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Global Markets Research

Daily Market Highlights

12 April: Fitch cut China's outlook to Negative; affirmed at A+

Higher than expected US CPI sent traders pushing back the first rate cut to November
ECB maintained policy rates; signalled prospect of a rate cut in June; EUR weakened
MAS maintained policy stance to contain inflation; 1Q GDP undershot expectations

- While the Dow closed flattish overnight, the S&P 500 and Nasdaq jumped 0.7-1.7% d/d after the latest PPI data offered some relief to investors who were on edge over persistent inflation data earlier. Just a recap, markets tumbled on Wednesday following the higher-than-expected CPI print. Technology stocks lifted the two indices, with a host of "Magnificent Seven" rallying and Amazon shares hitting an all-time high in the session. In Fed speak, President Susan Collins said the urgency to cut the Fed funds rates is lower, while John Williams said that the Fed will likely maintain its cautious approach to cutting rates. Earnings session kick-off today, with JPMorgan Chase, Citigroup and Wells Fargo due to release results.
- Meanwhile, European markets and Asian markets closed mostly in red, the former after the ECB maintained key rates but signalled the prospect of a rate cut in June, weighing on banking stocks. Asian markets followed the CPI-induced sell-off in the US equity markets the prior session, but is set for a mixed open today following futures.
- Treasuries closed mixed with the 10Y rising 4bps to 4.59%, after notching its biggest 1 day jump since September 2022 on Wednesday. The 2Y, meanwhile, slid 1bps to 4.96%. 10Y European bond yields closed higher in tune to 2-7bps.
- The Dollar swung between gains and losses after the PPI release and the DXY closed little change at 105.28. EUR weakened 0.2% d/d to 1.0726, its lowest since February after ECB held its interest rates steady but signalled a path to easing. GBP recovered 0.1% d/d after Megan Greene said that UK rate cuts should still be a way off given the ongoing inflation pressures. JPY pared some of its losses and closed 0.1% d/d weaker, after falling as much as 0.3% earlier in the session. Two Finance Ministry officials said that they are watching the foreign exchange with a high sense of urgency. Regional currencies, meanwhile, mostly depreciated against the greenback.
- Oil prices fell between 0.8-1.4% d/d after US data showed that crude inventories swelled by 5.84mb last week. Still, the WTI and Brent are holding above $85 and around the $90/barrel levels, on possibility of an attack on Israel by Iran or its proxies.

ECB maintained policy rates; prospect of a rate cut in June

- As widely expected, the European Central Bank (ECB) kept the interest rate on the main refinancing operations, the 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 include: 1) In a strong signal that cuts are on the way and probably in June, the statement said that it would be appropriate to cut rates if the Governing Council's updated assessment of the inflation outlook, the dynamics of underlying inflation and the strength of

Key Market Metrics

	Level	d/d (%)
Equities		
Dow Jones	38,459.08	-0.01
S&P 500	5,199.06	0.74
NASDAQ	16,442.20	1.68
Stoxx Eur 600	504.55	-0.40
FTSE 100	7,923.80	-0.47
Nikkei 225	39,442.63	-0.35
CSI 300	3,504.25	-0.01
Hang Seng	17,095.03	-0.26
Straits Times	3,227.61	-0.31
KLCI 30	1,553.51	-0.41
FX		
Dollar Index	105.28	0.04
EUR/USD	1.0726	-0.16
GBP/USD	1.2553	0.10
USD/JPY	153.27	0.07
AUD/USD	0.6538	0.40
USD/CNH	7.2558	-0.09
USD/MYR	4.7478	-0.10
USD/SGD	1.3531	-0.05
Commodities		
WTI ($/bbl)	85.02	-1.38
Brent ($/bbl)	89.74	-0.82
Gold ($/oz)	2,354.80	1.08
Copper ($$/MT)	9,342.00	-0.34
Aluminum($/MT)	2,454.00	-0.08
CPO (RM/tonne)	4,486.50	-0.55

Source: Bloomberg, HLBB Global Markets Research
** Dated as of 8 April for CPO, 9 April for USD/MYR, KLCI*

monetary policy transmission increases ECB's confidence that inflation is converging to the target in a sustained manner. Just a recap, the next assessment is due in June and President Lagarde had earlier commented that policymakers will have more data on wage data by then. 2) The likelihood of a rate cut in June was further increased after Lagarde commented that some members would have preferred to cut in April. 3) The need to maintain rates at their level "for a sufficiently long duration" has been dropped in the recent statement. 4) Risks of assessment to the economy were unchanged, balanced for inflation and downside to growth.

MAS maintained monetary policy stance

- As widely expected, MAS maintained the prevailing rate of appreciation of the S$NEER policy band and there will be no change to its width and the level at which it is centred. According to MAS, the prevailing rate of appreciation of the policy band is needed to contain imported inflation as well as domestic cost pressures. Meanwhile, Singapore's economy is expected to strengthen over 2024 and become more broad-based, and that the slightly negative output gap is projected to narrow further in 2H.
- Separately, Singapore's economy grew at a softer pace than expected in 1Q, accelerating to +2.7% y/y (4Q: +2.2% y/y) and moderating to +0.1% on a q/q basis (4Q: +1.2% q/q). Largely driving the acceleration in 1Q GDP on a y/y basis was the broad-based acceleration in the services sector (+3.2% y/y vs +2.0% y/y), while growth in the construction and manufacturing sectors moderated to +4.3% y/y and +0.8% y/y respectively (4Q: +5.2% y/y and +1.3% y/y), the latter due to contractions in electronics, biomedical and general manufacturing clusters.

FOMC minutes noted the possibility of maintaining the current restrictive stance for longer, cutting in an unexpected weakening in labour market

- Key highlights from the minutes to the latest FOMC meeting minutes: 1) Almost all participants judged that it would be appropriate to move policy to a less restrictive stance at some point this year. 2) FOMC noted that the January and February's inflation readings had been firmer than expected, noting upside risks going forward from geopolitical tension, higher energy prices and a less restrictive financial conditions, as well as downside risks from increased productivity growth, slower China's economy, a deterioration in the domestic CRE markets, a potential reemergence of banking sector stresses and rapid rise in unemployment. 3) Participants noted the possibility of maintaining the current restrictive stance for longer should the disinflation process slow, or reducing policy restraint in an unexpected weakening in labor market conditions. Just a recap, Fed staff is expecting the unemployment rate to remain low but inch up to 4.0% in 2024 and 4.1% in 2024 from 3.8% currently.
- In our opinion, lingering inflation, a resilient labour market suggests that risk is tilted to maintaining restrictive stance for longer. In the labour market, data released showed that real average weekly earnings accelerated for the second month by +0.6% y/y in March (Feb: +0.5% y/y), while jobless claim fell more than expected by 11k to 211k for the week ended April 6 (Mar 30: +10k). Continuing claims rose 28k to 1817k for the week ended March 30 (Mar 23: -21k), but indicators could be distorted due to seasonal effects from the Easter and spring break.
- In terms of price, CPI came in hotter than expected again, with both headline and core unexpectedly holding steady at +0.4% m/m in March mainly due to gasoline and shelter. On a y/y basis, headline accelerated to +3.5% y/y (Feb:

3.2% y/y) while core held steady at +3.8% y/y. The higher-than-expected CPI print saw traders further dialling back on their rate cut bets, with futures pricing in a full 25bps rate cut only in the November monetary policy meeting.

- Soothing some inflation fears were the PPI numbers. Although the PPI accelerated to its fastest pace in nearly a year at +2.1% y/y (Feb: +1.6% y/y), this was below consensus forecast and marks a sharp deceleration to +0.2% from February's +0.6% on a m/m basis. The softer prices were mainly due to a 0.1% d/d decline in prices for goods due to energy, while costs of services held steady at +0.3% m/m.
- The unexpectedly strong labour data recently and stubborn inflation rate added to upward pressure to mortgage rates, sending the 30Y rate to its highest in over a month at 7.01%. Despite this, mortgage applications rebounded by 0.1% w/w for the week ending April 5 (Mar: -0.6% w/w) mainly due a 9.9% w/w jump in refinance applications, probably as borrowers became more accustomed to the elevated rates.
- Meanwhile, the NFIB Small Business Optimism index unexpectedly weakened to 88.5 in March (Feb: 89.4). This is the lowest since 2012 as owners continue to manage economic headwinds like inflation and shortage of quality labour market. In a sign that inflation could remain elevated, was the net percent of owners raising average selling prices rising 7 points m/m to a net 28% during the month.

Softer consumer indicators from Australia

- Broadly softer indicators from Australia. Consumer confidence declined 2.4% m/m to 82.4 in April (Mar: -1.8% m/m to 84.4), suggesting that pessimists continued to outweigh optimists. Outside of the recession in the early 1990s, this is the second most protracted period of pessimism in record as persistent inflation (consumer inflation expectations picked up 0.3ppts to 4.6% in April) and high interest rates continued to squeeze household, leaving them gloomy about the economic outlook and on intentions to buy major household item and dwelling. In fact, the CBA Household Spending index showed that although spending intentions held steady at +3.4% y/y in April, this was due to prices and was, in fact, flat in real terms.
- NAB business conditions and confidence were little changed in March, with the conditions index falling 1 point to +9, while confidence rose 1 point to just +1, the latter a little below average. On a positive note, forward orders increased while both the conditions and confidence in both retail and construction, the two weakest sectors, rose.

Higher PPI for Japan, more positive consumers

- Generally positive data from Japan, in line with BOJ's recent pivot in its monetary policy and their expectations that inflation rate will pick up. Bank lending, excluding trusts, accelerated by 3.6% y/y in March (Feb: 3.4% y/y) while consumer confidence matched expectations and improved for the 6th month to 39.5 in March (Feb: 39.0). All sub-indicators registering increases during the month and the percentage of a group who expect prices to "Go up" also gained 0.9ppts to 92.4%.
- PPI accelerated for the second month by +0.8% y/y in March (Feb: +0.7% y/y) although held steady at +0.2% m/m. With producers facing higher costs for the fifth month, they may potentially pass these to consumers leading to higher CPI. As it is, the uptick largely reflects the impact from the removal of government energy subsidies recently, while running rising nonferrous metals also pushed prices higher.

Fitch downgraded China's sovereign credit outlook on debt fears; CPI decelerated more than expected post Lunar New Year

- Fitch Ratings downgraded its outlook on China's Long-Term Foreign-Currency Issuer Default Rating (IDR) to "Negative" from Stable, and affirmed the IDR at 'A+' The revisions reflects increasing risks to China's public finance amidst uncertain economic prospects as the economy transition away from property-reliant growth; wide fiscal deficits which have eroded fiscal buffers; as well as a fiscal policy which is increasingly likely to play an important role in supporting growth and could keep government debt on a steady upward trend.
- Data wise, CPI slowed more than expected to 0.1% y/y in March (Feb: +0.7% y/y), while PPI remained deflationary at -2.8% y/y (Feb: -2.7% y/y). The sharper than expected pull back in consumer prices suggests that the rebound in February was due to transitory boost from holiday demand and was broad based, at such, risk of deflation remains albeit lesser given the more positive economic numbers recently. Food prices turned downwards by 2.7% y/y (Feb: -0.9% y/y) while non-food moderated to +0.7% y/y (Feb: +1.1% y/y) due to transportation. Moving forward, competition in the EV sector could keep transportation costs subdued while policies to encourage trade-ins of household appliances suggest a possible turnaround for demand and prices for household items, the latter has turned positive for the past 4 months.

House View and Forecasts

FX	This Week	2Q-24	3Q-24	4Q-24	1Q-25
DXY	102-106	103.44	102.41	101.38	100.37
EUR/USD	1.07-1.10	1.09	1.10	1.08	1.07
GBP/USD	1.25-1.29	1.27	1.28	1.27	1.25
USD/JPY	148-153	148	145	142	140
AUD/USD	0.64-0.68	0.66	0.67	0.67	0.68
USD/MYR	4.70-4.76	4.68	4.63	4.56	4.49
USD/SGD	1.33-1.36	1.34	1.32	1.31	1.30

Rates, %	Current	2Q-24	3Q-24	4Q-24	1Q-25
Fed	5.25-5.50	5.25-5.50	4.75-5.00	4.50-4.75	4.50-4.75
ECB	4.50	4.25	3.75	3.50	3.50
BOE	5.25	5.25	4.75	4.50	4.50
BOJ	0-0.10	0 - 0.10	0 - 0.10	0 - 0.10	0 - 0.10
RBA	4.35	4.35	4.35	4.10	4.10
BNM	3.00	3.00	3.00	3.00	3.00

Source: HLBB Global Markets Research

Up Next

Date	Events	Prior
12-April	JN Industrial Production MoM (Feb F)	-0.10%
	UK Monthly GDP (MoM) (Feb)	0.20%
	US Import Price Index YoY (Mar)	-0.80%
	US Export Price Index YoY (Mar)	-1.80%
	US U. of Mich. Sentiment (Apr P)	79.4
	CH Exports YoY (Mar)	5.60%
15-April	JN Core Machine Orders MoM (Feb)	-1.70%
	CH 1-Yr Medium-Term Lending Facility Rate	2.50%
	EC Industrial Production SA MoM (Feb)	-3.20%
	US Empire Manufacturing (Apr)	-20.9
	US Retail Sales Advance MoM (Mar)	0.60%
	US NAHB Housing Market Index (Apr)	51
15-22 Apr	UK Rightmove House Prices MoM (Apr)	1.50%

Source: Bloomberg

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