27 October 2023

Global Markets Research

Daily Market Highlights

27 Oct: ECB maintained key policy rates

ECB: Inflation is still too high; Economy to remain weak until year end; Unemployment low

US 3Q GDP accelerated to 4.9%, fastest pace since 2021 on consumer spending

DXY strengthened slightly; Treasury yield curve shifted low; Sell-off in US tech stocks intensified

- The sell-off in tech stocks intensified, as Meta became the latest tech giant to offer a forecast that didn't quite meet investors' expectations, and sending Nasdaq tumbling 1.8% d/d. The S&P 500 also fell 1.2% d/d while Dow Jones slipped 0.8% d/d. Meta shares fell 3.7% d/d after the Facebook-parent warned of advertising softness in 4Q despite beating Wall Street estimates in 3Q. Google-parent Alphabet's Class-A shares also dropped 2.7% d/d after the tech giant reported disappointing cloud business growth. Microsoft, Apple and Nvidia also shed 3.8% d/d, 2.5% d/d and 3.5% d/d respectively.

- In Europe, Stoxx 600 ended down 0.5% while FTSE 100 lost 0.8% d/d. Standard Chartered lost 8.7% d/d after the British bank posted a profit miss due to exposure to the Chinese banking and real estate sectors. Shares of Siemens Energy tumbled 35.5% after the wind power giant sought guarantees from the German government. Asian markets saw a broad sell-off, with the exception of CSI 300 which climbed 0.3% d/d. Nikkei 225 fell 2.1% d/d, while Hang Seng dipped 0.3% d/d.

- The Treasury yield curve shifted lower, with the 2Y down 8bps to 5.04% and the 10Y falling 11bps to 4.85%. 10Y European bond yields declined between 1-5bps save the Norwegian sovereign bond (+1bps).

- DXY strengthened slightly by 0.1% d/d to 106.60 after a raft of strong economic readings. EUR closed just below the flatline after ECB maintained its policy rates, while GBP strengthened 0.1% d/d. In Asia, JPY weakened further by 0.1% d/d to 150.40, while MYR depreciated by 0.2% d/d to 4.7870. CNH and SGD appreciated by 0.1% d/d each.

- In the commodities markets, crude oil prices tumbled by another 2.4%-2.6% d/d on demand fears, while Mideast risks cushioned safe-haven gold (+0.2% d/d).

ECB maintained key policy rates

- As widely expected, the European Central Bank (ECB) left the interest rates on the main refinancing operations, marginal lending facility and the deposit facility unchanged at 4.50%, 4.75% and 4.00% respectively. We maintain our view that this ECB tightening cycle has peaked and any cuts will only occur in 2H of 2024.
- Key highlights from the monetary policy statement and press conference include: 1) Inflation has dropped markedly but is still too high. 2) The economy is weak and will remain so until the end of the year. 3) Unemployment is at

Key Market Metrics

	Level	d/d (%)
Equities		
Dow Jones	32,784.30	-0.76
S&P 500	4,137.23	-1.18
NASDAQ	12,595.61	-1.76
Stoxx Eur 600	433.20	-0.48
FTSE 100	7,354.57	-0.81
Nikkei 225	30,601.78	-2.14
CSI 300	3,514.15	0.28
Hang Seng	17,044.61	-0.24
Straits Times	3,071.31	-0.24
KLCI 30	1,440.60	-0.13
FX		
Dollar Index	106.60	0.07
EUR/USD	1.0563	-0.03
GBP/USD	1.2129	0.14
USD/JPY	150.40	0.11
AUD/USD	0.6322	0.21
USD/CNH	7.3248	-0.07
USD/MYR	4.7870	0.15
USD/SGD	1.3695	-0.09
Commodities		
WTI ($/bbl)	83.21	-2.55
Brent ($/bbl)	87.93	-2.44
Gold ($/oz)	1,987.20	0.16
Copper ($$/MT)	7,985.50	-0.58
Aluminum($/MT)	2,197.50	-0.97
CPO (RM/tonne)	3,592.00	-0.81

Source: Bloomberg, HLBB Global Markets Research
** Dated as of 25 Oct for CPO*

its lowest level since the start of the euro, but fewer new jobs are being created, including in services. 4) Future decisions will ensure that rates will be set at sufficiently restrictive levels for as long as necessary. 5) Christine Lagarde said that having discussion on rate cuts is premature at this juncture.

US 3Q GDP accelerated to 4.9%, fastest pace since 2021

- Real GDP accelerated more than expected by +4.9% q/q in 3Q (2Q: +2.1% q/q). The sharp increase was due to contributions from consumer spending (+4.0% q/q vs -0.8% q/q), increased inventories, exports, residential investment and government spending. While the report could give the Fed some impetus to keep policy tight, traders are still pricing in low probability of an interest rate hike when the central bank meets next week.
- Goods trade deficit widened less than expected to $85.8bn in September (Aug: -$84.6bn) as export growth outpaced imports by +2.9% m/m and +2.4% m/m respectively (Aug: +2.3% m/m and -1.0% m/m). Driving the uptick in exports were food and beverages, automotives and consumer goods
- Preliminary durable goods orders rose sharply and by more than expected to +4.7% m/m in September (Aug: +0.1% m/m) due to aircraft demand. Stripping transportation, orders climbed +0.5% m/m, matching the increase in August. The report showed strong demand for computers and electronic products, fabricated metal products and electrical equipment, appliances and components. Data also showed that orders for non-defense capital goods excluding aircraft, a key indicator of business spending, climbed by 0.6% m/m (Aug: +1.1% m/m).
- Pending home sales improved more than expected to +1.1% m/m in September (Aug: -7.1% m/m). Despite the slight gain, pending contracts remain at historically low levels due to the high mortgage rates and tight inventory level but are expected to turn positive by early 2024 on increased inventory.
- Initial jobless claims rose more than expected by 10k to 210k for the week ended October 21 (Oct 14: -11k) while continuing claims jumped +63k to 1790k the week before (Oct 7: +22k), suggesting that workers are finding it increasingly difficult to find new jobs.
- Kansas City Fed Manufacturing Activity index remained contractionary in October at -8 (Sep: -8, Aug: 0). Expectations for future activity stayed mostly flat, with firms expecting both finished product and raw materials prices to increase moderately.

UK's CBI retailing reported sales index worsened

- According to the CBI, British retailers reported that sales worsened to -36 in October (Sep: -14) and in tandem with this, total distributed reported sales index also worsened to -21 (Sep: -14). Moving forward, retailers expect another difficult time in November as households struggle with the higher cost of living.

Higher import prices for Australia due to oil

- Import prices picked up more than expected by +0.8% q/q in 3Q (2Q: -0.8% q/q), while export prices fell more than expected by 3.1% y/y (2Q: -8.5% q/q). Contributing to the former were higher oil prices, while weighing on the latter were lower prices for coal, coke & briquettes, crude fertilisers & materials, cereals, oilseeds and non-ferrous metals, either because of weak global demand or improved global supplies.

Tokyo's inflation rate unexpectedly accelerated

- Data this morning showed that Tokyo's headline and core inflation unexpectedly accelerated to +3.3% y/y and +2.7% y/y respectively in October (Sep: +2.8% y/y and +2.5% y/y). Amongst the drivers keeping inflation elevated were household goods and entertainment, as well as transport costs.

Hong Kong exports fell by 5.3% y/y on lower exports to China

- Exports fell again in September, extending their longest streak of monthly declines, and slightly higher than consensus forecast by -5.3% y/y (Aug: -3.7% y/y). As it is, China's uncertain recovery and a difficult global economic environment continued to weigh and will continue to drag on the financial hub. In fact, this is reflected by lower exports to China and EU, and in terms of commodities, due to electrical machinery, apparatus and appliances, and electrical parts.

Singapore's IPI topped estimates

- The contraction in Singapore's manufacturing output narrowed more than forecasts to 2.1% y/y in September (Aug: -11.6% y/y) and in tandem with this, output also expanded at a stronger pace of 10.7% m/m (Aug: -10.8% m/m). Contributing to the improvement was electronics output, which turned around to register a 10.2% y/y growth (Aug: -18.9% y/y), driven by infocomms & consumer electronics, semiconductors and other electronics modules & components segments. Separate data also showed that the unemployment rate picked up for the second month to 2.0% in September (Aug: 1.9%).

House View and Forecasts

FX	This Week	4Q-23	1Q-24	2Q-24	3Q-24
DXY	104-108	107	107	106	105
EUR/USD	1.04-1.07	1.04	1.04	1.04	1.05
GBP/USD	1.19-1.23	1.20	1.20	1.20	1.21
USD/JPY	148-151	150	147	144	141
AUD/USD	0.62-0.65	0.64	0.65	0.66	0.67
USD/MYR	4.74-4.80	4.74	4.69	4.65	4.60
USD/SGD	1.35-1.39	1.38	1.37	1.35	1.34

Rates, %	Current	4Q-23	1Q-24	2Q-24	3Q-24
Fed	5.25-5.50	5.50.5.75	5.50-5.75	5.50-5.75	5.25-5.50
ECB	4.50	4.50	4.50	4.25	4.00
BOE	5.25	5.25	5.25	5.00	4.75
BOJ	-0.10	-0.10	-0.10	-0.10	-0.10
RBA	4.10	4.10	4.10	4.10	3.83
BNM	3.00	3.00	3.00	3.00	3.00

Source: HLBB Global Markets Research

Up Next

Date	Events	Prior
27-Oct	AU PPI YoY (3Q)	3.90%
	CH Industrial Profits YTD YoY (Sep)	-11.70%
	US Personal Income (Sep)	0.40%
	US Personal Spending (Sep)	0.40%
	US PCE Core Deflator YoY (Sep)	3.90%
	US U. of Mich. Sentiment (Oct F)	63
	US U. of Mich. 1 Yr Inflation (Oct F)	3.80%
	US U. of Mich. 5-10 Yr Inflation (Oct F)	3.00%
	US Kansas City Fed Services Activity (Oct)	2
30-Oct	AU Retail Sales MoM (Sep)	0.20%

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UK Net Consumer Credit (Sep)	1.6b
EC Economic Confidence (Oct)	93.3
US Dallas Fed Manf. Activity (Oct)	-18.1

Source: Bloomberg