HongLeong Bank

4 March 2024

Global Markets Research

Daily Market Highlights

4 March: Weaker-than-expected US economic data

UST yields, DXY fell on weaker-than-expected ISM-Manufacturing & consumer sentiment

China PMIs topped forecasts, although official manufacturing PMI is still contractionary

Eurozone's inflation eased less than forecast; UK house prices returned to positive growth

- Artificial intelligence and Nvidia continued to underpin investor optimism last Friday, sending Nasdaq surging 1.1% d/d to take out the 2021 record, while S&P 500 closed up 0.8% d/d above 5.1k for the first time. Chip making giant Nvidia, which had led the tech rally, marched upward by another 4.0% d/d. Shares of Intel, Qualcomm, AMD, Broadcom, Micron and Meta all gained 1.8% d/d or more. Stocks rallied even as troubled regional bank New York Community Bancorp tumbled 25.9% d/d after the company unearthed "material weaknesses" in its internal controls and announced a leadership change.
- European markets also closed higher, as fresh inflation data reassured investors that interest rates are on track to fall this year. Real estate and energy stocks led gains, while insurance and construction stocks lagged. Earnings were the key driver to individual share price action, with Daimler Truck jumping on strong earnings and Grifols rebounding after a record plunge the prior day. In Asia, Nikkei 225 closed shy of its 40k record level, while China's CSI 300 rose 0.6% d/d after its better-than-expected factory data. As it is, tracking Wall Street and equity futures, Asian stocks are poised for early gains today.
- The benchmark 2 and 10Y Treasury yields slipped 9 and 7bps respectively to 4.53% and 4.18% after reports of weaker-than-expected ISM manufacturing numbers, consumer sentiment and construction spending. 10Y European bond yields closed mixed between +/-4bps.
- Similarly, DXY fell 0.3% d/d to 103.86 on the weak US data, with all G10 currencies strengthening against USD save for the JPY. The latter was weighed down by BOJ's Ueda comments that he is keeping his options open regarding the timing of the widely expected interest rate hike, running contrary to that of board member Hajime Takata who said BOJ's price target is coming into sight. One of the leading gainers against USD was AUD, which appreciated by 0.5% d/d after the better-than-expected manufacturing PMIs from China. EUR and GBP appreciated between 0.2-0.3% d/d against greenback, the former after its inflation eased less than expected, supporting ECB's officials who don't want to rush into cutting rates, while the latter after BOE Huw Pill said that officials must guard against false sense of security even after inflation drops. Regional currencies, meanwhile, closed mixed against the greenback.
- In the commodities market, Brent closed marginally lower by 0.1% d/d, but the West Texas Intermediate rallied 2.2% d/d to close near $80/barrel for the first time since November head of OPEC+ decision and as the summer driving season approaches.

Key Market Metrics

	Level	d/d (%)
Equities		
Dow Jones	39,087.38	0.23
S&P 500	5,137.08	0.80
NASDAQ	16,274.94	1.14
Stoxx Eur 600	497.58	0.60
FTSE 100	7,682.50	0.69
Nikkei 225	39,910.82	1.90
CSI 300	3,537.80	0.62
Hang Seng	16,589.44	0.47
Straits Times	3,135.76	-0.19
KLCI 30	1,538.02	-0.87
FX		
Dollar Index	103.86	-0.28
EUR/USD	1.0837	0.30
GBP/USD	1.2655	0.24
USD/JPY	150.12	0.09
AUD/USD	0.6527	0.46
USD/CNH	7.2113	0.05
USD/MYR	4.7460	0.07
USD/SGD	1.3439	-0.13
Commodities		
WTI ($/bbl)	79.97	2.19
Brent ($/bbl)	83.55	-0.08
Gold ($/oz)	2,095.70	2.00
Copper ($$/MT)	8,503.50	0.12
Aluminum($/MT)	2,245.00	0.76
CPO (RM/tonne)	4,003.50	-0.47

Source: Bloomberg, HLBB Global Markets Research
** Dated as of 29 Feb for CPO*

Mostly upward revisions in S&P Manufacturing PMIs for the majors; PMI for China and Malaysia ticked up

- The final US Manufacturing PMI was revised upwards by 0.7ppts to 52.2 in February (Jan: 50.7). The overall rate of growth was the fastest since July 2022, with the upturn supported by a renewed increase in production and a quicker rise in new orders. On a negative note, while input prices rose at a slower pace, selling prices increased at the steepest pace since April 2023, suggesting that the disinflationary trend towards Fed's 2% will be a bumpy one.
- Further tentative signs of recovery in Eurozone's manufacturing sector with upward revision to February's Manufacturing PMI by 0.4ppts to 46.5 (Jan: 46.6), Forward-looking indicators such as new orders and purchasing activity also signalled their softest falls in close to a year and more importantly, growth expectations were on a par with January's 9-month high.
- The final UK Manufacturing PMI was revised upwards by +0.4ppts to 47.5 in February (Jan: 47.0), a 10-month high. Nonetheless, manufacturing conditions remained challenging as the Red Sea caused disruptions to both production and vendor delivery schedules, and in certain cases, drove up costs. Demand also remained weak, with new order intakes falling at the fastest rate since last October.
- The final Jibun Bank Manufacturing PMI was left unchanged at 47.2 in February (Jan: 48.0), suggesting a moderate deterioration in the health of the sector. Both output and new orders fell at sharper rates, amid reports of deteriorating demand conditions in both domestic and international markets. Lower capacity requirements contributed to a second successive month of job shedding, and one that was the most marked since January 2021. On a positive front, input costs rose at a softer rate, albeit still high.
- The Caixin China Manufacturing PMI unexpectedly ticked up to 50.9 in February (Jan: 50.8), keeping the index in growth territory for the fourth straight month and signalling sustained improvement in the sector. Companies noted further quicker upturns in both production and new work, supported by a rise in new export orders. Confidence around the year-ahead outlook for output also reached a 10-month high, but firms maintained a cautious approach to staff numbers.
- The Malaysia Manufacturing PMI signalled that firms began to see demand conditions turning corner during February. There were only slight moderations in output, total new orders and exports as firms mentioned pockets of demand building up in the manufacturing sector. At the same time, employment and backlogs stabilised, although higher raw material prices and currency weakness added to firms' input costs. Consequently, the Malaysia Manufacturing PMI rose to 49.5 in February (Jan: 49.0).
- Vietnamese manufacturers were able to build on the return to growth seen in January with a further expansion in February. Particularly positive were renewed job creation and the strongest business confidence for a year, while both output and new orders rose for the second month running. Consequently, the Vietnam Manufacturing PMI edged up marginally to 50.4 in February (Jan: 50.3).

US ISM-Manufacturing unexpectedly fell; consumer sentiment index revised downwards; construction spending recorded its first m/m contraction in 10 months

- The ISM Manufacturing index unexpectedly fell to 47.8 in February (Jan: 49.1), suggesting that the sector contracted at a faster pace during the month. Demand moderated, with the New Orders Index back in contraction as seasonal headwinds were reportedly too strong to overcome, head-count reductions continued in February, with notable layoff activity noted and the Prices Index remained in moderate increasing territory on the back of commodity driven costs.

- The final University of Michigan Sentiment index was revised downward 2.7ppts to 76.9 in February (Jan: 79.0). Nonetheless, the index at this level is only 8 points shy of its historical average and expected business conditions remained substantially higher than last autumn. For all but one sub-index, readings this month were higher than all values between mid-2021 and end-2023. Consumers were also assured that inflation will continue on a favorable trajectory, with the year-ahead inflation inching up only slightly to 3.0% from 2.9% previously, while long run inflation expectations remained at 2.9% for the third straight month.
- January's construction spending unexpectedly registered its first m/m contraction since February 2023 at -0.2% m/m (Dec: +1.1% m/m), weighed down by a notable decrease in spending on public construction.
- Kansas City Fed Services Activity index grew moderately to 12 in February (Jan: -2), driven primarily by growth in wholesale, retail, and transportation sector. More importantly, expectations for the next six months declined slightly while input price growth continued and is expected to continue to far outpace increases in selling prices.

Eurozone's inflation eased, while unemployment rate remained low

- Disinflation continued in the Eurozone, with both headline and core easing to 2.6% y/y and 3.1% y/y respectively in February (Jan: +2.8% y/y and +3.3% y/y) although both indicators were higher than expected. Cost of food, alcohol & tobacco, moderated sharply to 4.0% y/y (Jan: +5.6% y/y), non-energy industrial goods eased slightly to 1.6% y/y (Jan: +2.0% y/y) while the contraction in energy prices slowed to -3.7% y/y (Jan: -6.1% y/y). However, in our opinion, core at above 3% and sticky services costs at +3.9% y/y (Jan: +4.0% y/y) is insufficient for the ECB to cut its rate at this juncture. Other than the CPI print, ECB will also be looking for more moderation in wage growth and any signs of loosening in the labour market before proceeding with any rate cut. At this juncture, the labour market remained tight, with unemployment rate low at 6.4% in January (Dec: Upwardly revised 6.5%).

UK's house prices returned to positive y/y growth

- The Nationwide House Price index unexpectedly held steady at +0.7% m/m in February and returned to positive territory on a y/y basis for the first time since January 2023 (+1.2% vs -0.2% y/y). The decline in borrowing costs around the turn of the year prompted the uptick in the housing market, and added more evidence that the housing market has bottomed out.

Japan's consumer confidence improved for the fifth month; capex spending accelerated despite profit squeeze

- String of positive economic data on the Japanese front. Consumer confidence improved for the fifth month and by more than expected to 39.1 in February (Jan: 38.0). All sub-indices recorded growth during the month and looking ahead, the percentage of respondents expecting price to "Go up" was 91.5%, an increase of 0.4ppts. Data this morning meanwhile, showed that capital spending unexpectedly accelerated to +16.4% y/y in 4Q (3Q: +3.4% y/y) despite corporate profits moderating to +13.0% y/y during the quarter (3Q:

+20.1% y/y).

Better than expected official PMIs for China; Manufacturing below 50, non-manufacturing accelerated further

- China's official manufacturing PMI continued to fall for the fifth month to 49.1 for February (Jan: 49.2), however, is above consensus forecast as the new-orders sub-index remained unchanged at 49.0, while the new export orders sub-index eased slightly to 46.3 (Jan: 47.2). Meanwhile, the non-manufacturing PMI accelerated more than expected to 51.4 (Jan: 50.7), supported by a pick-up in travel and tourism during the long Lunar New Year holiday.
- As it is, we cautioned that PMI readings are seen as less reliable in the first two months of the year due to the timing of the Lunar New Year, and rather, will be waiting for authorities to unveil their annual GDP growth target during the National People's Congress. We expect officials to maintain its target of 5.0% for this year.

Hong Kong's retail sales decelerated sharply, partially due to different timing for the Lunar New Year

- Retail sales decelerated for the second month and at a much slower pace than expected by 0.9% y/y in January (Dec: +7.8% y/y). The slower growth was partially due to the different timing of the Lunar New Year, and should be supported by rising household income and Government's initiatives to boost consumption sentiment going forward. Continued increase in visitor arrivals alongside further recovery of handling capacity and organisation of mega events would also bode well for retail businesses.

Singapore's official PMI stumbled slightly but still expansionary

- Factory activity, as measured by the official PMI, dipped slightly to 50.6 in February (Jan: 50.7), although the data still points to further expansion, with the electronics sector (50.4 vs 50.6) also following a similar trajectory. The overall expansion in manufacturing for the sixth session was underpinned by a continued but mildly slower expansion across most key indexes, including new orders, new exports, factory output and employment. As it is, the February slowdown remained a blip in the bigger trend, largely due to the fewer days in the month as well as the Chinese New Year holidays.

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	1.25-1.28	1.28	1.29	1.29	1.27
USD/JPY	147-151	142	140	137	134
AUD/USD	0.64-0.67	0.68	0.68	0.69	0.70
USD/MYR	4.70-4.77	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
4-March	AU Melbourne Institute Inflation YoY (Feb)	4.60%
	AU Building Approvals MoM (Jan)	-9.50%
	EC Sentix Investor Confidence (Mar)	-12.9
5-March	AU Judo Bank Australia PMI Services (Feb F)	52.8
	JN Tokyo CPI YoY (Feb)	1.60%
	HK S&P Global Hong Kong PMI (Feb)	49.9
	JN Jibun Bank Japan PMI Services (Feb F)	52.5
	SI S&P Global Singapore PMI (Feb)	54.7
	CH Caixin China PMI Services (Feb)	52.7
	SI Retail Sales SA MoM (Jan)	-1.50%
	EC HCOB Eurozone Services PMI (Feb F)	50
	UK S&P Global UK Services PMI (Feb F)	54.3
	EC PPI YoY (Jan)	-10.60%
	US S&P Global US Services PMI (Feb F)	51.3
	US Factory Orders (Jan)	0.20%
	US ISM Services Index (Feb)	53.4

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