25 September 2023

Global Markets Research

Daily Market Highlights

25 Sep: BOJ stood pat and maintained a dovish stance

PMIs for majors ended 3Q on a weak note; US continued to outperform other majors

Crude oil prices closed mixed; Russia imposed temporary ban on diesel, gasoline exports

Malaysia's CPI steadied at 2.0%; on track to meet full year CPI forecast of 2.6%

- Lingering nervousness over FOMC's more hawkish than expected stance weighed on Wall Street on Friday. The Dow Jones Industrial Average slid 0.3% d/d, Nasdaq slipped 0.1% d/d, while the S&P 500 shed 0.2% d/d. This marks the fourth straight day of losses and the worst weekly performance for S&P 500 since March. Of note however, Ford shares rose 1.9% d/d after reports that the auto giant was making progress in negotiations with the striking United Auto Workers union.

- In Europe, FTSE 100 outperformed Stoxx Eur 600 at +0.1% d/d and -0.3% d/d respectively, with AstraZeneca, lenders Lloyds and HSBC as well as oil giants Shell and BP leading gains. Astra gained following a positive breast cancer drug trial update, while the big lenders and oil giants benefitted from BOE's decision to hold rates and stronger crude oil prices respectively. Asian markets closed mixed, with Nikkei 225 sliding 0.5% d/d after the BOJ maintained its ultra-loose policy, while Hang Seng and CSI closed 2.3% d/d and 1.8% d/d higher.

- Treasury yields pulled back, with the 2Y retreating 4bps to 5.11%, while the 10Y eased 6bps to 4.43%. 10Y European bond yields closed mixed between -5 to +5bps.

- DXY advanced 0.2% d/d to close at 105.58 after US PMIs generally outperformed other majors. EUR and GBP weakened 0.1% d/d and 0.5% d/d respectively, the latter weighed down by a sharp slowdown in its PMIs and after the BOE unexpectedly kept its key policy rate unchanged. Regional currencies strengthened by less than 0.4% d/d each, save for the TWD and JPY. JPY closed the day 0.5% d/d weaker at 148.37 after sliding as low as 148.42 after the BOJ held its interest rates at -0.1% and offered a dovish guidance.

- Prices of crude oil closed mixed. Brent closed just below the flatline at $93.27/barrel but the West Texas Intermediate edged up by 0.5% d/d to $90.03/barrel. In a news update, Russia imposed a temporary ban on diesel and gasoline exports to most countries, a move that risks disrupting fuel supplies ahead of winter and threatens to exacerbate global shortages, likely posing added upside risks to inflation.

BOJ maintained ultra-loose policy and dovish guidance

- The Bank of Japan appears set to maintain its stimulus stance, unanimously voting to maintain its short-term policy rate unchanged at -0.1% and the

Key Market Metrics

	Level	d/d (%)
Equities		
Dow Jones	33,963.84	-0.31
S&P 500	4,320.06	-0.23
NASDAQ	13,211.81	-0.09
Stoxx Eur 600	453.26	-0.31
FTSE 100	7,683.91	0.07
Nikkei 225	32,402.41	-0.52
CSI 300	3,738.93	1.81
Hang Seng	18,057.45	2.28
Straits Times	3,204.82	0.06
KLCI 30	1,450.23	0.14
FX		
Dollar Index	105.58	0.21
EUR/USD	1.0653	-0.08
GBP/USD	1.2241	-0.46
USD/JPY	148.37	0.53
AUD/USD	0.6441	0.39
USD/CNH	7.2990	-0.21
USD/MYR	4.6895	-0.08
USD/SGD	1.3652	-0.10
Commodities		
WTI ($/bbl)	90.03	0.45
Brent ($/bbl)	93.27	-0.03
Gold ($/oz)	1,927.20	0.31
Copper ($$/MT)	8,222.00	0.34
Aluminum($/MT)	2,240.50	1.29
CPO (RM/tonne)	3,637.50	-1.41

Source: Bloomberg, HLBB Global Markets Research
** Dated as of 21th Sept for CPO*

target for the 10Y JGB yield at 0% with an effective ceiling at 1.0%. Highlights from the accompanying statement include: 1) Japan's economy is likely to continue recovering moderately for the time being but to grow at a pace above its potential growth rate thereafter. 2) Inflation is expected to decelerate reflecting waning effects from past imported inflation. Thereafter, inflation is expected to pick-up as the output gap improves and as medium- to long-term inflation expectations and wage growth rises. 3) Concerning risks to the outlook, there are extremely high uncertainties surrounding Japan's economic activity and prices, including developments in overseas economic activity and prices, developments in commodity prices, and domestic firms' wage- and price-setting behavior.

PMIs for majors ended 3Q on a weak note added signs of divergence between manufacturing and services

- While the S&P US Manufacturing PMI picked up more than expected to 48.9 in September (Aug: 47.9), the Services PMI unexpectedly worsened to 50.2 (Aug: 50.5). September data indicated the worst performance since February, as both sector providers reported muted demand conditions.
- Eurozone PMIs remained contractionary for the same month, again led by manufacturing, while the services sector saw activity decrease for the second month running. The latter unexpectedly improved to 48.4 (Aug: 47.9), while the former unexpectedly worsened to 43.4 (Aug: 43.5). Although firms continued to expand their staffing levels, the rate of job creation was only marginal amid evidence of spare capacity and the gloomiest outlook since 4Q of 2022. Input costs continued to rise sharply, but output prices increased at the softest pace in over 2.5 years amid muted pricing power.
- UK's September data pointed to a reduction in PMI for the second month running and at the fastest pace since January 2021. The loss of momentum reflected a steeper than expected drop in the service sector (47.2 vs Aug: 49.5) which more than offset a slower decrease in the manufacturing sector (44.2 vs. Aug: 43.0). Of note, input price inflations saw its largest monthly fall in 2023, despite widespread reports of pressure on costs from higher fuel bills.
- Japan's private sector grew at the softest pace since February and forward-looking indicators suggest potential for softening demand and activity over the coming months. Service providers continued to lead the way with a sustained increase in business activity, though the rate of growth slowed to an eight-month low of 53.3 in September (Aug: 54.3). Manufacturers meanwhile signalled a fourth consecutive deterioration and the steepest seen for seven months at 48.6 (Aug: 49.6).

UK's retail sales rebounded following wet weather, albeit less than expected

- Retail sales rose less than expected by 0.4% m/m in August, led by a rebound in food and clothing. This partially offset the 1.1% m/m decline in July due to wet weather which hit footfall. Moving forward, one-off payments will continue to support spending, with NHS workers expected to receive dated pay from June 1, while a million of households will receive £300 directly from the Department for Work and Pensions in November, just ahead of the Christmas season.
- CBI tends total orders remained below "normal" in September, worsening more than expected to -18 (Aug: -15 and long-run average: -13). Moving forward, output volumes are expected to flatline for the next three months.

Of note, following eight consecutive months in which expectations for selling price inflation have eased, manufacturers reported that growth in selling prices would pick up again in the three months to December. This, nevertheless, remains at their weakest since early 2021.

Malaysia's CPI steadied at 2.0% y/y in August as expected; limited downside from here likely lead to full year CPI of 2.6%

- Malaysia's headline CPI halted five straight months of easing, printing a steady increase of 2.0% y/y in August (Jul: +2.0% y/y), very much within expectations. Six of the twelve major categories saw slower price gain; two reporting steady increase while four saw faster pace of increase in prices, offsetting each other. Despite the mixed trending among the major categories, extended moderation in core CPI and services CPI reaffirmed believes inflationary pressure is tapering off. Core CPI retreated for the 6th consecutive month, to 2.5% y/y in August (Jul: +2.8% y/y), its lowest in 15 months while services CPI softened to 2.7% y/y (Jul: +2.9% y/y), its lowest since Jun-22. On a month-on-month basis, the increase in CPI remained very well-contained at 0.2% m/m in August (Jul: +0.1% m/m).
- The CPI reading is expected to see stable increases in the next few months, bringing full year CPI forecast to average 2.6% y/y in 2023. CPI increased 2.8% y/y year-to-date August and we expect the CPI prints to hover at the 2.0% handle for the remaining months till the end of the year. Until and unless subsidy reforms kick in, overall inflation would remain very benign just shy of 2.0% next year, reaffirming that positive real interest rate will support the case for BNM to keep OPR steady at 3.00% even through next year.
- Malaysia's foreign reserves fell $1.0bn in 1H of Sep to $111.5bn as at 15-Sep (2H of Aug: +$0.3bn). The reserves position is sufficient to finance 5.2 months of imports and is 1.0 time of the total short-term external debt.

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	1.21-1.25	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	1.35-1.38	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
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%
26-Sep	JN PPI Services YoY (Aug)	1.70%
	SI Industrial Production YoY (Aug)	-0.90%
	HK Exports YoY (Aug)	-9.10%
	US Philadelphia Fed Non-Manufacturing Activity (Sep)	-13.1
	US FHFA House Price Index MoM (Jul)	0.30%
	US S&P CoreLogic CS US HPI YoY NSA (Jul)	-0.02%
	US New Home Sales MoM (Aug)	4.40%
	US Conf. Board Consumer Confidence (Sep)	106.1
	US Richmond Fed Manufact. Index (Sep)	-7
	US Richmond Fed Business Conditions (Sep)	1
	US Dallas Fed Services Activity (Sep)	-2.7

Source: Bloomberg

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