

28 August 2023

Global Markets Research

Daily Market Highlights

28 Aug: Powell signalled higher rates for longer

Equities cheered Powell's "proceed carefully" comment; 2Y UST yields, DXY closed higher
China's industrial profits fell for the 7th month; more precise forceful measures expected
Contraction in Singapore's IPI narrowed; Malaysia's CPI tapered off for a 5th straight month

- Wall Street traded between gains and losses after Fed Chair Jerome Powell's speech at the Jackson Hole symposium as investors were split on whether there will be more rate hikes going forward. Nonetheless, investors cheered Powell's comments on a stronger-than-expected economic growth and that the central bank will "proceed carefully," sending Dow Jones Industrial Average and S&P 500 up 0.7% d/d each while the tech-heavy Nasdaq advanced 0.9% d/d. Stoxx Eur 600 closed just below the flatline, while FTSE 100 edged up 0.1% d/d. Japan's Nikkei 225 tumbled 2.1% d/d, leading losses in Asia, while Hang Seng slid 1.4% d/d. CSI 300 saw a smaller loss of 0.4% d/d, ahead of Powell's speech.
- Short-term UST yields, which are highly sensitive to near-term rates outlook, climbed 6bps to 5.08%, while the longer-dated 10Y closed just below the flatline at 4.24%. 10Y European bond yields rose between 2-7bps.
- DXY held steady, gaining 0.1% d/d to 104.08 after a more hawkish tone than expected by Powell. Both the EUR and GBP closed weaker between 0.1%-0.2% d/d, as weak Eurozone and UK PMIs prompted investors to scale back bets on further rate hikes. Regional currencies closed mixed, with JPY leading losses at 0.4% d/d but MYR and SGD closed stronger by around 0.1% d/d each at 4.6407 and 1.3561.
- In the commodities markets, oil rose in tune of 1.0%-1.3% d/d, while gold dipped 0.4% d/d after Powell left the door open for more rate hikes.

Powell: Inflation remains too high and the Fed is prepared to raise rates further

- Key highlights from Fed Chair Jerome Powell's speech at the Jackson Hole symposium: 1) Inflation remains too high and thus, Fed is prepared to raise rates further and intend to hold policy at a restrictive level until they are confident that inflation is moving sustainably down towards its 2% target. 2) GDP growth has come in above Fed's expectations and the persistently above-trend growth could put further progress on inflation at risk. 3) Fed will proceed "carefully" in the upcoming meeting as they assess the incoming data and the evolving outlook and risks. 4) Powell said that they are navigating "by the stars under cloudy skies" and thus, risk-management considerations are critical. 5) Referring to the Philips curve, the relationship between labor market slack and inflation, Powell noted that it is difficult to know with precision how steep that relationship is in real time or how it might evolve as labor market tightness changes.

Key Market Metrics

	Level	d/d (%)
Equities		
Dow Jones	34,346.90	0.73
S&P 500	4,405.71	0.67
NASDAQ	13,590.65	0.94
Stoxx Eur 600	451.39	-0.04
FTSE 100	7,338.58	0.07
Nikkei 225	31,624.28	-2.05
Hang Seng	17,956.38	-1.40
Straits Times	3,189.88	0.29
KLCI 30	1,444.41	-0.02
FX		
Dollar Index	104.08	0.09
EUR/USD	1.0796	-0.13
GBP/USD	1.2578	-0.19
USD/JPY	146.44	0.42
AUD/USD	0.6404	-0.20
USD/CNH	7.2948	0.20
USD/MYR	4.6407	-0.11
USD/SGD	1.3561	-0.04
Commodities		
WTI (\$/bbl)	79.83	0.99
Brent (\$/bbl)	84.48	1.34
Gold (\$/oz)	1,911.10	-0.37
Copper (\$\$/MT)	8,355.50	-0.05
Aluminum(\$/MT)	2,150.50	-0.32
CPO (RM/tonne)	3,815.50	0.20

Source: Bloomberg, HLBB Global Markets Research
 * Dated as of 24 Aug for CPO

Downward revision in US consumer sentiments; upward revision in inflation expectations

- University of Michigan's Consumer Sentiment Index was revised downwards by 1.7ppts to 69.5 in August (Jul: 71.6). Nonetheless, this is still 39% above the all-time historic low reached in June 2022, and the long-run economic outlook remains higher than just two months ago. At the same time, year-ahead and long run inflation expectations were revised upwards by 0.1-0.2ppts each to 3.5% and 3.0% respectively (July: 3.4% and 3.0%), still elevated above the 2 years pre-pandemic.
- Kansas City Fed Services Activity index was unchanged at -1 in August (Jul: -1 and June: +14) and expectations for the next six months continued to grow modestly. Wholesale firm revenues increased substantially, while autos and retail trade declined significantly. Most m/m sub-indices stayed fairly constant, but most participants in the survey expect input prices to increase at a faster pace than selling prices.

German business sentiment worsened; 2Q GDP maintained at zero

- Germany's IFO business climate worsened more than expected, falling for the fourth straight month to 85.7 in August (Jul: 87.4) as a restrictive interest rate environment and the weak global economy made it difficult for the export nation. This comes after separate data confirming that the economy posted zero growth in 2Q (1Q: -0.1% q/q).

China's industrial profits fell 6.7% y/y in July

- The contraction in industrial profits narrowed to -6.7% y/y in July (June: -8.3% y/y), while YTD profits fell 15.5% y/y. As it is, metal manufacturers were amongst the worst performers reflecting the drag from the property slump, but these were offset by a boost from the new energy vehicle boom as well as lower producer prices, which supported the midstream and downstream industries.
- In an effort to support the economy, it is reported that China is proposing that local governments can scrap a rule that disqualifies people who've ever had a mortgage, even if fully repaid, from being considered a first-time buyer and to cut stamp duty on stock trading by as much as 50%.

Singapore's IPI fell at the slower pace since October

- IPI contracted less than expected by -0.9% y/y in July (June: downwardly revised -6.6% y/y). This marks the 10th month of contraction, albeit at the slowest pace since October 2022. Stripping the volatile biomedical, output registered its first y/y growth since January at +1.7% y/y, driven by a turnaround in the electronics cluster (+5.1% y/y vs. June: -2.9% y/y) as well as chemicals. Transport engineering also picked up pace.

Malaysia's headline CPI tapered off for a 5th straight month to 2.0% in July

- Malaysia's headline CPI trended lower for the 5th straight month, printing a 2.0% y/y increase in July (Jun: +2.4% y/y). This came in lower than expectations to mark its smallest gain in almost two years. The moderation in prices remained relatively broad-based, cementing the case for softening inflation outlook. Continuous pullback in core and services CPI further reinforced this view. Core CPI dwindled to 2.8% y/y (12-month low) while services CPI retreated to 2.9% y/y (13-month low) in July (Jun: +3.1% and +3.2% y/y respectively). On a m/m basis, CPI inched up a mere 0.1% m/m in July (Jun: +0.2% m/m).

- Inflation outlook is well poised to moderate further from here underpinned by further retreat in supply-driven pressure while demand-pull inflation is expected to be contained by prospects of slower economic growth and hence more modest consumer demand going forward. No change to our full year average CPI forecast of 2.6% for 2023. CPI increased 3.0% y/y year-to-date July and we expect the CPI prints to nudge lower to the 2.0% handle towards the end of the year, barring any abrupt introduction of subsidy reform or adjustment. This would also suggest a positive real interest rate will pick up from here, supporting the case for BNM to keep OPR steady at 3.00% for the remainder of the year.

House View and Forecasts

FX	This Week	3Q-23	4Q-23	1Q-24	2Q-24
DXY	101-106	102	101	100	99
EUR/USD	1.06-1.10	1.11	1.12	1.14	1.12
GBP/USD	1.24-1.29	1.29	1.31	1.33	1.30
USD/JPY	142-148	141	139	136	133
AUD/USD	0.63-0.66	0.67	0.68	0.68	0.69
USD/MYR	4.58-4.68	4.69	4.64	4.60	4.55
USD/SGD	1.34-1.37	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	5.25-5.50	5.00-5.25	4.50-4.75
ECB	4.25	4.25	4.25	4.25	4.00
BOE	5.25	5.50	5.50	5.50	5.00
BOJ	-0.10	-0.10	-0.10	-0.10	-0.10
RBA	4.10	4.35	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
28-Aug	AU Retail Sales MoM (Jul)	-0.80%
	JN Leading Index CI (Jun F)	108.9
	US Dallas Fed Manf. Activity (Aug)	-20
28 Aug-3 Sept	UK Nationwide House Px NSA YoY (Aug)	-3.80%
29-Sept	JN Jobless Rate (Jul)	2.50%
	US FHFA House Price Index MoM (Jun)	0.70%
	US S&P CoreLogic CS US HPI YoY NSA (Jun)	-0.46%
	US JOLTS Job Openings (Jul)	9582k
	US Conf. Board Consumer Confidence (Aug)	117
	US Dallas Fed Services Activity (Aug)	-4.2

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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