2 January 2024

Global Markets Research

Daily Market Highlights

02 Jan: DXY closed 2023 at 101, near its 5-month low

DXY's first loss since 2020 amid Fed rate cut outlook; European currencies led gains

UST yields finished lower in 2023 as traders wrapped up a tumultuous year

S&P 500 rode a 9-week winning streak to end-2023 with a 24% annual gain on AI craze

- While markets were largely muted in the last week of December and Wall Street closed lower on Friday, the S&P 500 closed out 2023 with a commendable 24.2% annual gain and just shy of its all-time high. The Dow Jones Industrial Average also finished the year with a 13.7% y/y gain and notched a new record during the year. Nasdaq, meanwhile, surged 43.4% y/y, notching its best year since 2020 driven by the artificial intelligence enthusiasm and a rebound among mega-cap tech names.
- Elsewhere, European stocks ended Friday's session in the green, marking a positive end to a solid year, while Asian markets closed mixed. Hong Kong and China stocks inched higher aided by a rebound in video-game stocks throughout the week and after Xiaomi detailed plans to enter China's EV market. Although Nikkei 225 closed down on the last trading day of 2023, the index wrapped up the year with a 28.2% y/y gain, making it one of Asia's top-performing markets. Given the disappointing China PMI over the weekend, we expect Asian equity markets to kick off 2024 with lack New Year cheer.
- The Treasury market closed mixed as traders wrapped up a roller coaster year. The 2Y yield slipped 3bps d/d to 4.25%, while the 10Y rose 4bps d/d to 3.89%. 10Y European bond yields closed mostly higher in tune to 2-9bps.
- DXY closed near its 5-month low on Friday at 101.33 (+0.1% d/d and -2.1% y/y), ending 2023 with its first loss since 2020 as Fed is seen closer to rate cuts than its peers. EUR posted its first positive yearly gain since 2020 at +3.1% d/d, while GBP appreciated by 5.4% y/y, its best performance since 2017. In Asia, JPY was under pressure, closing 7.0% y/y lower at 141.04 as the BOJ maintained its ultra-loose monetary policy stance throughout 2023 However, market expectations are for the BOJ to exit negative interest rates in 2024. Closer to home, SGD closed the year 1.5% y/y stronger at 1.3203 but MYR depreciated by 4.3% y/y to 4.5940.
- Oil prices fell over the last day (between -0.2% to -1.7% d/d) and week of December on the back of easing Red Sea disruptions. However, it should be noted that Maersk has paused its Red Sea sailing again after the latest Houthi attack. On a yearly basis, oil closed the year with the biggest loss since the pandemic (-10% to -11% y/y) amidst concerns over expanding ex-cartel output will eclipse demand.

US data showed that PCE prices eased more than expected; uptick in personal income and spending; housing market beset with lack of inventory and high prices

- Key data released since our last update was the US headline and core PCE prices which moderated more than expected to +2.6% y/y and +3.2% y/y in November (Oct: +2.9% y/y and +3.4% y/y). Accompanying data also showed

Key Market Metrics

	Level	d/d (%)
Equities		
Dow Jones	37,689.54	-0.05
S&P 500	4,769.83	-0.28
NASDAQ	15,011.35	-0.56
Stoxx Eur 600	479.02	0.20
FTSE 100	7,733.24	0.14
Nikkei 225	33,464.17	-0.22
CSI 300	3,431.11	0.49
Hang Seng	17,047.39	0.02
Straits Times	3,240.27	0.80
KLCI 30	1,454.66	-0.19
FX		
Dollar Index	101.33	0.10
EUR/USD	1.1039	-0.20
GBP/USD	1.2731	-0.02
USD/JPY	141.04	-0.26
AUD/USD	0.6812	-0.26
USD/CNH	7.1258	0.11
USD/MYR	4.5940	-0.33
USD/SGD	1.3203	0.00
Commodities		
WTI ($/bbl)	71.65	-0.17
Brent ($/bbl)	77.04	-1.72
Gold ($/oz)	2,071.80	-0.56
Copper ($$/MT)	8,559.00	-0.76
Aluminum($/MT)	2,384.00	0.25
CPO (RM/tonne)	3,716.50	0.50

Source: Bloomberg, HLBB Global Markets Research
** Dated as of 27 Dec for CPO*

that both the personal income and spending accelerated to +0.4% m/m and +0.2% m/m (Oct: +0.3% m/m and +0.1% m/m), suggesting that consumer spending is expected to hold the fort going forward, supported by a still resilient labour market and income growth. For the former, data showed that initial jobless claims rose more than expected to 218k for the week ended December 23 (Dec 16: 206k).

- Housing indicators, meanwhile, suggests a weak market beset by lack of inventory and high prices. New home sales unexpectedly worsened to -12.2% m/m in November (Oct: -4.0% m/m) while the forward-looking indicator, pending sales, was flat (Oct: -1.2% m/m). The FHFA House Price Index and S&P CoreLogic, meanwhile, remained strong and accelerated to +6.3% y/y and +4.8% y/y respectively in October (Sep: +6.2% y/y and +4.0% y/y). With mortgage rates easing and the Fed guiding toward a slightly more accommodative stance, S&P Core Logic expects more price appreciation moving forward.
- Data from the business front was mixed. Durable (+5.4% y/y vs -5.1% y/y) and capital goods orders (+0.8% y/y vs -0.6% y/y) surprised on the upside in November, partially attributable to a surge in transportation equipment, but goods trade deficit widened to $90.3bn in November (Oct: -89.6bn) as the contraction in exports outpaced imports at -3.6% m/m and -2.1% m/m respectively (Oct: -1.4% m/m and +0.1% m/m).
- Data last Friday, meanwhile, showed that the MNI Chicago PMI tumbled more than expected to 46.9 in December (Nov: 55.8), suggesting that Chicago-area business activity saw a substantial downturn. The much steeper than expected drop came as the employment, inventories and new orders indices returned to contractionary territory. All in, there is no change in our view that the ***economy is on track for a soft landing and the first cut in Fed funds rate will begin towards mid-2024.***

UK's retail sales grew, final 3Q GDP shaved downwards to -0.1%; Expect flattish GDP over coming quarters

- Mixed numbers from the UK. Retail sales grew more than expected by 1.3% m/m in November (Oct: 0), supported by one-off cost-of-living payments and heavy discounting during the Black Friday sales. The final 3Q GDP was nonetheless revised downwards by 0.1ppts -0.1% q/q in 3Q (2Q: 0) and is ***expected to be flattish over coming quarters*** as monetary tightening works its way through the economy. ***We expect the Bank Rate to remain around 5.25% until 3Q of 2024*** and will be closely watching the GDP, inflation and wage growth data for more clarity on BOE's first rate cut.

Steady jobless rate and PPI-Services, retail sales rebounded but IPI registered first contraction in 3-months; Positive wage-inflation cycle crucial for BOJ policy shift

- Similarly, a mixed slew of data from Japan. Jobless rate and PPI-services held steady at 2.5% and +2.3% y/y in November, while retail sales rebounded more than expected to +1.0% m/m in November (Oct: -1.7% m/m). IPI, nonetheless, registered its first contraction in 3 months at -0.9% m/m (Oct: +1.3% m/m), reflecting weak external demand, uneven economic recovery and backing BOJ hold. The resilient sales numbers, meanwhile, were likely supported by surging inbound tourists and is expected to moderate in anticipation of higher interest rates and on the back of economic uncertainty. In the shorter-term, consumer spending and tourist arrivals will also be negatively affected by the latest 7.6-magnitude earthquake.

- In the latest BOJ monetary policy meeting, some board members called for debate on future exit from easy policy and Governor Kazuo Ueda has commented that BOJ can shift before all the SME wage data are in. We expect a ***positive wage-inflation cycle is crucial for a policy shift and thus, the "shunto" spring wage talks will matter.***

China logged worst manufacturing PMI reading in 6-months, industrial profits improved

- Mixed string of economic indicators was released in China. December's ***official manufacturing PMI unexpectedly fell to 49.0 (Nov: 49.4), it's the lowest level in 6 months*** and the statistics bureau commented that ***an increasingly complicated, tough and uncertain external environment as well as insufficient domestic market*** as a key reason for the continued fall. The non-manufacturing PMI picked up, albeit less than expected to 50.4 (Nov: 50.2), boosted by expansion in the construction PMI (56.9 vs 55.0) as government-led infrastructure investment accelerated. The services sector remained in contraction and unchanged at 49.3, partly as a result of an unusually long cold snap that affected the travel sector. Industrial profits, meanwhile, surged +29.5% y/y in November (Oct: +2.7% y/y, YTD: -4.4% y/y).

Hong Kong's exports accelerated thanks to low base effect; headwind from challenging external environment and geopolitical tensions

- Supported by low base effect, exports accelerated to +7.4% y/y in November (Oct: +1.4% y/y). Exports to China and the US rose, but those to the EU fell visibly. Looking ahead, the challenging external environment amid heightened geopolitical tensions and tight financial conditions will continue to weigh on demand in the near term.

Singapore's economy expanded by 1.2% in 2023; Expects less favourable external environment ahead and maintains GDP projection of 1-3% for 2024

- Data released last week signals ***subdued domestic and external demand, reaffirming our expectations that MAS will extend its monetary pause in January to support the economy***. IPI disappointed with a mild +1.0% y/y gain in November (+7.6% y/y), in line with the still sluggish, albeit bottoming exports and electronics PMI. Headline and core inflation, meanwhile, eased to 3.6% y/y and +3.2% y/y respectively (Oct: +4.7% y/y and +3.3% y/y), with the former the lowest in 25 months as subdued domestic demand weighed down on softer retail prices.
- Data this morning showed that the ***economy skirted a recession in 2023 with a 1.2% growth*** but the government, as per the Prime Minister's New Year speech, expects a less favourable external environment ahead. ***The government also maintained its GDP projection for 2024 in a range of 1-3%.*** 4Q GDP grew more than expected by +1.7% q/q and +2.8% y/y (3Q: +1.3% q/q and +1.0% y/y) as year-end gains in the manufacturing and construction sectors, coupled with still relative strong services sector aided momentum to activity.

Malaysia's inflation retreated to 1.5% in November; Expect average inflation of 3.2%, OPR at 3.00% for 2024

- Malaysia's headline CPI retreated to +1.5% y/y in November (Oct: +1.8% y/y). Moving forward, inflation is expected to remain moderate in the absence of any significant supply and demand shocks while impact from the subsidy rationalization in 2024 is expected to be manageable. ***We estimate full year***

2024 CPI could potentially average 3.2% (1.0ppt higher from base case of 2.2%) assuming abolishment of eggs subsidy and phased adjustment in electricity tariffs in 2Q, as well as gradual pullback in fuel subsidies in 3Q. We also ***expect BNM to maintain the OPR at 3.00%*** on the back of continued moderate growth and price outlook.

Vietnam's 2023 GDP growth topped estimates at +5.1%; Government is targeting 6.0-6.5% in 2024

- Economic growth beat consensus forecasts, accelerating again to +6.7% y/y in 4Q (3Q: 5.5% y/y) and bringing full year GDP to 5.1% y/y. Supporting growth during the quarter was exports picking up steam (Dec: +13.1% y/y vs. Nov: +6.7% y/y), while consumer spending, as reflected in retail sales data, holding resilient (Dec: +9.3% y/y vs Nov: +10.1% y/y). Moving into 2024, the government is targeting growth of 6.0-6.5%.
- Cost pressures, meanwhile, have picked up slightly since August, with the rate of inflation hitting +3.6% y/y in December (Nov: +3.5% y/y). Although inflation is still below the Government's target of 4.0%, with the brighter economic prospects for 2024, we expect the State Bank of Vietnam (SBV) to maintain its policy rate at 4.50% for the whole of 2024.

House View and Forecasts

FX	This Week	4Q-23	1Q-24	2Q-24	3Q-24
DXY	100-104	101	107	106	105
EUR/USD	1.08-1.12	1.10	1.04	1.04	1.05
GBP/USD	1.25-1.29	1.27	1.20	1.20	1.21
USD/JPY	140-144	141	147	144	141
AUD/USD	0.66-0.70	0.68	0.65	0.66	0.67
USD/MYR	4.58-4.65	4.59	4.69	4.65	4.60
USD/SGD	1.31-1.34	1.32	1.37	1.35	1.34

Rates, %	Current	4Q-23	1Q-24	2Q-24	3Q-24
Fed	5.25-5.50	5.25.5.50	5.25.5.50	5.25.5.50	5.00-5.25
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	4.35	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
2-Jan	MA S&P Global Malaysia PMI Mfg (Dec)	47.9
	VN S&P Global Vietnam PMI Mfg (Dec)	47.3
	CH Caixin China PMI Mfg (Dec)	50.7
	EC HCOB Eurozone Manufacturing PMI (Dec F)	44.2
	UK S&P Global UK Manufacturing PMI (Dec F)	46.4
	US S&P Global US Manufacturing PMI (Dec F)	48.2
	US Construction Spending MoM (Nov)	0.60%
2-31 Jan	SI Singapore MAS January 2024 Monetary Policy Statement	
3-Jan	US MBA Mortgage Applications	-1.50%
	SI Purchasing Managers Index (Dec)	50.3
	US ISM Manufacturing (Dec)	46.7
	US JOLTS Job Openings (Nov)	8733k

Source: Bloomberg

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