

13 May 2024

Global Markets Research
Daily Market Highlights

13 May: Unexpected spike in US inflation expectations

US consumer sentiment fell on concerns over employment, elevated interest and inflation rates
UK surprised with a strong 1Q GDP; China's CPI rose but still near zero, factory deflation persists
Malaysia's IPI gain eased; wholesale & retail trade moderated but remained at healthy levels

- The Dow rose another 0.3% d/d on Friday, wrapping an eighth consecutive winning session and registering its best week of 2024. The S&P 500 also climbed 0.2% d/d but Nasdaq inched lower just below the flatline as investors optimism was kept in check after US consumer sentiment data showed an uptick in inflation expectations. Consequently, most of the Magnificent Stocks were down on Friday. In the pharmaceutical sector, Moderna shares fell 4.4% d/d after the FDA can't meet its target data for a decision on the RSV vaccine, but Novavax shares rallied 99.0% d/d after the vaccine makers struck a licensing deal with Sanofi to commercialise its COVID-19 vaccine.
- In Europe, Germany's Dax, France's CAC 40 and the UK's FTSE 100 notched fresh record highs on growing hopes that the central banks are close to cutting interest rates and also benefiting from mostly strong 1Q earnings. In Asia, Hang Seng index hit its 9-month high on reports that regulators were considering scrapping some dividend taxes and introducing new initiatives to boost Chinese property purchases. Nonetheless, Asian markets are set for a sluggish open today following the futures.
- In the Treasuries market, yields edged higher between 3-5bps across the curve led by the front-end after the unexpected pop in inflation expectations numbers. 10Y European bond yields also closed up between 1-3bps.
- Similarly, DXY inched higher by 0.1% d/d to 105.30 as Fed officials continued to flag a careful path to rate cuts after the strong inflation expectations readings. Fed President Lorie Logan commented that it was too soon to be cutting interest rates, while Fed President Michelle Bowman sees Fed on hold with no 2024 cuts. That ran counter to comments from President Austan Goolsbee who said that there is not much evidence that inflation has stalled. Regional and G10 currencies closed mixed against the Dollar, with GBP closing just above the flatline against the Dollar in the wake of UK's stronger than expected GDP print. On the other hand, EUR depreciated 0.1% d/d, while JPY weakened 0.2% d/d even after Japan's Finance Minister Shunichi Suzuki said that the government would take appropriate action on foreign exchange if needed, echoing recent comments from other officials.
- Oil prices faltered 1.3% d/d amidst cloudy outlook for crude's fundamentals, as investors grappled with mixed inventory numbers while comments from Fed officials indicated higher-for-longer interest rates, which could hinder demand from the world's largest crude consumers.

US consumer sentiment dropped sharply on concerns over the employment market, elevated interest and inflation rates

- The University of Michigan Sentiment index fell significantly sharper than expected to 67.4 in May (Apr: 77.2). This is the lowest reading in about 6

Key Market Metrics

	Level	d/d (%)
Equities		
Dow Jones	39,512.84	0.32
S&P 500	5,222.68	0.16
NASDAQ	16,340.87	-0.03
Stoxx Eur 600	520.76	0.77
FTSE 100	8,433.76	0.63
Nikkei 225	38,229.11	0.41
CSI 300	3,666.28	0.05
Hang Seng	18,963.68	2.30
Straits Times	3,290.70	0.76
KLCI 30	1,600.67	-0.03
FX		
Dollar Index	105.30	0.07
EUR/USD	1.0771	-0.10
GBP/USD	1.2525	0.01
USD/JPY	155.78	0.19
AUD/USD	0.6604	-0.24
USD/CNH	7.2341	0.16
USD/MYR	4.7397	-0.03
USD/SGD	1.3546	0.16
Commodities		
WTI (\$/bbl)	78.26	-1.26
Brent (\$/bbl)	82.79	-1.30
Gold (\$/oz)	2,375.00	1.48
Copper (\$\$/MT)	10,004.00	1.00
Aluminum(\$/MT)	2,529.50	-1.25
CPO (RM/tonne)	3,898.50	-1.20

Source: Bloomberg, HLBB Global Markets Research
 * Dated as of 9 May for CPO

months, driven by concerns over the labour market as well as elevated interest and inflation rates. For the latter, year-ahead inflation expectations rose to 3.5% from 3.2% previously, while long-run inflation expectations inched up 0.1ppts to 3.1%, above the 2.2-2.6% range seen in the two years pre-pandemic.

UK ended its technical recession with a stronger than expected growth in 1Q

- Following two consecutive quarters of contraction, UK's 1Q GDP rebounded more than expected to +0.6% q/q in 1Q (4Q: -0.3% q/q). In output terms, services grew by 0.7% q/q (4Q: -0.1% q/q) with widespread growth across the sector. Elsewhere the manufacturing sector grew by +1.4% q/q (4Q: -1.0% q/q) while the construction sector fell by 0.9% q/q (4Q: -0.9% q/q). In expenditure terms, there were increases in the volume of net trade (+0.4ppts vs -0.2ppts), household spending (+0.2% q/q vs -0.1% q/q) due to lack of strikes, and government spending (+0.3% q/q vs +0.1% q/q).
- As it is, the latest data is the strongest reading since late 2021 and signals that the economy is on a recovery path, albeit mild and is expected to grow at a moderate pace of +0.2% in 2Q. Notably, consumer spending will be supported by receding inflationary pressures, the recent hike in the National Living Wage as well as cut in National Insurance.

Japan's Eco Watchers outlook index fell on household and corporate activities

- The Eco Watchers Survey Outlook index unexpectedly retreated to 48.5 in April (Mar: 51.2), as the household- and corporate activity indices fell, although the employment-related indices increased. The index at this level suggests that pessimists outnumber optimists and is the lower reading in 20 months driven by concerns over the weak yen impact on imports and consumers.

China's CPI rose for the third month but still near zero, factory deflation persists

- Consumer prices (CPI) rose more than expected and for the third month in April at +0.3% y/y (Mar: +0.1% y/y), while producer prices (PPI) extended its decline albeit at a smaller pace (-2.5% y/y vs -2.8% y/y), suggesting that a still sluggish demand will continue to undermine economic recovery and that cuts in the reserve requirement ratio (RRR) and interest rates remains on PBoC's radar. Core inflation, which excludes volatile food and fuel prices, also accelerated to 0.7% y/y from +0.6% y/y the previous month.

Malaysia's IPI growth eased less than expected again to 2.4% y/y in March; wholesale & retail trade data moderated too but remained at healthy levels

- As expected, latest indicators are showing some normalisation from the seasonal boost seen earlier in the year, but this should not alter the recovery path in any significant manner. In fact, growth in the Industrial Production Index (IPI) moderated less than expected again, to 2.4% y/y in March (Feb: +3.1% y/y). Slightly faster, albeit still benign, expansion in manufacturing output (+1.3% vs +1.2% y/y) helped cushion slower growth in mining (+4.9% vs +8.1% y/y) and electricity (+7.8% vs +10.9% y/y). Expansion in the mining sector was driven entirely by natural gas (+8.9% y/y) as the crude oil segment fell 0.7% y/y.

- In a separate release, wholesale & retail trade grew at a slower pace of 5.2% y/y in March (Feb: +5.5% y/y), as a result of slower increases in wholesale trade (+4.0% vs +5.2% y/y) and motor vehicle sales (+3.2% vs +5.4% y/y). Growth however stayed above the 5.0% level for the 3rd straight month, while growth pace picked up steam for the 2nd straight month even after the usual seasonal swing, indicating sustained underlying momentum.
- Labour market indicators remained healthy. Jobless rate held steady at 3.3% for the fifth consecutive month, its lowest since the pandemic era. The number of unemployed continued to fall, by 0.1% m/m to 566.6k persons in March (Feb: 567.0k persons) while the number of employed persons also continued to inch higher, by 0.1% m/m to 16.53m in March (Feb: +0.2% m/m to 16.51m), driven by broad-based increases across key economic sectors led by services, manufacturing and construction.

House View and Forecasts

FX	This Week	2Q-24	3Q-24	4Q-24	1Q-25
DXY	103-107	105.43	105.56	103.45	101.38
EUR/USD	1.06-1.09	1.06	1.05	1.06	1.06
GBP/USD	1.23-1.27	1.24	1.22	1.23	1.24
USD/JPY	153-157	152	149	146	143
AUD/USD	0.65-0.67	0.65	0.65	0.65	0.66
USD/MYR	4.71-4.76	4.73	4.68	4.64	4.57
USD/SGD	1.34-1.37	1.35	1.35	1.34	1.33

Rates, %	Current	2Q-24	3Q-24	4Q-24	1Q-25
Fed	5.25-5.50	5.25-5.50	5.25-5.50	5.00-5.25	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
13-May	AU NAB Business Conditions (Apr)	9
	AU CBA Household Spending MoM (Apr)	0.20%
	US NY Fed 1-Yr Inflation Expectations (Apr)	3.00%
14-May	JN PPI YoY (Apr)	0.80%
	UK Average Weekly Earnings 3M/YoY (Mar)	5.60%
	UK ILO Unemployment Rate 3Mths (Mar)	4.20%
	UK Payrolled Employees Monthly Change (Apr)	-67k
	EC ZEW Survey Expectations (May)	43.9
	US NFIB Small Business Optimism (Apr)	88.5
	US PPI Final Demand YoY (Apr)	2.10%

Source: Bloomberg

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