Global Markets Research

Daily Market Highlights

13 March: Higher than expected US CPI

Little change to Fed rate cut expectations; US stocks, UST yields and DXY closed higher

Softer labour market and wage growth in the UK ease wage-spiral inflation concerns

Broad-based rebound in Malaysia IPI growth pointed to a good start to 2024

- Led by Nasdaq, the three major US equity indices rallied 0.6-1.5% d/d after fresh US inflation prints came in slightly higher than expected, and did little to change rate cut expectations. The conclusion of this event risk also cleared the way for investors to resume buying tech names such as Nvidia and Meta Platforms. Outside of the tech sector, shares of Archer Daniels Midland rose after the grain merchant said that an internal accounting investigation didn't affect its overall earnings, but Southwest Airlines shares slid after it said that it was re-evaluating its financial guidance due to delayed aircraft deliveries from Boeing. Later this week, Dollar Tree and Dollar General will report earnings, giving more clues to how low-income earners are weathering the higher costs of living.
- Elsewhere, European markets also closed higher, with FTSE 100 hitting a 10-month high as slowing UK wage growth raised hopes for interest rate cuts. Asian markets also closed mostly in the green, save Nikkei 225 after Japan's PPI came in hotter than expected. With this, most Asian stocks are set to rise today after the US equity markets largely shrugged off the higher than expected US CPI data.
- Treasuries extended losses on the hotter than expected inflation print, sending yields up 5-6bps across the curve. The 2Y closed up at 4.59% and the 10Y at 4.15%. 10Y European bond yields closed mixed between -/+3bps.
- DXY firmed to 103.18 after the CPI release, but gains later petered out. Tracking higher Treasury yields, DXY still closed 0.1% d/d stronger at 102.96. Most G10 currencies weakened against the greenback, including JPY. Notably, GBP stumbled 0.2% d/d as UK's labour data cooled, while EUR was largely unchanged after ECB Governing Council member Robert Holzmann commented that cutting rates before the Fed could cause an investor reaction. Similarly, regional currencies also mostly weakened against USD save the PHP and MYR. MYR appreciated slightly by 0.1% d/d to close at 4.6782 after the stronger-than-expected rebound in Malaysia's IPI.
- Oil prices fell between 0.3-0.5% d/d, continuing to fluctuate between gains and losses throughout the day as prices have largely been pushed by bullish and bearish dynamics like supply cuts and concerns over demand. OPEC, meanwhile, reported that Iraq produced more crude than its agreed limit for the second month.

US inflation came in slightly warmer than expected

- Both the headline and core inflation came in slightly higher than expected again, with headline unexpectedly picking up to +3.2% y/y (Jan: +3.1% y/y), while core eased less than expected to +3.8% y/y (Jan: +3.9% y/y). Coupled

Key Market Metrics

	Level	d/d (%)
Equities		
Dow Jones	39,005.49	0.61
S&P 500	5,175.27	1.12
NASDAQ	16,265.64	1.54
Stoxx Eur 600	506.52	1.00
FTSE 100	7,747.81	1.02
Nikkei 225	38,797.51	-0.06
CSI 300	3,597.49	0.23
Hang Seng	17,093.50	3.05
Straits Times	3,141.47	0.00
KLCI 30	1,554.56	0.64
FX		
Dollar Index	102.96	0.09
EUR/USD	1.0927	0.01
GBP/USD	1.2793	-0.16
USD/JPY	147.68	0.50
AUD/USD	0.6606	-0.12
USD/CNH	7.1873	0.10
USD/MYR	4.6782	-0.08
USD/SGD	1.3323	0.14
Commodities		
WTI ($/bbl)	77.56	-0.47
Brent ($/bbl)	81.92	-0.35
Gold ($/oz)	2,166.10	-1.03
Copper ($$/MT)	8,657.00	0.05
Aluminum($/MT)	2,265.00	0.27
CPO (RM/tonne)	4,185.50	-0.10

Source: Bloomberg, HLBB Global Markets Research
** Dated as of 11 March for CPO*

with a still resilient wage growth (real average weekly earnings accelerated to +0.5% y/y from +0.1% y/y previously) which could potentially keep demand-pull inflation elevated, these reinforces Fed's cautious approach to cut rates and we maintain our view that the Fed will only start lowering its interest rates in the June monetary policy meeting, the earliest. Shelter and gasoline contributed to over 60% of the monthly increase, although prices for the former moderated due to the owner's equivalent rent. Inflation also picked up for used cars, apparels, motor vehicle insurance and airfares, and consequently, core goods reversed its 8 straight months of flat or softer prices.

- The NFIB Small Business Optimism index unexpectedly fell to 89.4 in February (Jan: 89.9), its 26th consecutive month below the 50-year average of 98. The decline in optimism essentially reflects the squeeze on profits from high labour costs, and with 23% of small business owners reporting that inflation was their single most important business problem in operating their business, up 3ppts m/m and replacing labor quality as the top concern.

Softer labour market and wage growth in the UK

- The UK's labour market, which has largely fuelled inflationary pay rise over the past year, cooled sharper than expected with all indicators pointing south at the start of the year. On a positive note, however, this has helped temper upward pressures on wages and inflation and will give room for BOE to cut later in the year. After the release of the labour data, BOE Governor Bailey commented that the UK is "near or at full employment" and echoing our view, signalled that he is now less concerned about a wage price spiral developing.
- Data wise, unemployment rate unexpectedly rose for the first time since July 2023 to 3.9% in January 2024 (Dec: 3.8% y/y); average weekly earnings growth excluding bonuses eased to 6.1% y/y (Dec: 6.2%), its fifth straight month of moderation; vacancies fell 43k for the 3-months ended February while payrolled employees monthly change also slowed more than expected +20k (Jan: +48k). The ONS nonetheless urged caution in using the indicators due increased volatility from smaller sample size.

Australia's business conditions above its long-run average, but business confidence and household spending intentions eased

- A mixed string of economic data on the Australian front. The NAB Business Conditions rose above its long-run average to 10 in February (Jan: 7), signalling the economy remained resilient. Trading conditions and profitability picked up during the month, though conditions softened further for sectors that are particularly exposed to the ongoing impact of tighter monetary policy, like retail and construction. Despite the signs of resilience, confidence and forward orders both eased and remained at low levels, with the former at 0 (Jan: +1).
- Meanwhile, the CBA Household Spending Index grew at a softer pace of +3.5% y/y and fell 0.3% m/m (Jan: +3.8% y/y and +3.2% m/m), with seven of the 12 spending categories recording declines during the month, led by household goods and transport. With inflation rate running in tune to 3-4%, this suggests that spending in real terms is close to flat. Thus, amidst softer household spending intentions and inflationary pressure, this supports our view that the RBA can start lowering its cash rates in 2H of the year.

Malaysia's IPI growth rebounded more than expected to an eight-month high; broad-based growth signals a good start to 2024

- The Industrial Production Index (IPI) staged a bigger than expected rebound, growing by 4.3% y/y in January (Dec: -0.03% y/y). This came in above ours as well as consensus estimates, and marked its fastest growth in eight months. On a m/m basis, IPI turned around to increase 2.0% in January, after declining 1.3% m/m in December. The encouraging prints today was attributable to pick-up across all three key sectors – manufacturing (+3.7% vs -1.4% y/y), mining (+5.0% vs +4.1% y/y), and electricity (+8.3% vs +4.1% y/y). In line with the rebound in IPI, manufacturing sales also rebounded to increase 3.2% y/y in January (Dec: -4.2% y/y).
- The impressive IPI print points to a good start to 1Q, in line with our expectations that growth would expand at a faster pace this year. However, we would like to caution against seasonal factors. In addition, recent indicators suggest the overall outlook remains fragile and uneven, especially with manufacturing PMIs from the major economies and China remaining largely in contractionary territory. We believe supply chain disruption and potential foreign workers issues could cloud domestic production, hence keeping a lid on manufacturing output despite anticipated recovery in global demand and uptick in the global tech cycle. Therefore, Malaysia's 2024 growth outlook is expected to be moderate at 4.7%, supported by exports recovery and resilient domestic demand.

House View and Forecasts

FX	This Week	1Q-24	2Q-24	3Q-24	4Q-24
DXY	101-105	101.84	101.33	100.82	100.32
EUR/USD	1.08-1.11	1.10	1.11	1.11	1.10
GBP/USD	1.26-1.30	1.28	1.29	1.29	1.27
USD/JPY	145-150	142	140	137	134
AUD/USD	0.65-0.68	0.68	0.68	0.69	0.70
USD/MYR	4.67-4.73	4.69	4.66	4.62	4.56
USD/SGD	1.32-1.35	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
13-March	UK Monthly GDP (MoM) (Jan)	-0.10%
	EC Industrial Production SA MoM (Jan)	2.60%
	US MBA Mortgage Applications	9.70%
14-March	HK PPI YoY (4Q)	3.00%
	HK Industrial Production YoY (4Q)	4.40%
	US Retail Sales Advance MoM (Feb)	-0.80%
	US PPI Final Demand YoY (Feb)	0.90%
	US Initial Jobless Claims	217k

Source: Bloomberg

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