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Global Markets Research

Daily Market Highlights

06 Feb: Dampened rate cut bets shook financial markets

US equities fell; UST yields and DXY jumped post Fed speaks and strong ISM services
OECD: World GDP growth to soften to 2.9% in 2024, picking up to 3.0% in 2025
Expect RBA to stay pat and strike a neutral tone today

- Wall Street traders sent the US equity markets down 0.2-0.7% d/d, with the stronger than expected ISM-Services data reinforcing Fed Chair Jerome Powell's comments earlier that the Fed isn't in a rush to lower its policy rates. Echoing this was Chicago President Goolsbee who said that he would like to see more of the favourable inflation data before starting cuts. Earnings season, meanwhile, stretched on, with McDonald's falling 3.8% after a sales miss but shares of Nvidia jumped 4.8% d/d after a bullish growth forecast from Goldman Sachs.
- European markets also closed slightly lower, but shares of Unicredit hit its highest level since 2015, finishing the session up over 8% d/d on earnings beat and on a €8.6bn shareholder-return announcement. Similarly, most Asian markets fell although China stocks snapped its 5-day losing streak.
- Treasuries yields jumped for the second day as Fed's message continued to reverberate and traders pushed back rate cut expectations. The 2Y and 10Y yield rose 11 and 14bps respectively to 4.47% and 4.16%. Led by Norwegian bonds, 10Y European bond yields increased between 6-16bps.
- DXY climbed to its highest in almost three months (+0.5% d/d 104.45), strengthening against all its G10 peers and regional currencies as traders dialled back rate cut bets. EUR, GBP and JPY depreciated by 0.4%, 0.8% and 0.2% d/d respectively to their lowest since at least December, while closer to home, CNH weakened just below the flatline at 7.2201. MYR and SGD depreciated by a larger pace of 0.7% and 0.3% d/d respectively to close at 4.7490 and 1.3471.
- Oil prices rebounded in tune of 0.3-0.5% d/d after the US launched retaliatory airstrikes on Yemen's Houthis. Meanwhile, it is reported that a sizable amount of refining capacity is likely to be offline after a fire at the Lukoil PJSC facility in Russia's Volgograd.

OECD: World GDP growth to soften to 2.9% in 2024 before picking up to 3.0% in 2025

- Highlights from the latest OECD Economic Outlook includes: 1) Global GDP growth is projected to ease from 3.1% in 2023 to 2.9% in 2024 (+0.2ppts as compared to Nov forecast) before recovering to 3.0% in 2025 as financial conditions ease. 2) Inflation is projected to return to target in most G20 countries by the end of 2025 (Headline: 6.6% in 2024 and 3.8% in 2025, core: 2.5% in 2024 and 2.1% in 2025). However, OECD reiterated that it is too soon to be sure that underlying price pressures are fully contained as unit labour cost growth broadly elevated. 3) The US economy is expected to be supported by household spending and strong labour market conditions, but moderate from 2.6% in 2023 to 2.1% in 2024 (+0.6ppts) and 1.7% in 2025. 4) Eurozone

Key Market Metrics

	Level	d/d (%)
Equities		
Dow Jones	38,380.12	-0.71
S&P 500	4,942.81	-0.32
NASDAQ	15,597.68	-0.20
Stoxx Eur 600	483.69	-0.05
FTSE 100	7,612.86	-0.04
Nikkei 225	36,354.16	0.54
CSI 300	3,200.42	0.65
Hang Seng	15,510.01	-0.15
Straits Times	3,134.29	-1.43
KLCI 30	1,511.34	-0.35
FX		
Dollar Index	104.45	0.47
EUR/USD	1.0743	-0.42
GBP/USD	1.2536	-0.75
USD/JPY	148.68	0.20
AUD/USD	0.6483	-0.45
USD/CNH	7.2201	0.07
USD/MYR	4.7490	0.68
USD/SGD	1.3471	0.31
Commodities		
WTI ($/bbl)	72.80	0.54
Brent ($/bbl)	77.93	0.33
Gold ($/oz)	2,041.60	-0.75
Copper ($$/MT)	8,374.50	-1.06
Aluminum($/MT)	2,204.50	-1.43
CPO (RM/tonne)	3,800.00	-0.85

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

GDP growth is projected to pick up from 0.5% in 2023 to 0.6% in 2024 (-0.3ppts) and 1.3% in 2025 (-0.2ppts), with activity held back by tight credit conditions in the near term before picking up as real incomes strengthen. 5) Growth in China is expected to ease from 5.2% to 4.7% in 2024 and 4.2% in 2025 reflecting subdued consumer demand, high debt and the weak property market.

Broadly resilient Services PMIs for the majors

- The final S&P Global US Services PMI was revised downwards by 0.4ppts to 52.5 in January (Dec: 51.4). As it is, the pace of growth has quickened for the fourth month to its fastest pace since June 2023, underpinned by faster growth in the financial services sector. Accordingly, looser financial conditions tied to expectations of lower interest rates spurred greater activity during the month and also supported households. The latter benefited the consumer-facing services sector.
- The final HCOB Eurozone Services PMI was left unchanged at 48.4 in January (Dec: 48.8). While only mild, the latest decline was the quickest in 3 month as weak demand conditions remained a major hindrance for activity. Employment growth quickened to a 4-month high, while price pressures remained steep.
- The final S&P Global UK Services PMI was revised upwards by 0.5ppts to 54.3 in January (Dec: 53.4), with output growth accelerated to its fastest for 8 months amid stronger business and consumer spending. New orders also rebounded as receding recession risks and looser financial conditions led to greater willingness-to-spend. Also on a positive note, cost inflation eased to joint-lowest since February 2021.
- The final Jibun Bank Japan Services PMI was revised upwards by 0.4ppts to 53.1 in January (Dec: 51.5), pointing to a solid expansion in services activity. Evidence suggested that customer demand was sustained, while others commented that the weaker yen helped boost activity.
- The Caixin China Services unexpectedly fell to 52.7 in January (Dec: 52.9), softer than seen on average over the series history. During the month, new order growth softened notably and inflationary pressures moderated, but employment increased slightly for the second straight month and companies were generally upbeat about the 12-month outlook for activity.
- The composite S&P Global Hong Kong PMI retreated to 49.9 in January (Dec: 51.3), pointing to a broadly stagnant economy. The downturn was underpinned by worsening demand conditions, which affected purchasing and business confidence. Supply constraints worsened while cost pressures increased, but businesses opted to absorb some of these rising costs amid increased pessimism about the outlook.
- The composite S&P Global Singapore PMI stood at 54.7 in January (Dec: 55.7), pointing to a still solid private sector. Notable, forward-looking indicators such as backlogs of work index recorded another sharp expansion, signalling sustained growth in the near-term. Price pressures notably rose, not only because of GST but also due to supply constraints.

US ISM Services jumped 2.9ppts to 53.4

- The ISM Services PMI rose more than expected to 53.4 in January (Dec: 50.5), underpinned by quicker growth in the new orders, employment, and supplier deliveries sub-indices. The price index also jumped. Echoing Services PMI, the majority of respondents said that businesses were steady and that they are optimistic about the economy due to the potential of a rate cut, but remained cautious over inflation, cost pressures and ongoing geopolitical conflicts.

Eurozone's investor sentiment improved but still sluggish; producer prices fell

- Sentix Investor Confidence Index rose for the fourth month and by more than expected to -12.9 in February (Jan: -15.8). Nonetheless, the overall recovery remained sluggish, mainly due to Germany and as such, risk of a recession remained for the economic blog. On the price front, matching expectations, industrial producer prices fell by a larger pace of 0.8% m/m in December (Nov: -0.3% m/m) mainly due to energy, while prices slid 10.6% on a y/y basis (Nov: -8.8% y/y). Prices also fell for intermediate goods on a m/m basis, remained stable for both capital goods and durable consumer goods but increased for non-durable consumer goods.

Australia's trade surplus narrowed as exports held steady while imports rebounded

- Trade surplus narrowed, albeit less than expected to A$11.0bn in December (Nov: A$11.8bn) as export growth held steady (+1.8% m/m vs +1.7% m/m) but was outpaced by a rebound in imports (+4.8% m/m vs -8.4% m/m). The sharp turnaround for the latter was driven primarily by transport equipment.

Japan's household spending and cash earnings disappointed

- Labour cash earnings and household spending data disappointed this morning. Labour cash earnings accelerated less than expected to +1.0% y/y in December (Nov: +0.7% y/y), while household spending fell more than expected (-2.5% y/y vs -2.9% y/y). A miss in both numbers suggest that BOJ may stay pat in March but officials will be closely watching the outcome to the spring wage negotiations for any move in policy subsequent to that.

Singapore's retail sales fell slightly

- In a sign of softening domestic demand, retail sales fell by 0.4% y/y in December, reversing the prior month's gain of +2.4% y/y. Although the contraction was less than expected, most industries recorded declines, led by recreational goods, optical goods & books and furniture & household equipment. In contrast, motor sales posted a strong growth of +23.8% y/y due to higher COE quota, while retailers of watches & jewellery also saw a 6.0% y/y growth, probably attributable to consumers ramping up purchases ahead of the GST hike.

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	146-150	142	140	137	134
AUD/USD	0.64-0.67	0.68	0.68	0.69	0.70
USD/MYR	4.71-4.75	4.69	4.66	4.62	4.56
USD/SGD	1.33-1.35	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
6-Feb	AU Retail Sales Ex Inflation QoQ (4Q)	0.20%
	AU RBA Cash Rate Target	4.35%
	EC ECB 1 Year CPI Expectations (Dec)	3.20%
	EC ECB 3 Year CPI Expectations (Dec)	2.20%
	EC Retail Sales YoY (Dec)	-1.10%
7-Feb	MA Manufacturing Sales Value YoY (Dec)	-2.60%
	MA Industrial Production YoY (Dec)	0.60%
	JN Leading Index CI (Dec P)	107.6
	US MBA Mortgage Applications	-7.20%
	US Trade Balance (Dec)	-$63.2b

Source: Bloomberg

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