2 February 2024

Global Markets Research

Daily Market Highlights

02 Feb: FOMC and BOE stood pat

Fed shifted to neutral stance and pushed back on rate cuts; BOE stayed slightly hawkish
Manufacturing PMIs suggests that the sector may be stabilising although weak
US labour data suggests softer wage growth; hotter-than-expected Eurozone's CPI

- The three major US equity indices gained between 1.0-1.3% d/d, recovering from Wednesday's sell-off after Fed Chair Jerome Powell in his post-meeting conference dampened investor hopes for a rate cut as soon as March. Corporate earnings returned to the forefront with three of the Magnificent Seven reported results after the bell. Accordingly, Meta's profit tripled and the company announced its first ever dividend, Apple revenue grew for the first time in a year but its China business showed weakness, while Amazon reported better than expected results. Traders also kept a wary eye on regional banks, after shares of New York Community Bank plunged on real estate risks. Pharmaceutical company Merck, meanwhile, helped prop up the Dow with its 4Q beat.
- Elsewhere, Asian stocks closed mixed, but European stocks closed mostly lower amidst a flurry of corporate earnings. BNP Paribas lost 9.2% d/d after the French bank pushed back its profit target. Shares of Adidas also suffered after signalling a profit drop this year due to unfavourable currency movements. Volvo shares, nonetheless, jumped after announcing it will stop funding its subsidiary Polestar Automotive.
- In the Treasury market, yields fell across the curve led by the long end. The 2Y dipped by less than 1bps to 4.20% while the 10Y fell 3bps to 3.88%. Led by UK gilts, 10Y European bond yields were broadly lower by less than 5bps.
- DXY fell 0.2% d/d to 103.05, weakening against all its G10 peers even after Chairman Jerome Powell said that a move in March was unlikely. The DXY initially bounced on Powell's comments but weakened on Thursday ahead of the key non-farm payroll data on Friday. The greenback was also dragged lower by tumbling UST yields on renewed jitters over US regional banks. Those concerns may have boosted the safe haven JPY (+0.3% d/d). European currencies strengthened in tune to 0.4-0.5% d/d, with EUR supported by higher-than-expected CPI prints and GBP by BOE Governor Andrew Bailey's comments that officials need to see more evidence that inflation is set to fall all the way to the 2% target and stay there.
- Oil prices retreated between 2.7-3.7% d/d as traders assessed conflicting reports on progress to the agreement to pause the Israel-Hamas war. On the fundamental front, OPEC+ delegates said that members will decide in March whether to extend their output cuts in 2Q, while BP's Whiting refinery was shut down after a power outage. The refinery is one of the largest users of Canadian oil in the US.

FOMC maintained Fed funds rate, shifted to neutral stance and pushed back on rate cuts

- As widely expected, the Federal Open Market Committee (FOMC) maintained

Key Market Metrics

	Level	d/d (%)
Equities		
Dow Jones	38,519.84	0.97
S&P 500	4,906.19	1.25
NASDAQ	15,361.64	1.30
Stoxx Eur 600	483.86	-0.37
FTSE 100	7,622.16	-0.11
Nikkei 225	36,011.46	-0.76
CSI 300	3,217.71	0.07
Hang Seng	15,566.21	0.52
Straits Times	3,143.06	-0.32
KLCI 30	1,512.98	0.02
FX		
Dollar Index	103.05	-0.22
EUR/USD	1.0872	0.50
GBP/USD	1.2744	0.44
USD/JPY	146.43	-0.33
AUD/USD	0.6572	0.06
USD/CNH	7.1878	0.01
USD/MYR	4.7300	0.06
USD/SGD	1.3366	-0.31
Commodities		
WTI ($/bbl)	73.82	-2.68
Brent ($/bbl)	78.70	-3.68
Gold ($/oz)	2,053.00	0.22
Copper ($$/MT)	8,534.50	-0.86
Aluminum($/MT)	2,247.00	-1.45
CPO (RM/tonne)	3,832.50	-3.43

Source: Bloomberg, HLBB Global Markets Research
** Dated as of 30 Jan for CPO, Dated as of 31 Jan for KLCI, USD/MYR*

the target range for the federal funds rate at 5.25-5.50%. Key highlights from the statement and press conference includes: 1) In describing the economic landscape, the statement shifted from "having slowed" to "expanding at a solid pace" but added that the economic outlook is uncertain. 2) Description of risks has changed from inflation previously to "the risks to achieving its employment and inflation goals are moving into better balance." 3) Removal of tightening bias - Phrase of "In determining the extent of any additional firming" previously was replaced with "In considering any adjustments to the target range for the federal funds rate." 4) In laying the condition for a rate cut, the committee does not expect it will be appropriate to reduce the target range until it has gained "greater confidence that inflation is moving sustainably towards 2 percent." 5) In the press conference, Fed Chair Jerome Powell said that" I don't think it's likely that the committee will reach a level of confidence by the time of the March meeting."

BOE maintained Bank Rate with a 6-3 majority

- As widely expected, the Bank of England (BOE) kept its bank rate unchanged at 5.25%. Key highlights from the statement and press conference includes: 1) The decision was based on a majority of 6–3, with 2 members preferring to increase the policy rate, and 1 preferring to cut. 2) The further tightening bias was dropped and replaced with "the Committee would keep under review for how long Bank Rate should be maintained at its current level". 3) The statement also said that "monetary policy will need to remain restrictive for sufficiently long to return inflation to the 2% target." 4) BOE expects inflation to fall temporarily to the 2% target in 2Q before increasing again in 3Q and 4Q. 5) Governor Andrew Bailey, in his press conference added that the second-round effects of domestic price and wage increases will take longer to unwind.

S&P manufacturing PMIs improved albeit still contractionary for the majors; signalising that the sector may be stabilising

- The final US Manufacturing PMI was revised upwards by 0.4ppts to 50.7 in January (Dec: 47.9), the strongest improvement in operating conditions since September 2022. Driving the uptick was a renewed expansion in new orders, the quickest since May 2022. That said, improved demand conditions were domestically focused, as new export orders continued to fall.
- The final Eurozone Manufacturing PMI was left unchanged at 46.6 (Dec: 44.4), its highest in 10 months. With factory output and new orders declining, although at the softest rates since last April, the sector downturn could stretch into the rest of the quarter. On a positive note, PMI has improved for three consecutive months.
- The final UK Manufacturing PMI was revised downwards by 0.3ppts to 47.0 in January (Dec: 46.2). Four out of the five PMI sub-components contracted during the month, and was widespread across the three industries. Manufacturers also experienced rising supply chain difficulties due to the Red Sea crisis.
- The final Japan Manufacturing PMI was left unchanged at 48.0 in January (Dec: 47.9), as depressed economic conditions domestically and globally weighed heavily on the sector. Concerns remained over activity in upcoming months and manufacturers signalled the sharpest depletion in outstanding business since August 2020.
- Australia's manufacturing sector stabilised at the start of 2024, despite the final PMI revised downwards 0.2ppts to 50.1 in January (Dec: 47.6). The jump in output and new orders eased concerns that a manufacturing sector

recession was developing, and in tandem with this, business confidence also improved.

- Matching expectations, the Caixin China Manufacturing PMI held steady at 50.8 in January. This marks the first time since May 2021 that the index has remained in the expansion zone for three straight months. Total new orders remained above 50 for 6 consecutive months, while new export orders grew for the first time in 7 months. On the flip side, supply continued to outpace demand, employment continued to decline and price levels remained weak.
- The S&P Global Malaysia PMI improved to 49.0 in January (Dec: 47.9), its highest reading since September 2022 and signalling that the worst of the slowdown has passed. Amid the softer reduction in new orders, firms also indicated the slowest depletion in backlogs since August 2022, suggesting that capacity pressures are starting to build on manufacturing firms. Firms also reported further softening in price pressures.
- The S&P Global Vietnam Manufacturing PMI rebounded to above the 50-threshold in January (50.3 vs 48.9). This is the first improvement in 5 months, led by new orders and production. However, these were not sufficient to entice firms to take on additional staff or expand purchasing. There were issues with transportation and shipping in January, resulting in delivery delays and higher costs. Firms lowered their own selling prices, however, which suggests that demand conditions remain muted.

US ISM-Manufacturing improved but still contractionary; labour data suggests cooler wage growth and labour market

- The ISM-Manufacturing index unexpectedly improved to 49.1 in January (Dec: 47.1), a 15-month high driven by the strongest new orders since May 2022 and suggesting that the manufacturing sector may be stabilising. On the supply side, production also expanded for the first time in four months, while inventories slowed to the leanest stockpile since October 2022. Out of the six biggest manufacturing industries, only two (transportation equipment and chemical products) registered growth during the month.
- In the labour market, hiring slowdown, higher productivity and softer wage growth will give room to contain inflation and for the Fed to cut later this year. In 4Q, productivity growth outpaced unit labour costs at +3.2% q/q and +0.5% y/y respectively (3Q: +4.9% q/q and -1.1% q/q). Employment cost index also cooled more than expected to +0.9% q/q (3Q: +1.1% q/q), its slowest pace since 2021.
- In the hiring space, ADP Employment Change report showed that companies added lesser-than-expected 107k jobs in January (Dec: +158k), with pay gains for job-stayers and job changers moderating to +5.2% y/y and +7.2% y/y respectively, the latter the smallest gain since May. Data also showed that all industries except for the information sector added jobs, led by leisure and hospitality.
- Initial jobless claims, meanwhile, unexpectedly rose to a 2-month high of 224k (+9k) for the week ended January 27 (Jan 20: +26k), while continuing claims increased 70k to 1898k the week prior (Jan 13: +22k). Moving forward, job cuts announcements signal claims may rise further. The Challenger Jobs reports showed a 136% m/m increase to 82.3k job cuts in January. With the exception of last year, this is the highest January number since 2009. Financial companies announced the most job cuts during the month, followed by technology and food production, the latter weighed down by high costs and advancing automation technology.
- In the housing market, mortgage applications decreased 7.2% w/w for the

week ended January 26 (Jan 19: +3.7% w/w) driven by a decline in purchase applications that offset a slight increase in refinance activity. As it is, low existing housing supply is limiting options for prospective buyers and is keeping home-price growth elevated, constraining home purchase activity. Construction spending, meanwhile, unexpectedly remained steady at +0.9% m/m in December, as stronger spending for residential was offset by non-residential.

Eurozone's inflation stronger than expected

- Both headline and core CPI eased less than expected in January to +2.8% y/y and +3.3% y/y respectively (Dec: 2.9% y/y and +3.4% y/y). By sector, services inflation, an important gauge to domestic wage pressures, held steady at 4.0% y/y for the third month while food prices moderated to +5.7% y/y (Dec: +6.1% y/y). Disinflationary effects from the energy market continued to narrow (-6.3% y/y vs -6.7% y/y) due to the wind-down of energy price support measures. As it is, a smaller decline in price prints will lower the chance for an April ECB cut, and we maintain our view that the first cut will begin by June. Separately, the unemployment rate matched expectations and held steady at 6.4% in December.

Australia's CPI prints cooler than expected

- Inflation prints came in cooler than expected, with December data up +3.4% y/y (Nov: +4.3% y/y), 4Q CPI at +4.1% y/y (3Q: +5.4% y/y) and the closely watched trimmed-mean at +4.2% y/y (3Q: 5.1% y/y) and supporting our view that RBA will stay pat next week. Driving softer prices in 4Q were slower rent costs, moderated by changes in the Commonwealth Rent Assistance as well as the slowest food and non-alcoholic beverage inflation since September 2021. In contrast, prices for insurance jumped and posted its largest quarterly rise since March 2021. Separate data, meanwhile, also showed that private sector credit matched expectations and held steady for the third month at +0.4% m/m in December.

Official PMIs suggest that China's economy picked up momentum in January

- Officials PMIs suggest that the economy picked up momentum at the start of 2024. Manufacturing PMI improved, albeit less than expected to 49.2 in January (Dec: 49.0), marking the 4th consecutive month of contraction. While this suggests that weak demand will continue to hamper the economy until at least February, we note that the contraction in new orders and new export orders narrowed. The non-manufacturing index, meanwhile, beat estimates at 50.7 (Nov: 50.4), as services activity recorded its first expansion since October at 50.1 (Nov: 49.3), but growth in the construction eased to 3-months low (53.9 vs 56.9).

Japan's consumer confidence continued with its upward trend

- Consumer confidence rose for the fourth month and more than expected to 38.0 in January (Dec: 37.2). M/m improvements were observed across all the categories, while the percentage of a group who expects price expectations a year ahead to "Go up" was 91.1%, an increase of 0.3ppts.

Hong Kong's 4Q GDP accelerated on exports of goods

- 4Q GDP accelerated for the second quarter, albeit less than expected to +4.3% y/y (3Q: +4.1% y/y), while for the whole of 2023, real GDP resumed growth at +3.2% (2022: -3.7% y/y). As it is, the turnaround in the economy in 2023 was largely thanks to a strong rebound in tourist arrivals which benefitted exports of services, while private consumption expenditure also recorded a notable increase after the removal of anti-epidemic measures, further supported by rising household income and the Government's various initiatives. Total exports of goods remained generally weak amidst a challenging external environment, but has since picked up in 4Q (+2.8% y/y vs -8.7% y/y).

- Looking ahead, the difficult external environment, especially China, will continue to pose headwinds for the latter, although it may stabilise towards 2H if advanced economies cut interest rates as expected. Visitor arrivals should increase further as handling capacity recovers, with additional boost from the Government's efforts to promote mega events. Similarly, investment should improve further in tandem with continued economic growth, though the tight financial conditions may remain a constraint for the time being.

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	1.08-1.10	1.10	1.11	1.11	1.10
GBP/USD	1.26-1.28	1.28	1.29	1.29	1.27
USD/JPY	146-149	142	140	137	134
AUD/USD	0.64-0.68	0.68	0.68	0.69	0.70
USD/MYR	4.67-4.75	4.69	4.66	4.62	4.56
USD/SGD	1.32-1.35	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
02-Feb	AU PPI YoY (4Q)	3.80%
	AU Home Loans Value MoM (Dec)	1.00%
	SI Purchasing Managers Index (Jan)	50.5
	US Change in Nonfarm Payrolls (Jan)	216k
	US Average Hourly Earnings MoM (Jan)	0.40%
	US Average Weekly Hours All Employees (Jan)	34.3
	US U. of Mich. Sentiment (Jan F)	78.8
	US Factory Orders (Dec)	2.60%
05-Feb	AU Judo Bank Australia PMI Services (Jan F)	47.9
	AU Melbourne Institute Inflation YoY (Jan)	5.20%
	AU Exports MoM (Dec)	1.70%
	HK S&P Global Hong Kong PMI (Jan)	51.3
	JN Jibun Bank Japan PMI Services (Jan F)	52.7
	SI S&P Global Singapore PMI (Jan)	55.7
	CH Caixin China PMI Services (Jan)	52.9
	SI Retail Sales YoY (Dec)	2.50%
	EC HCOB Eurozone Services PMI (Jan F)	48.4
	EC Sentix Investor Confidence (Feb)	-15.8
	UK S&P Global UK Services PMI (Jan F)	53.8
	EC PPI YoY (Dec)	-8.80%
	US S&P Global US Services PMI (Jan F)	52.9
	US ISM Services Index (Jan)	50.6

Source: Bloomberg

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