1 March 2024

Global Markets Research

Daily Market Highlights

1 March: PCE prices eased as expected in the US

Jobless claims rose in the US; Weak pending home sales and MNI Chicago PMI
Nasdaq closed at record high; UST yields dipped across the curve; DXY rose slightly
All eyes US' ISM-Manufacturing, China's PMIs and Eurozone's CPI today

- Nasdaq closed at a record high on Thursday, gaining 0.9% d/d while S&P 500 and Dow Jones Industrial Average rose 0.5% d/d and 0.1% d/d respectively This comes after reassuring US inflation reading that not only kept rate cut hopes alive but also recent data that shows that the Fed can cool inflation without sending the economy into a hard landing. As it is, traders are now pricing in a 58% chance that the Fed will cut interest rates in its June policy meeting, up slightly from about 56% the previous day. By sector, the communication services, technology and consumer discretionary were the leading gainers, while consumer staples and healthcare were the laggards.
- European markets also drifted higher after the US PCE print, with media, construction and material stocks being the best performers. Asian markets closed mixed as investors awaited key US and China prints, while futures suggest a cautious start on Friday.
- Treasury yields fell modestly across the curve in tune to 1-2bps after higher jobless claims data suggests a softening labour market, while MNI Chicago PMI and pending home sales data slipped more than expected. The 2Y fell 2bps to 4.62% while the 10Y edged down 1bps to 4.25%. 10Y European bond yields fell between 2-6bps.
- DXY rose slightly by 0.2% d/d to close at 104.16, after sliding to as low as 103.66 during the day. G10 currencies weakened against the greenback save the AUD and JPY, the former driven by a slew of positive economic prints during the day and the latter after BOJ sent its strongest signals yet about the end of the negative rates. Accordingly, BOJ board member Hajime Takata said that the central bank's price target is finally coming into sight. Regional currencies, meanwhile, mostly strengthened against USD, save the TWD, HKD and IDR. MYR was the leading gainer against the greenback, strengthening 0.6% d/d to 4.7428 after the central bank recently guided that the currency is undervalued.
- Oil prices retreated slightly between 0.1-0.4% d/d even after an Energy Information Administration (EIA) report that showed that oil demand is expected to hold steady at its 4-year high in 2024. Accordingly, domestic fuel consumption is expected to inch up to 20.4mb/d in 2024, just below the 2019 levels. EIA also raised its estimate for December jet fuel demand by 5%.

US PCE prices met consensus estimates

- Matching expectations, headline and core Personal Consumption Expenditure (PCE) prices moderated to +2.4% y/y and +2.8% y/y respectively in January (Dec: +2.6% y/y and +2.9% y/y) but accelerated on a m/m basis to +0.3% and +0.4% (Dec: +0.1% and +0.1% m/m). Super-core

Key Market Metrics

	Level	d/d (%)
Equities		
Dow Jones	38,996.39	0.12
S&P 500	5,096.27	0.52
NASDAQ	16,091.92	0.90
Stoxx Eur 600	494.61	0.00
FTSE 100	7,630.02	0.07
Nikkei 225	39,166.19	-0.11
CSI 300	3,516.08	1.91
Hang Seng	16,511.44	-0.15
Straits Times	3,141.85	0.09
KLCI 30	1,551.44	0.38
FX		
Dollar Index	104.16	0.17
EUR/USD	1.0805	-0.30
GBP/USD	1.2625	-0.29
USD/JPY	149.98	-0.47
AUD/USD	0.6497	0.02
USD/CNH	7.2078	-0.09
USD/MYR	4.7428	-0.59
USD/SGD	1.3456	-0.04
Commodities		
WTI ($/bbl)	78.26	-0.36
Brent ($/bbl)	83.62	-0.07
Gold ($/oz)	2,054.70	0.59
Copper ($$/MT)	8,493.50	0.53
Aluminum($/MT)	2,228.00	1.71
CPO (RM/tonne)	4,020.00	-0.06

Source: Bloomberg, HLBB Global Markets Research
** Dated as of 28 Feb for CPO*

inflation, which excludes housing rents, accelerated sharply to +0.6% m/m and +3.5% y/y (Dec: +0.3% m/m and +3.3% y/y). As it is, the strong core and super-core readings were mainly driven by the portfolio management category, owners' equivalent rents and healthcare services. With both the headline and core measures remain ahead of the Fed's goal of 2.0%, we maintain our view that the Fed will maintain the benchmark rates in the near term and will only start cutting rates in the June meeting.

- Accompanying data also showed that personal income rose a whopping 1.0% m/m in January (Dec: +0.3% m/m) reflecting increases in social security benefits like the cost-of-living adjustment as well as personal dividend income due to a special dividend paid by Costco Wholesale Corporation. Despite this, real spending growth fell 0.1% m/m (Dec: +0.6% m/m), reflecting not only consumers feeling the pinch from the higher costs of living, but also the ongoing shift to services over goods as the economy normalizes from the Covid pandemic disruptions.
- In the labour market, jobless claims rose for the first time in four weeks and by more than expected by 13k to 215k for the week ended February 24 (Feb 17: -11k)). Continuing claims, which run a week behind, also rose 45k to 1905k (Feb 10: -29k). Given a recent spate of layoff announcements, this suggests that jobless claims rise may continue going forward.
- Pending home sales, a forward-looking indicator of home sales based on contract signing, lost momentum in January as elevated mortgage rates suppressed buyer affordability, hampered further by low inventory levels. The Pending Home Sales Index came worse than expected, falling 4.9% m/m and -6.8% y/y to 74.3 (Dec: +5.7% m/m and -1.0% y/y), its lowest since November and indicating a weaker pace of pending contracts.
- In terms of district performance, both the MNI Chicago PMI and Kansas City Fed Manufacturing index came worse than expected. The former unexpectedly declined to 2ppts to 44.0 in February, with all sub-indices signalling contraction with the exception of prices paid, which rose at a faster pace. The latter improved slightly to -4 (Jan: -9) and expectations for future activity moderated, but remained slightly positive. Price growth for raw materials slowed and finished product prices also eased, although future increases are expected.

UK's mortgage approvals rose to its 15-month high

- The number of mortgages approved rose more than expected to its 15-month high of 55.2k (Dec: 51.5k), the fourth monthly increase as more cheaper loan deals became available in the market, and adding to signs that the housing market is gathering momentum. Notwithstanding, we expect the housing markets to remain under pressure given rates remain restrictive and more households are expected to see an increase in repayments this year as their fixed-rate mortgage deals expire. Accompanying data also showed that consumer took out £1.9bn of unsecured lending such as credit cards during the month, up from £1.3bn previously, a further sign that households are growing in confidence as wage growth outstrips inflation

Positive economic indicators for Australia

- A string of positive indicators was released in Australia. Matching expectations, private sector credit held steady for the 4th month and grew by 0.4% m/m in January as lending to the housing sector remained stable, while lending to businesses and consumers picked up slightly. For the housing market, the CoreLogic House price index also accelerated slightly to

+0.6% m/m in February (Jan: +0.4% m/m).

- Retail sales rebounded in January, but the underlying trend suggests that growth is stalling. Sales came below expectations at +1.1% m/m, following a sharp fall of 2.1% m/m in December and November's +1.5% m/m bump due to the Black Friday sales. Retail turnover is now back at a similar level to September 2023. Turnover rebounded in all the non-food industries, led by clothing, footwear & personal accessories, while spending in food-related industries was boosted by the large sporting events.
- Private capital expenditure topped forecasts to accelerate to + 0.8% q/q in 4Q (3Q: +0.3% q/q) as capex standing in the mining and non-mining industries rose during the quarter. Notably driving capex spending was investments in renewable energy infrastructure and data centres. While investment in equipment and machinery was flat in the December quarter, it remains at a high level.
- The final Judo Manufacturing PMI was revised upwards by 0.1ppts to 47.8 in February (Jan: 50.1), well above levels historically associated with a recession for the industry or the broader economy. A quicker reduction in new orders led to sharper falls in output and volumes of outstanding business. Buying activity and employment levels also declined as a result. Meanwhile supply constraints worsened with lead times lengthening while average input costs rose at a quicker rate. Overall business confidence eased.

The contraction in Japan's housing starts worsened, unemployment rate remained low

- A mixed string of economic data from Japan. Housing starts worsened less than expected by 7.5% y/y in January (Dec: -4.0% y/y), but the labour market remains favourable, with the jobless rate easing to 2.4% for the same month (Dec: Upwardly revised 2.5%).

Weak economic data from Vietnam, inflation close to government's target of 4%

- A slew of weaker February data from Vietnam, partially due to the timing of the holidays but also belies hopes of strong growth as suggested by the previous month's data. Trade data came below expectations, with exports unexpectedly turning contractionary at -5.0% y/y while imports weakened more than expected to +1.8% y/y (Jan: +42.0% y/y and +33.3% y/y). In tandem with this, production growth also slipped to -6.8% y/y (Jan: +18.3% y/y) as contractions were observed across all the sub-industries.
- Inflation, meanwhile, remained stable but close to the government's target at +4.0% y/y for the first two months of the year, suggesting that the central bank will most likely stay pat for the rest of 2024. Compared to the same period last year, inflation was driven by higher rice prices in line with the uptick in prices of exported rice and demand during the holidays of Ong Cong, Ong Tao and Lunar New Year, higher electricity costs as well as for education due to the new school year.

House View and Forecasts

FX	This Week	1Q-24	2Q-24	3Q-24	4Q-24
DXY	102-105	101.84	101.33	100.82	100.32
EUR/USD	1.07-1.10	1.10	1.11	1.11	1.10
GBP/USD	1.25-1.29	1.28	1.29	1.29	1.27
USD/JPY	148-152	142	140	137	134
AUD/USD	0.64-0.67	0.68	0.68	0.69	0.70

USD/MYR	4.74-4.80	4.69	4.66	4.62	4.56
USD/SGD	1.33-1.36	1.33	1.32	1.31	1.30

Rates, %	Current	1Q-24	2Q-24	3Q-24	4Q-24
Fed	5.25-5.50	5.25.5.50	5.00-5.25	4.50-4.75	4.50-4.75
ECB	4.50	4.50	4.25	3.75	3.50
BOE	5.25	5.25	5.25	5.00	4.50
BOJ	-0.10	-0.10	-0.10	0.00	0.00
RBA	4.35	4.35	4.35	4.35	4.10
BNM	3.00	3.00	3.00	3.00	3.00

Source: HLBB Global Markets Research

Up Next

Date	Events	Prior
1-March	JN Jibun Bank Japan PMI Mfg (Feb F)	47.2
	MA S&P Global Malaysia PMI Mfg (Feb)	49
	VN S&P Global Vietnam PMI Mfg (Feb)	50.3
	CH Manufacturing PMI (Feb)	49.2
	CH Non-manufacturing PMI (Feb)	50.7
	CH Caixin China PMI Mfg (Feb)	50.8
	JN Consumer Confidence Index (Feb)	38
	HK Retail Sales Volume YoY (Jan)	4.80%
	EC HCOB Eurozone Manufacturing PMI (Feb F)	46.1
	UK S&P Global UK Manufacturing PMI (Feb F)	--7.1
	EC CPI Core YoY (Feb P)	3.30%
	EC Unemployment Rate (Jan)	6.40%
	US S&P Global US Manufacturing PMI (Feb F)	51.5
	US Construction Spending MoM (Jan)	0.90%
	US U. of Mich. Sentiment (Feb F)	79.6
	US ISM Manufacturing (Feb)	49.1
2-March	US Kansas City Fed Services Activity (Feb)	-2
	SI Purchasing Managers Index (Feb)	50.7
4-March	JN Capital Spending YoY (4Q)	3.40%
	AU Melbourne Institute Inflation YoY (Feb)	4.60%
	AU Building Approvals MoM (Jan)	-9.50%
	EC Sentix Investor Confidence (Mar)	-12.9

Source: Bloomberg

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