8 March 2024

Global Markets Research

Daily Market Highlights

8 March: Focus shifts to US nonfarm job data tonight

Powell: Fed is "not far" from confidence to start cutting rates; DXY and UST yields fell

ECB stood pat and turned slightly dovish; Lagarde wants more data on wage growth

BNM maintained OPR at 3.00%; neutral tone reaffirmed our rate pause view for 2024

- The US equity markets rallied between 0.3-1.5% d/d in the run-up to the US NFP report, pushing the S&P 500 and Nasdaq to their all-time highs again as big-technology stocks jumped and as investors are betting that the world's major central banks will start slashing interest rates as soon as June. Investor optimism was boosted after Fed Chair Jerome Powell, in his testimony to the Senate Banking Committee, said that the Fed is "not far" from confidence to start cutting rates but reiterated that they want more evidence of inflation moving sustainably towards 2%. ECB, meanwhile, maintained its key policy rates and revised its inflation outlook lower, feeding hopes for monetary easing starting in June. Information technology and communication services stocks led gains in S&P.
- In Europe, Stoxx 600 closed up 1.0% d/d above 500-points for the first time, with the real estate and healthcare stocks outperforming. In Asia, Nikkei 225 retreated from its record high on BOJ rate hike bets, while CSI 300 and Hang Seng tumbled 0.6-1.3% d/d despite better-than-expected China trade data. Hong Kong-listed shares of JD soared on its earnings and share buyback impress. Tracking US rally and futures, we thus expect Asian stocks to open higher.
- Most Treasury yields fell alongside the Dollar after Powell's testimony. The 2Y yield fell 5bps to 4.50%, while the 10Y slid 2bps to 4.08%. With the exception of UK gilts, 10Y European bond yields were modestly lower in tune to 2-4bps.
- DXY tumbled 0.5% d/d to 102.82 following Powell's comments, with all the G10 and regional currencies appreciating against the Dollar. JPY rallied 0.9% d/d and led gains against the greenback after Japan's wage growth data recently accelerated and the Japanese Trade Union Confederation said that its affiliated union demanded the highest wage increase in 30 years, prompting BOJ policy shift speculation. EUR and GBP strengthened 0.5-0.6% d/d, the former after ECB's rate decision and comments from its President. In Asia, MYR strengthened to 4.6965 before paring some of its gains to close 0.6% d/d stronger at 4.7052, one of the leading gainers against greenback in the region. This comes after the central bank left its OPR unchanged and shore up its support for the currency.
- Brent closed flat, while the West Texas Intermediate failed to break above the key psychological level of $80/barrel and closed 0.3% d/d lower. Crude oil prices, nonetheless, found some support by the latest inventory data and Fed interest rate outlook. Gasoline stockpiles in the US fell for the fifth straight week, while refineries on the Gulf coast are tapping crude inventories in a signal that they are preparing for the peak driving season. Prices were also supported by Fed Chair Jerome Powell's comments that

Key Market Metrics

	Level	d/d (%)
Equities		
Dow Jones	38,791.35	0.34
S&P 500	5,157.36	1.03
NASDAQ	16,273.38	1.51
Stoxx Eur 600	503.16	0.99
FTSE 100	7,692.46	0.17
Nikkei 225	39,598.71	-1.23
CSI 300	3,529.72	-0.60
Hang Seng	16,229.78	-1.27
Straits Times	3,133.78	-0.08
KLCI 30	1,535.83	0.28
FX		
Dollar Index	102.82	-0.53
EUR/USD	1.0948	0.45
GBP/USD	1.2809	0.61
USD/JPY	148.05	-0.89
AUD/USD	0.6620	0.85
USD/CNH	7.2003	-0.13
USD/MYR	4.7052	-0.57
USD/SGD	1.3332	-0.42
Commodities		
WTI ($/bbl)	78.93	-0.25
Brent ($/bbl)	82.96	0.00
Gold ($/oz)	2,165.20	0.32
Copper ($$/MT)	8,640.50	0.74
Aluminum($/MT)	2,253.00	0.81
CPO (RM/tonne)	4,093.00	1.19

Source: Bloomberg, HLBB Global Markets Research
** Dated as of 6 March for CPO*

borrowing costs would likely be cut this year, which has weighed on the Dollar.

ECB maintained key policy rates; downward revision to its GDP and inflation forecasts

- As widely expected, the European Central Bank (ECB) kept the interest rates on the main refinancing operations, marginal lending facility and the deposit facility unchanged at 4.50%, 4.75% and 4.00% respectively. Key highlights from the statement and press conference includes: 1) Downward revision to its inflation forecast, particularly for 2024 due to lower contribution from energy prices. ECB, nonetheless, cautioned that domestic price pressures will remain high due to strong wage growth. ECB expects inflation to average 2.3% in 2024, 2.0% in 2025 and 1.9% in 2026 and core at 2.6%, 2.1% and 2.0% respectively. 2) The ECB also revised its growth projection lower for 2024 to 0.6%. Thereafter, the ECB expects the economy to pick up to 1.5% in 2025 and 1.6% in 2026, supported initially by consumption and later by investment. 3) ECB reiterated that policy rates, if "maintained for a sufficiently long duration", will make a "substantial contribution" to returning inflation to target. 4) In this context, President Christine Lagarde said that the policy makers aren't "sufficiently confident" at present to lower rates. 5) Lagarde emphasized the need for more data on wage growth, and added that officials will know a little more in April and a lot more in June, suggesting that the first rate cut will only begin in the June meeting and in our opinion, four cuts of 25bps each time to end 2024.

BNM left OPR unchanged and maintained a neutral tone; expect no change in OPR for 2024

- At its MPC meeting, BNM decided to leave the OPR unchanged at 3.00% for the fifth consecutive meeting as widely expected. We noted little change in BNM's assessment on both global and domestic growth and price outlook, maintaining a neutral statement overall. This reaffirmed our view for an extended rate pause at the current level of 3.00% through the year. BNM also reinforced recent rhetoric that the MYR is undervalued, and emphasized coordinated efforts by the central bank and the government to encourage repatriation and conversion of foreign investment income by GLCs and GLICs, spurring greater inflows and lending support to the MYR.
- Resiliency in global economic activities and continued moderation in inflationary outlook signalled global central banks could afford to delay their respective policy tightening, adding to signs interest rates will stay higher for longer. We maintain our view for policy easing to kick in towards the middle of the year with the first rate cut from the Fed likely taking place in June/ July. Domestically, we also maintain our view for BNM to keep OPR steady for the year, to ensure growth and price stability. Imminent narrowing in yield differential as the Fed kickstarts its easing path, as well as coordinated effort by BNM and the government to encourage repatriation and conversion of foreign investment income, are expected to be positive for the MYR.
- After gaining $0.6bn in 1H of February, Malaysia's foreign reserves retreated $1.1bn in 2H of the month to close February at $114.3bn. The reserves position is sufficient to finance 5.4 months of imports and is 1.0 times of the total short-term external debt.

US job cuts jumped in February but YTD cuts fell 7.6%; consumer credit jumped on non-revolving loans; trade deficit widened on higher imports

- Consumer credit topped all forecasts to increase to $19.5b in January (Dec: $0.9bn), as non-revolving credit climbed the most in 7 months. The latter, which includes loans for vehicle purchases and school tuition, increased $11.1bn, while revolving credit, which includes credit cards, climbed $8.4bn. As it is, a sturdy labour market has largely supported consumer spending over the past year, but shoppers have also started to increasingly lean on credit and savings to spend.
- Jobless claims remained subdued and near its historically low, signalling that layoffs have been limited so far, but may creep up going forward given the slew of job cut announcements. Claims came lower than expected at 217k for the week ended March 2, unchanged from the previous week (Feb 24: +15k), while continuing claims rose for the second week but at a slower pace of 38k to 1906k the prior week (Feb 14: +38k).
- Meanwhile, the Challenger, Gray & Christmas reported that US employers announced an 8.8% y/y jump in job cuts to 84.6k in February (Jan: -20.0% y/y), its highest for the month since 2009 although YTD announcements were down 7.6% y/y. The technology and financial industries were the leading job cutters, but several industries, like industrial goods and food manufacturing, energy, education as well as transportation, were up significantly over last year. Moving forward, as businesses are aggressively slashing costs and embracing technological innovations, this has and could reshape staffing needs and as such, the labour market may see a wave of layoffs during the year.
- Trade deficit widened sharper than expected to $67.4bn in January (Dec: -$64.2bn). This is the highest deficit since April 2023 and was driven by a 1.1% m/m jump in imports (Dec: +1.4% m/m), led by autos and capital goods. Exports, meanwhile, slowed to +0.1% m/m (Dec: +1.1% m/m). Moving forward, sluggish overseas economies will continue to weigh on US exports, but the progress US companies made since last year to manage their inventory levels in line with sales may contribute to a pick-up in demand for imports.

Softer inflation expectations for the UK

- Inflation expectations suggest that price print may continue with its downward momentum, leaving BOE room to cut rates later in the year. The DMP 1Y CPI expectations eased less than expected to 3.3% in February (Jan: 3.4%), while the 3Y ahead expectations also moderated to 2.8% (Jan: 2.9%). Further supporting this is businesses expecting their output price inflation to decline over the next year to 4.3%, unchanged from January.

Australia's trade surplus widened less than expected; new home loans fell for the second month

- Data released overnight suggest a weaker Australian economy in 1Q as elevated interest and inflation rates largely kept local demand subdued. New loan commitment to homes unexpectedly fell for the second month by -3.9% y/y (Dec: -4.1% y/y), driven by lower lending to both investment and owner-occupier dwelling loans. Meanwhile, trade surplus widened, albeit less than expected to $11.0bn in January (Dec: $10.7bn) as export growth outpaced imports at +1.6% m/m and +1.3% m/m respectively (Dec: +1.5% m/m and +4.0% m/m). The pick-up in exports were driven by rural goods like meat and cereals, while imports weakened due to softer domestic demand for consumer goods and notable contraction in intermediate goods.

Japan's household spending fell the most in almost 3 years

- Mixed data from Japan this morning. Bank lending excluding trusts remained stable at +3.4% y/y in February, while household spending shrank more than expected and by the most in almost 3 years by -6.3% y/y the prior month (Dec: -2.5% y/y). As it is, personal spending has stayed weak in Japan and was one of the factors contributing to the economic contraction in 4Q. As such, this latest data will cast a doubt over the timing of Japan's first rate hike and it is pivotal that salary picked up to support spending as well as inflationary tendencies going forward for a pivot.

China surprised on the upside for exports; but Beijing has a grim outlook

- China's stronger than expected export growth of +7.1% y/y for the first two months of 2024 points to some support for the economy but forward-looking indicators like PMIs suggest that this may not be adequate for the economy to achieve its 5% target at this juncture. As it is, base effects will turn unfavourable later, global economic indicators remained mixed but broadly still soft, while persistent deflationary pressures have made Chinese exports cheaper for foreign consumers but has also dragged on their value. As it is, Commerce Minister Wan Wengtao has recently said that Beijing still sees a grim outlook for trade on the back of declining domestic demand overseas, but added that export products are moving up the value chain.

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
8-March	JN Eco Watchers Survey Outlook SA (Feb)	52.5
	JN Leading Index CI (Jan P)	110.2
	EC GDP SA QoQ (4Q F)	0.00%
	US Change in Nonfarm Payrolls (Feb)	353k
	US Average Hourly Earnings MoM (Feb)	0.60%
9-March	CH PPI YoY (Feb)	-2.50%
	CH CPI YoY (Feb)	-0.80%
9-15 Mar	CH New Yuan Loans CNY (Feb)	4920.0b
11-March	JN GDP SA QoQ (4Q F)	-0.10%
	US NY Fed 1-Yr Inflation Expectations (Feb)	3.00%
11-18 Mar	CH FDI YTD YoY CNY (Feb)	-11.70%

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

DISCLAIMER

This report is for information purposes only and does not take into account the investment objectives, financial situation or particular needs of any particular recipient. The information contained herein does not constitute the provision of investment advice and is not intended as an offer or solicitation with respect to the purchase or sale of any of the financial instruments mentioned in this report and will not form the basis or a part of any contract or commitment whatsoever.

The information contained in this publication is derived from data obtained from sources believed by Hong Leong Bank Berhad ("HLBB") to be reliable and in good faith, but no warranties or guarantees, representations are made by HLBB with regard to the accuracy, completeness or suitability of the data. Any opinions expressed reflect the current judgment of the authors of the report and do not necessarily represent the opinion of HLBB or any of the companies within the Hong Leong Bank Group ("HLB Group"). The opinions reflected herein may change without notice and the opinions do not necessarily correspond to the opinions of HLBB. HLBB does not have an obligation to amend, modify or update this report or to otherwise notify a reader or recipient thereof in the event that any matter stated herein, or any opinion, projection, forecast or estimate set forth herein, changes or subsequently becomes inaccurate.

HLB Group, their directors, employees and representatives do not have any responsibility or liability to any person or recipient (whether by reason of negligence, negligent misstatement or otherwise) arising from any statement, opinion or information, expressed or implied, arising out of, contained in or derived from or omission from the reports or matter.

Potential and actual conflict of interest may arise from the activities of HLB Group. HLB Group constitute a diversified financial services group. These entities engage in a wide range of commercial and investment banking, brokerage, funds management, hedging transactions and other activities for their own account or the account of others. In the ordinary course of their business, HLB Group may effect transactions for their own account or for the account of their customers and hold long or short positions in the financial instruments. HLB Group, in connection with its business activities, may possess or acquire material information about the financial instruments. Such activities and information may involve or have an effect on the financial instruments. HLB Group have no obligation to disclose such information about the financial instruments or their activities.

The past performance of financial instruments is not indicative of future results. Whilst every effort is made to ensure that statements of facts made in this report are accurate, all estimates, projections, forecasts, expressions of opinion and other subjective judgments contained in this report are based on assumptions considered to be reasonable as of the date of the document in which they are contained and must not be construed as a representation that the matters referred to therein will occur. Any projections or forecasts mentioned in this report may not be achieved due to multiple risk factors including without limitation market volatility, sector volatility, corporate actions, the unavailability of complete and accurate information. No assurance can be given that any opinion described herein would yield favourable investment results. Recipients who are not market professional or institutional investor customer of HLBB should seek the advice of their independent financial advisor prior to taking any investment decision based on the recommendations in this report.

HLBB may provide hyperlinks to websites of entities mentioned in this report, however the inclusion of a link does not imply that HLBB endorses, recommends or approves any material on the linked page or accessible from it. Such linked websites are accessed entirely at your own risk. HLBB does not accept responsibility whatsoever for any such material, nor for consequences of its use.

This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation. This report is for the use of the addressees only and may not be redistributed, reproduced or passed on to any other person or published, in part or in whole, for any purpose, without the prior, written consent of HLBB. The manner of distributing this report may be restricted by law or regulation in certain countries. Persons into whose possession this report may come are required to inform themselves about and to observe such restrictions. By accepting this report, a recipient hereof agrees to be bound by the foregoing limitations.