Hong Leong Bank

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## Global Markets Research

## Daily Market Highlights

# 04 Jan: Risk-off sentiment continued to linger

### Global equity markets closed in reds; Treasury mixed; DXY settled above 102

### FOMC: rates to remain restrictive for some time; Barkin: rate hike remains on the table

### US ISM manufacturing showed smaller contraction; softer JOLTs job openings data

- The S&P 500 (-0.8% d/d) and Nasdaq (-1.2% d/d) entered the new year with two consecutive days in the red, while Dow Jones also tumbled 0.8% d/d. Eight of the 11 sectors within S&P closed lower, with energy the top performing sector while tech stocks and real estate were the laggards. As it is, economic data released over the day suggests a softer US economy, with the ISM-Manufacturing still contractionary and jobs openings continuing to cool while in Fed speak, President Thomas Barkin warned that a rate hike "remains on the table."
- Similarly, European and Asian markets closed mostly in the red. Shares of Danish shipping giant Maersk jumped 5.1% d/d on Red Sea halt and Goldman's upgrade, while stocks in South Korea and Taiwan led declines in Asia as shares of Apple suppliers fell after Apple downgrade. Given the slump in the US market overnight and FOMC minutes signalling that rates will remain elevated for longer, Asian equities are expected to open down today.
- In the bond market, the benchmark 10Y UST yield settled down 1bps at 3.92%, although it briefly rose above 4% before heading lower, while the 2Y gained 1bps to 4.33%. 10Y European bond yields fell 1-7bps.
- DXY rallied from a session low of 102.08 to a peak of 102.73 before closing at 102.49 (+0.3% d/d), moving largely with the UST yields and benefitting from the risk-off sentiment partly due to escalating geopolitical tension. G10 currencies mostly weakened against USD, while in Asia, CNH, MYR and SGD depreciated 0.2-0.6% d/d.
- Oil prices surged more than 3.0% d/d after Iran's dispatch of warship ratcheted up tensions in the Middle East and on the back of supply disruptions In Libya. Protests in Libya shut down the Sharara oilfield, which produces 300k barrels per day. Further supporting prices were OPEC's pledge to remain united to maintain "market stability."

#### FOMC minutes reiterated restrictive monetary policy stance

- Key highlights from the latest FOMC meeting minutes: 1) Several policy makers noted the risk that, if labor demand were to weaken substantially further, the labor market could transition quickly from a gradual easing to a more abrupt downshift in conditions. 2) Labor market remains tight, albeit moderating but still-strong job gains and a low unemployment rate. 3) Many participants noted increased reliance on credit by households 4) Credit quality remained broadly solid but deteriorated further for some sectors. The minute also showed that consumer credit flows softened, a sign of softening consumer landscape. 5) The minutes reaffirmed expectations that policy rate will remain at a restrictive stance for some time.

**Key Market Metrics**

| | Level | d/d (%) |
|---|---|---|
| **Equities** | | |
| Dow Jones | 37,430.19 | -0.76 |
| S&P 500 | 4,704.81 | -0.80 |
| NASDAQ | 14,592.21 | -1.18 |
| Stoxx Eur 600 | 474.40 | -0.86 |
| FTSE 100 | 7,682.33 | -0.51 |
| Nikkei 225 | 33,464.17 | -0.22 |
| CSI 300 | 3,378.30 | -0.24 |
| Hang Seng | 16,646.41 | -0.85 |
| Straits Times | 3,199.44 | -0.94 |
| KLCI 30 | 1,462.37 | 0.64 |
| **FX** | | |
| Dollar Index | 102.49 | 0.29 |
| EUR/USD | 1.0922 | -0.18 |
| GBP/USD | 1.2665 | 0.38 |
| USD/JPY | 143.29 | 0.92 |
| AUD/USD | 0.6732 | -0.43 |
| USD/CNH | 7.1663 | 0.24 |
| USD/MYR | 4.6328 | 0.59 |
| USD/SGD | 1.3287 | 0.23 |
| **Commodities** | | |
| WTI ($/bbl) | 72.70 | 3.30 |
| Brent ($/bbl) | 78.25 | 3.11 |
| Gold ($/oz) | 2,042.80 | -1.48 |
| Copper ($$/MT) | 8,517.00 | -0.32 |
| Aluminum($/MT) | 2,312.50 | -0.98 |
| CPO (RM/tonne) | 3,647.50 | -1.86 |

*Source: Bloomberg, HLBB Global Markets Research*
** Dated as of 2 Jan for CPO*

### US ISM-Manufacturing improved but still below 50; JOLTs job openings came below expectations

- The ISM Manufacturing Index improved more than expected to 47.4 in December (Nov: 46.7). Companies are still managing outputs as order softness continues. Demand eased, with the New Orders Index contracting at a faster rate, New Export Orders Index flattish and Backlog of Orders Index climbing back above 40, but still in fairly strong contraction territory. Of note, none of the six biggest manufacturing industries registered growth in December.
- JOLTS job openings came below expectations at 8.8m in November (Oct: 8.9m), its lowest since 2021. Fewer workers also voluntarily quit their jobs (Quits rate: 2.2% vs 2.3%), suggesting increasing cautiousness amongst workers that they can find jobs at higher wages. The number of new hires also fell to 5.5m (Nov: 5.8m), adding evidence to a cooling labour market. Job openings decreased in transportation, warehousing & utilities as well as in the federal government, but rose for wholesale trade.
- Mortgage applications continued to be rate sensitive, with applications falling 9.4% for the two weeks ended December 29 (Dec 15: -1.5% w/w). Moving forward, the recent decline in rates has given the housing market some cause for optimism going into 2024, but purchase applications have not picked up and remained 12% y/y lower. The housing market continued to be weighed down by limited inventory, but the recent strength in construction will continue to help ease inventory shortages in the coming months.

### Australia's final S&P Services PMI revised downwards by 0.5ppts

- The final S&P Services PMI was revised downwards by 0.5ppts to 47.1 in December (Nov: 46.0) as new business declined at fastest rate since September 2021. Employment growth, nonetheless, accelerated and firms raised their charges at a faster pace despite softer input cost inflation.

### Singapore's PMI held firmly above 50, with an expansionary Electronics Index for the second month

- Overall PMI held firm above the 50-threshold for the fourth consecutive month at 50.5 in December (Nov: 50.3), while the Electronics PMI inched up slightly to 50.2 (Nov: 50.1). Driving the uptick were improvements across most sub-indices and the latest data reaffirmed our view that the exports and manufacturing sector has bottomed out and should recover in 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 |
|---|---|---|
| 4-Jan | HK S&P Global Hong Kong PMI (Dec) | 50.1 |
| | JN Jibun Bank Japan PMI Mfg (Dec F) | 47.7 |
| | SI S&P Global Singapore PMI (Dec) | 55.8 |
| | CH Caixin China PMI Services (Dec) | 51.5 |
| | HK Retail Sales Value YoY (Nov) | 5.60% |
| | EC HCOB Eurozone Services PMI (Dec F) | 48.1 |
| | UK Net Consumer Credit (Nov) | 1.3b |
| | UK Mortgage Approvals (Nov) | 47.4k |
| | UK DMP 1 Year CPI Expectations (Dec) | 4.40% |
| | UK S&P Global UK Services PM (Dec F) | 52.7 |
| | US Challenger Job Cuts YoY (Dec) | -40.80% |
| | US ADP Employment Change (Dec) | 103k |
| | US Initial Jobless Claims | 218k |
| | US S&P Global US Services PMI (Dec F) | 51.3 |
| 5-Jan | JN Jibun Bank Japan PMI Services (Dec F) | 52 |
| | SI Retail Sales SA MoM (Nov) | -0.80% |
| | JN Consumer Confidence Index (Dec) | 36.1 |
| | EC CPI Core YoY (Dec P) | 3.60% |
| | EC PPI YoY (Nov) | -9.40% |
| | US Change in Nonfarm Payrolls (Dec) | 199k |
| | US Average Hourly Earnings MoM (Dec) | 0.40% |
| | US Factory Orders (Nov) | -3.60% |
| | US ISM Services Index (Dec) | 52.7 |

*Source: Bloomberg*

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