27 February 2023

Global Markets Research
Daily Market Highlights

27 Feb: Hot PCE prices rattled Wall Street

PCE and core-PCE unexpectedly accelerated to 5.4% and 4.7% y/y; spurring rate hike bets
No surprises from re-tabling of Malaysia's expansionary budget; record high DE
Budget deficit to narrow to 5.0% of GDP; GDP growth of 4.5%; higher inflation of 2.8-3.8%

- Another batch of hot economic data, especially Fed's highly preferred core PCE price index, reinforcing expectations that the Fed will keep fed funds rate higher and longer, laying the ground for losses in Treasuries and Wall Street. NASDAQ slumped 1.7% d/d, while the S&P 500 and Dow Jones fell 1.0%-1.1% d/d each. Adding to the bearish tones were weak earnings and guidance from the corporates. Specifically, Boeing shares slipped 4.8% d/d after the company temporarily halted delivery of its 787 Dreamliners over a fuselage issue. In Europe, Stoxx 600 closed down 1.0% d/d, while FTSE 100 dipped 0.4% d/. Asia-Pacific markets closed mixed, with Hang Seng falling 1.7% d/d but Japan's Nikkei 225 climbed 1.3% d/d.

- Treasury yields surged in a bear flattener, sending the bear inversion to -87bps, the most since 1981. The 2-year yield spiked to test 4.84%, a fresh high since 2007 before closing at 4.81% (+12bps d/d). The 10-year rose to 3.97% and closed at 3.94%. (+7bps d/d).

- Greenback was one beneficiary of a hawkish Fed outlook, sending the Dollar Index to its best level of the year at 105.32. DXY closed the day 0.6% d/d up at 105.21. EUR and GBP depreciated 0.5% d/d and 0.6% d/d respectively. JPY also weakened 1.3% d/d vis-à-vis USD after BOJ governor nominee Kazuo Ueda has expressed support for the current ultra loose monetary policy. CNH weakened by 0.9% d/d, while SGD depreciated 0.7% d/d to close at 1.3506. MYR closed relatively flat at 4.4353.

- Oil edged higher by 1.2% d/d in volatile trade on Friday with prices supported by the prospect of lower Russian exports but pressured by rising inventories in the US and concerns over global demand. Price of gold declined 0.5% d/d after the hot inflation data raised expectations for interest rate hikes and on the back of a strong Dollar.

US PCE prices accelerated; new homes sales jumped to 10-month high

- Both the headline and core personal consumption expenditures (PCE) indices accelerated in January. Core prices came above expectations at +0.6% m/m (Dec: +0.4% m/m) and unexpectedly accelerated to +4.7% y/y (Dec: +4.6% y/y). Headline inflation also rose more than expected to +0.6% m/m (Dec: +0.2% m/m) and unexpectedly picked up to +5.4% y/y (Dec: +5.3% y/y).
- Consumer spending also rebounded more than expected as prices increased, jumping 1.8% (Dec: -0.1%). Adjusted for inflation, spending

Key Market Metrics

	Level	d/d (%)
Equities		
Dow Jones	32,816.92	-1.02
S&P 500	3,970.04	-1.05
NASDAQ	11,394.94	-1.69
Stoxx Eur 600	457.70	-1.04
FTSE 100	7,878.66	-0.37
Nikkei 225	27,453.48	1.29
Hang Seng	20,010.04	-1.68
Straits Times	3,282.30	0.53
KLCI 30	1,456.80	-0.06
FX		
Dollar Index	105.21	0.59
EUR/USD	1.0548	-0.45
GBP/USD	1.1944	-0.57
USD/JPY	136.48	1.32
AUD/USD	0.6726	-1.20
USD/CNH	6.9810	0.94
USD/MYR	4.4353	0.03
USD/SGD	1.3506	0.59
Commodities		
WTI ($/bbl)	76.32	1.23
Brent ($/bbl)	83.16	1.16
Gold ($/oz)	1,808.80	-0.51
Copper ($$/MT)	8,716.50	-2.11
Aluminum($/MT)	2,335.50	-2.53
CPO (RM/tonne)	4,140.00	-1.06

Source: Bloomberg, HLBB Global Markets Research matched expectations at +1.1% (Dec: -0.3%), marking its first positive print in three months. This is despite personal income accelerating less than expectations at +0.6% (Dec: +0.3%). As it is, a brisk spending growth and faster price increases for both core goods and "supercore" services will reinforce the Fed's resolve to hold rates higher for longer.

- New homes sales jumped more than expected by 7.2% m/m to a 10-month high of 670k in January (Dec: to +7.2% m/m to 625k). While the data could be volatile, the increase suggests that the housing market is steadying, supported by lower median prices but a resurgence in mortgage rates could slow a much anticipated housing market turnaround. The median new house price fell 0.7%y/y and 8.2% to $427.5k for the month (Dec: +13.6% y/y and +1.6% m/m to $465.6k). At January's sales pace it would take 7.9 months to clear the supply of houses on the market (Dec: 8.7 months).
- Kansas City Fed services activity recovered to 1 in February (Jan: -11) Key highlights include firms expecting a slightly faster pace of job growth in 2023 than in 2022 and firms expect input and selling prices to increase further over the next 6-months.
- The final reading of University of Michigan's consumer sentiment index was revised upwards to 67.0 (Jan: 64.9). This is the highest in 1 year. Interestingly, consumers with larger stock holdings exhibited particularly large increases in sentiment. Year-ahead inflations, meanwhile, was revised 0.1ppts lower to +4.1% (Jan: +4.2%), while the long run inflation expectations were left unchanged at 2.9% for the third straight month.

UK's consumer confidence picked up 7 points to -38

- UK's Gfk consumer confidence improved more than expected to -38 in January, (Dec: -45), the highest since last April. While it is too early talk about green shoots of recovery, the uptick across all measures is welcomed.

Japan's core inflation accelerated to the highest since 1981 at +4.2%

- Japan's January core inflation rate accelerated to the highest since 1981, albeit below consensus at +4.2% y/y (Dec: +4.0% y/y). In tandem with this, headline also picked up to +4.3% y/y (Jan: +4.0% y/y). Higher prices for energy and non-fresh food remained the big drivers of inflation, with yen's weakness lifting import costs. On the other hand, discounts from government travel subsidies helped to limit the increase.
- Despite this, we do not expect any change in the central bank's ultra-dovish monetary policy in its next meeting. Bank of Japan (BOJ) governor nominee Kazuo Ueda has expressed support for the current ultra loose monetary policy, saying that the current strategy is appropriate and added more time is needed to achieve the central bank's inflation target and its aims to achieve price stability in a sustainable and stable manner.

Singapore's manufacturing output unexpectedly contract 2.7%

- Singapore's manufacturing output unexpectedly worsened by -2.7% y/y in January (Dec: -2.6% y/y). This marked the fourth month of contraction, weighed down by a turnaround in electronics output (-2.9% y/y vs Jan: +4.2% y/y) and a wider contraction in production of chemicals, precision engineering and general manufacturing.

Malaysia: Budget deficit to narrow to 5.0% of GDP in 2023; headline CPI tapered off to 3.7% in January

- The Finance Minister re-tabled the 2023 Budget and unveiled the "MADANI" framework, which focused on six strategic initiatives of Sustainability, Prosperity, Innovation, Respect, Trust, Care & Compassion. On the macro front: The MOF expects the Malaysian economy to expand at a moderate pace of 4.5% in 2023, well within earlier MOF projection of 4.0-5.0% and a tad more positive than the point forecast of 4.2% back then, but slightly below our projection of 4.9%. Inflation forecast range is being raised to 2.8-3.8% (prior 2.8-3.3%) reflecting higher upside risks.
- Budget deficit is being reduced by RM5.0bn to RM93.9bn due to the removal of Covid-19 fund. The increase in revenue is estimated to be neutralized by higher OPEX and DE. Still, budget deficit as a percentage of GDP is expected to taper off to 5.0% (prior 5.5%), partly facilitated by a higher GDP base. The government remains committed to rein in its fiscal shortfall, with the budget shortfall expected to narrow further to 4.1% of GDP (prior 4.4%) under the Medium Term Fiscal Framework (MTFF) 2023-2025, based on an higher average GDP growth traction of 4.7% (prior 4.5%). Oil price assumption has also been revised lower to $80/ barrel, from $90/barrel in October.
- Malaysia's headline Consumer Price Index (CPI) increased at a slower rate for the second straight month as expected, by 3.7% y/y in January (Dec: +3.8% y/y). The easing CPI print was due to smaller gains in food and transport prices, a tell-tale sign inflation has peaked. Adding to this observation is the continued retreat in core and services CPI. We are maintaining our view that inflation is set to decelerate further going forward, below the 3.0% level in 2Q and beyond, bringing full year 2023 CPI down to mid-2.0% (2022: +3.3%).

House View and Forecasts

FX	This Week	1Q-23	2Q-23	3Q-23	4Q-23
DXY	103-105	105	104	103	102
EUR/USD	1.05-1.07	1.05	1.06	1.06	1.06
GBP/USD	1.18-1.20	1.20	1.21	1.21	1.21
USD/JPY	133-135	134	132	132	131
AUD/USD	0.67-0.69	0.69	0.69	0.70	0.71
USD/MYR	4.40-4.45	4.40	4.36	4.30	4.25
USD/SGD	1.33-1.35	1.33	1.31	1.29	1.27

Rates, %	Current	1Q-23	2Q-23	3Q-23	4Q-23
Fed	4.50-4.75	4.75-5.00	5.25-5.50	5.25-5.50	5.25-5.50
ECB	3.00	3.50	3.75	3.75	3.75
BOE	4.00	4.25	4.25	4.25	4.25
BOJ	-0.10	-0.10	-0.10	-0.10	-0.10
RBA	3.35	3.60	3.60	3.60	3.60
BNM	2.75	3.00	3.00	3.00	3.00

Source: HLBB Global Markets Research

Up Next

Date	Events	Prior
27-Feb	JN Leading Index CI (Dec F)	97.2
	JN Coincident Index (Dec F)	98.9
	HK Exports YoY (Jan)	-28.90%
	EC Consumer Confidence (Feb F)	-19
	US Durable Goods Orders (Jan P)	5.60%
	US Cap Goods Orders Nondef Ex Air (Jan P)	-0.10%
	US Pending Home Sales MoM (Jan)	2.50%

	US Dallas Fed Manf. Activity (Feb)	-8.4
28-Feb	JN Industrial Production MoM (Jan P)	0.30%
	JN Retail Sales MoM (Jan)	1.10%
	UK Lloyds Business Barometer (Feb)	22
	AU Retail Sales MoM (Jan)	-3.90%
	AU Private Sector Credit MoM (Jan)	0.30%
	SI Unemployment rate SA (Jan)	2.00%
	JN Housing Starts YoY (Jan)	-1.70%
	JN Annualized Housing Starts (Jan)	0.846m
	HK Budget Balance HKD (Jan)	87.1b
	AU CoreLogic House Px MoM (Feb)	-1.10%
	US Wholesale Inventories MoM (Jan P)	0.10%
	US Advance Goods Trade Balance (Jan)	-$90.3b
	US House Price Purchase Index QoQ (4Q)	0.10%
	US FHFA House Price Index MoM (Dec)	-0.10%
	US S&P CoreLogic CS 20-City MoM SA (Dec)	-0.54%
	US MNI Chicago PMI (Feb)	44.3
	US Richmond Fed Manufact. Index (Feb)	-11
	US Conf. Board Consumer Confidence (Feb)	107.1
	US Richmond Fed Business Conditions (Feb)	-10
	US Dallas Fed Services Activity (Feb)	-15

Source: Bloomberg

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