27 March 2023

Global Markets Research
Daily Market Highlights

27 March: Volatile Wall Street closed at a higher note

Sell-off in Deutsche Bank shares as credit default swap jumped
Return to safe haven boosted DXY and JPY; sovereign bond yields lower
Manufacturing PMIs remained contractionary; services largely surprised on the upside

- Although Friday began with fears that the banking crisis was spilling over to Deutsche Bank, the markets rebounded to end a volatile session at a higher note. The Dow Jones Industrial Average gained 0.4%, the S&P 500 rose 0.6%, while Nasdaq Composite ticked up 0.3% d/d. A selloff of Deutsche Bank shares put downward pressure on market sentiment after the German lender's credit default swaps jumped to the highest level since late 2018. Treasury Secretary Janet Yellen also announced on Friday that she called an unscheduled meeting of the Financial Stability Council. IMF Chief Kristalina Georgieva, meanwhile, said that risks to financial stability have increased and called for continued vigilance although actions by advanced economies have calmed market stress.

  The sell-off in Deutsche Bank shares also weighed down on major European lenders, sending the Stoxx 600 and FTSE 100 down by 1.4% and 1.3% d/d respectively. In Asia, Hang Seng index led losses in the region, closing 0.7% d/d lower while Nikkei 225 also slipped 0.1% d/d.

- Angst over the banking sector sent yields on the 2-year and 10-year Treasury notes falling to its lowest since Sept 2022 and Jan 2023 respectively. The 2-year yield fell 7bps to 3.77%, while the 10-year yield fell 5bps to 3.38%. European 2-year bonds also fell in tune of 8-14bps, while the 10-year yield slipped 7-8bps.

- The Dollar Index found some footing, strengthening 0.6% d/d to 103.12. EUR and GBP depreciated sharply by 0.7% d/d and 0.4% d/d respectively amidst nervousness over banks, with expansionary services PMIs failing to lift sentiment. The safe-haven yen was in demand and strengthened by 0.1% d/d. CNH, MYR and SGD weakened by 0.6%, 0.3% and 0.5% d/d to 6.8669, 4.4295 and 1.3322 respectively

- In the commodities market, oil slid between 1.0%-1.2% d/d amidst concerns over health of the banking sector. Gold wavered, but ultimately closed the day 0.6% d/d lower as traders assessed mixed signals on Fed's monetary policy, while bank worries sparked a rush to safety.

PMIs suggest contractionary manufacturing sector

- The S&P Global US Manufacturing PMI unexpectedly rose to 49.3 in March (Feb: 47.3), the slowest contraction in the past 5 months. Although manufacturing eked out a small production gain, this was mainly a reflection of improved supply chains allowing firms to fulfil backlogs of orders that had

Key Market Metrics

	Level	d/d (%)
Equities		
Dow Jones	32,237.53	0.41
S&P 500	3,970.99	0.56
NASDAQ	11,823.96	0.31
Stoxx Eur 600	440.11	-1.37
FTSE 100	7,405.45	-1.26
Nikkei 225	27,385.25	-0.13
Hang Seng	19,915.68	-0.67
Straits Times	3,212.64	-0.20
KLCI 30	1,399.70	-0.80
FX		
Dollar Index	103.12	0.57
EUR/USD	1.0760	-0.66
GBP/USD	1.2233	-0.44
USD/JPY	130.73	-0.09
AUD/USD	0.6645	-0.58
USD/CNH	6.8669	0.55
USD/MYR	4.4295	0.27
USD/SGD	1.3322	0.49
Commodities		
WTI ($/bbl)	69.26	-1.00
Brent ($/bbl)	74.99	-1.21
Gold ($/oz)	1,983.80	-0.61
Copper ($$/MT)	8,921.50	-1.21
Aluminum($/MT)	2,337.00	0.47
CPO (RM/tonne)	3,898.00	-1.69

Source: Bloomberg, HLBB Global Markets Research accumulated during the post-pandemic demand surge. New orders, meanwhile, have fallen for 6 straight months.

- The Eurozone Manufacturing PMI unexpectedly fell to a 4-month low of 47.1 in March (Feb: 48.5). The index has broadly stagnated for a second consecutive month but nevertheless an improvement from the solid declines seen throughout the 2H of 2022. The auto sector, in particular, reported stronger performance due to improved supply chains.
- The UK Manufacturing PMI unexpectedly edged down to 48.0 in March (Feb: 49.3). In spite of supply chain strength returning, less work resulted in job shedding and lower purchasing volumes as the sector failed to gain momentum and fell into contraction again.
- The au Jibun Bank Japan Manufacturing PMI signalled a further downbeat manufacturing sector at 48.5 in March (Feb: 47.7). This was on the back of sustained reductions in both output and new orders. While the rates of contraction have eased m/m, this is the 9th month of solid contractions. That said, manufacturers reported that supply chains had continued their path to normalisation.

Services PMIs were above 50 and mostly better than expected

- The S&P Global US Services Business Activity Index unexpectedly rose to 53.8 in March (Feb: 50.6), the fastest since April 2022. Business expectations regarding the outlook for the coming year remained upbeat, but concerns relating to inflation and higher interest rates weighed on confidence. This is reflected by the optimism dipping to below the series average.
- The Eurozone Services PMI Activity Index unexpectedly rose to a 10-month high of 55.6 (Feb: 52.7). A key development was the further revival of growth in financial services, with a notable turnaround in real estate activity. Consumer services activity also continued to revive, notably in travel and tourism.
- The UK Services PMI Business Activity Index dipped more than expected to 52.8 (Feb: 53.5). New orders accelerated at the fastest pace since March 2022 as confidence amongst consumers began to return. Overall activity would have been stronger if services businesses could have found more candidates with the right skills and experience as the labour market in the UK remains tight.
- The au Jibun Bank Japan Services PMI showed that activity increased for the third consecutive month to 54.2 (February: 54.0). This is the steepest gain since October 2013, sustained by government support for the sector, while the lifting of remaining COVID-19 restrictions in mainland China supported inbound tourism.

US sales of durable goods fell on transportation; core capital goods up but soft

- Sales of durable goods showed orders unexpectedly falling 1.0% m/m in February (Jan: -5.0% m/m) largely due to waning demand for transportation. Core capital goods which stripped off aircraft and military hardware, but a proxy for investment, picked up by 0.2% m/m (Jan: +0.3% m/m). Even so, the soft data suggests that non-essential capex will remain weak as growth concerns rise.
- Kansas City Fed Services Activity declined slightly to -4 in March (Feb: +1) and expectations for the next six months moderated to 2 (Feb: 13). Monthly price indices eased slightly, while firms' expectations for future price indexes were mixed with an increase in input prices and a slight decrease in selling prices.

UK retail sales unexpectedly accelerated to +1.2% m/m: Gfk consumer confidence still negative but highest since March 2022

- GfK's consumer confidence index matched expectations to rise to -36 in March (Feb: 38), its highest since March 2022. Still, the GfK survey showed no improvement in its gauges of personal finances, which are linked most strongly to household expenditure. As it is, wages are not keeping up with rising prices and the cost-of-living crisis.
- Retail sales unexpectedly accelerated to +1.2% m/m in February (Jan: +0.9% m/m) but was down 3.5% on a y/y basis (Jan: -5.2% y/y). Of note, non-food stores sales volumes accelerated to 2.4% m/m because of strong sales in discount department stores, while food store sales volumes rose by 0.9% m/m, but with some anecdotal evidence of reduced spending in restaurants and on takeaways because of cost-of-living pressures. Automotive fuel sales volumes fell by 1.1% m/m following a rise of 1.1% m/m in the previous month when rail strikes may have increased car travel.

Singapore's IPI down a sharp 8.9% y/y

- Singapore's IPI contracted sharper than expected by -8.9% y/y in February (Jan: -3.1% y/y), dragged by a steeper production decline in pharmaceuticals and electronics. This marks the fifth month of contraction. Biomedical manufacturing was the worst performing cluster, clocking an overall contraction of 33.6% y/y (Jan: +25.6% y/y). Electronics output also plunged 10.0% y/y (Jan: -4.8% y/y).

Malaysia's CPI unexpectedly held steady at +3.7%

- Malaysia's headline Consumer Price Index (CPI) unexpectedly held steady at 3.7% y/y in February (Jan: +3.7% y/y), while core CPI maintained a 3.9% y/y increase. Services CPI also saw sustained increase of 4.2% y/y in February, remained elevated although a tad off from December's +4.4%, the highest since Oct-08. All these reaffirmed believes of sticky inflation attributable to second round price effects and build-up in demand-pull inflation. On a m/m basis, CPI increased at a steady pace of 0.2% m/m for the 3rd straight month.
- The price trajectory is on track to decelerate further going forward, bringing the headline CPI back to the 2.0% levels in the second half of the year, barring any shocks from subsidy reform as price gains in the major consumer categories including food, housing & utilities, as well as transport, are expected to taper off, partly a result of the higher base in the second half of 2022. Subsidy rationalization aside, second round price effects and the extent of demand-driven inflation would be the key upside risks to inflation outlook, where we are pencilling in a 2.6% for the whole of 2023.

House View and Forecasts

FX	This Week	1Q-23	2Q-23	3Q-23	4Q-23
DXY	101-103	105	104	103	102
EUR/USD	1.07-1.09	1.05	1.06	1.06	1.06
GBP/USD	1.21-1.25	1.20	1.21	1.21	1.21
USD/JPY	129-133	134	132	132	131
AUD/USD	0.66-0.68	0.69	0.69	0.70	0.71
USD/MYR	4.38-4.44	4.40	4.36	4.30	4.25
USD/SGD	1.32-1.34	1.33	1.31	1.29	1.27

Rates, %	Current	1Q-23	2Q-23	3Q-23	4Q-23
Fed	4.75-5.00	4.75-5.00	5.00-5.25	5.00-5.25	5.00-5.25
ECB	3.50	3.50	4.00	4.00	4.00
BOE	4.25	4.25	4.25	4.25	4.25

BOJ	-0.10	-0.10	-0.10	-0.10	-0.10
RBA	3.60	3.60	3.85	3.85	3.85
BNM	2.75	2.75	3.00	3.00	3.00

Source: HLBB Global Markets Research

Up Next

Date	Events	Prior
27-March	JN PPI Services YoY (Feb)	1.60%
	CH Industrial Profits YTD YoY (Feb)	-4.00%
	JN Leading Index CI (Jan F)	96.5
	HK Exports YoY (Feb)	-36.70%
	HK Imports YoY (Feb)	-30.20%
	HK Trade Balance HKD (Feb)	-25.4b
	US Dallas Fed Manf. Activity (Mar)	-13.5
28-March	AU Retail Sales MoM (Feb)	1.90%
	US Wholesale Inventories MoM (Feb P)	-0.40%
	US Advance Goods Trade Balance (Feb)	-$91.5b
	US Retail Inventories MoM (Feb)	0.30%
	US FHFA House Price Index MoM (Jan)	-0.10%
	US S&P CoreLogic CS 20-City MoM SA (Jan)	-0.51%
	US Conf. Board Consumer Confidence (Mar)	102.9
	US Richmond Fed Manufact. Index (Mar)	-16
	US Richmond Fed Business Conditions (Mar)	-6
	US Dallas Fed Services Activity (Mar)	-9.3

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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