9). Although improving, this remained below its long-term average.

UK consumer confidence missed estimates at -45, retail sales fell 1.0%

- Retail sales volumes unexpectedly plunged 1.0% m/m in Dec (Nov: -0.5% m/m) as costs of goods and services rose more quickly than wages, leaving a squeeze in spending and more than offset the savings from lower gas prices. Sales were also impacted by the cold snap as well as postal and rail strikes.
- Ominously, UK consumer confidence unexpectedly worsened in January, with Gfk’s confidence index slipping to -45 (Dec: -42). The climate for major purchases index, specifically, was the main contributor to the missed estimate.
- The CBI Industrial Trends survey showed that the volume of total order books worsened more than expected to -17 for the quarter ended January (Oct: -6). Nevertheless, manufacturers expect new orders to rise over the next three months to +9. Business optimism meanwhile, fell for the fifth consecutive quarter, but at a much slower rate of -5 (Oct: -48).

HK inflation accelerated to 2.0%

- Hong Kong’s inflation rate accelerated more than forecast at +2.0% y/y in December (Nov: +1.8% y/y) as prices of utilities jumped by 14.7% y/y. Going forward, overall inflation is expected to face some upward pressure, albeit at a moderate level as external price pressures remain notable while domestic cost pressures may increase alongside the expected improvement in local economic activities.

Australia’s Business Conditions Index fell 8 points

- Australia’s business conditions fell by 8pts to +12 in December (Nov: +20), notching up a third successive decline but still in line with the average at +12 index seen in early-to-mid 2022. Momentum is clearly slowing though activity remains solid. Price pressures are still evident but are easing as supply chains, freight costs and fuel input prices ease.

Japan’s consumer inflation hits fresh 41-year high, keep BOJ in focus

- As expected, Japan’s core consumer price hit a fresh 41-year high in December of 4.0% y/y in December (Nov: +3.8% y/y). Core CPI, which strips away both fresh food and energy costs also accelerated to 3.0% y/y (Nov: +2.8% y/y). Prices of services were up just 0.8% y/y for the month, rising much more slowly than the 7.1% y/y gain in goods prices, a potential sign of still-slow wages growth.

Malaysia’s headline CPI tapered off to 3.8% in December, its lowest since Jun-22

- Headline Consumer Price Index (CPI) moderated to 3.8% y/y in December, as expected (Nov: +4.0%), marking its first reading below 4.0% and the lowest since June. In tandem with this, the increase in core CPI also decelerated for the first time in 16 months, down to 4.1% y/y in December (Nov: +4.2% y/y), which would have seen its peak and marked the beginning of downward move from here.
- Softer headline CPI prints, core CPI and underlying inflationary pressure remain elevated, stemming from second round price effects and to some

extent, demand-driven pressure. Against this backdrop of elevated price risk and moderate growth outlook, odds remain for further policy normalization by BNM going forward, where OPR could be raised by another 25-50bps back to pre-Covid level of 3.00-3.25%. However, we reckon the bar will be increasingly higher as we head towards 2H2023.

- Malaysia's foreign reserves edged up slightly by US$0.3bn to US$114.9bn as at 13 Jan (end-2022: US$114.6bn). The reserves position is stable and sufficient to finance 5.3 months of imports of goods and services, and is 1.0 time of the total short-term external debt.

House View and Forecasts

FX	This Week	1Q-23	2Q-23	3Q-23	4Q-23
DXY	101-104	98.00	96.04	96.04	96.04
EUR/USD	1.07-1.09	1.10	1.11	1.11	1.11
GBP/USD	1.21-1.27	1.26	1.27	1.27	1.27
USD/JPY	127-133	130	128	128	128
AUD/USD	0.68-0.72	0.70	0.72	0.72	0.72
USD/MYR	4.28-4.35	4.31	4.28	4.28	4.28
USD/SGD	1.31-1.34	1.32	1.30	1.30	1.30

Rates, %	Current	1Q-23	2Q-23	3Q-23	4Q-23
Fed	4.25-4.50	4.75-5.00	4.75-5.00	4.75-5.00	4.75-5.00
ECB	2.50	3.00	3.00	3.00	3.00
BOE	3.50	4.00	4.00	4.00	4.00
BOJ	-0.10	-0.10	-0.10	-0.10	-0.10
RBA	3.10	3.35	3.35	3.35	3.35
BNM	2.75	3.00	3.00	3.00	3.00

Source: HLBB Global Markets Research

Up Next

Date	Events	Prior
25-Jan	AU Westpac Leading Index MoM (Dec)	-0.13%
	AU CPI YoY (Dec)	7.30%
	SI CPI YoY (Dec)	6.70%
	JN Leading Index CI (Nov F)	97.6
	UK PPI Output NSA MoM (Nov)	0.90%
	UK PPI Input NSA MoM (Nov)	0.80%
	US MBA Mortgage Applications	27.90%
	US Philadelphia Fed Non-Manufacturing Activity (Jan)	-17.1
25-31 Jan	VN Exports YoY (Jan)	-14.00%
	VN Imports YoY (Jan)	-8.10%
	VN CPI YoY (Jan)	4.55%
	VN Industrial Production YoY (Jan)	0.20%
26-Jan	JN PPI Services YoY (Dec)	1.70%
	SI Industrial Production SA MoM (Dec)	-1.20%
	HK Imports YoY (Dec)	-20.30%
	HK Exports YoY (Dec)	-24.10%
	US Chicago Fed Nat Activity Index (Dec)	-0.05
	US GDP Annualized QoQ (4Q A)	3.20%
	US Wholesale Inventories MoM (Dec P)	1.00%
	US Advance Goods Trade Balance (Dec)	-$83.3b
	US Retail Inventories MoM (Dec)	0.10%
	US Core PCE QoQ (4Q A)	4.70%
	US Initial Jobless Claims	190k
	US Continuing Claims	1647k
	US Durable Goods Orders (Dec P)	-2.10%
	US Cap Goods Orders Nondef Ex Air (Dec P)	0.10%
	US New Home Sales MoM (Dec)	5.80%
26-27 Jan	SI Unemployment rate SA (Dec)	2.00%

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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