13 June 2024

Global Markets Research

Daily Market Highlights

13 June: Fed kept policy rates unchanged and signalled 1 cut in 2024

Dial back in rate cut expectations amid higher projected PCE prices; Signalled 4 rate cuts in 2025

Treasury yields and DXY fell post cooler-than-expected US CPI and after Fed's decision

UK's economy stagnated in April; Anaemic CPI reading for China shows weak domestic demand

- The S&P 500 jumped to a record and closed above 5.4k for the first time ever after easing CPI data supported traders' expectations that the Fed will cut later this year. The broader market index climbed 0.9% d/d, Nasdaq rallied 1.5% d/d but the Dow slipped 0.1% d/d. Just a recap, data released Wednesday morning ahead of the FOMC meeting showed that inflation cooled more than expected in May. Later in the day, Fed officials noted in their policy statement that there had been modest progress towards meeting its 2% inflation target and consequently, traders are still betting 1-2 rate cuts in 2024 after Fed's dot plot was released. The prospects of lower rates boosted small cap stocks, as well as building products and information technology stocks.
- Meanwhile, European stocks largely ended in positive territory after the CPI print, with rate-sensitive real estate and technology leading gains while Asian stocks closed mixed. The latter is poised for a positive open today, following the US and futures.
- In the bond market, Treasury yields plunged to their lowest since late March/early April after the CPI print, but pared gains after the FOMC meeting. The 2Y yield closed down 8bps to 4.75%, while the 10Y fell 9bps to 4.32%. 10Y European bond yields also slid in tune to 7-15bps.
- The DXY closed 0.6% d/d lower at 104.65, despite trimming some of its losses after the FOMC pencilled in just 1 rate cut this year and boosted its inflation forecast. All the G10 and regional currencies strengthened against the Dollar, save the IDR. Leading gains against USD amongst G10 were SEK, NOK and AUD (0.9-1.1% d/d), while SGD, JPY and CNY were the leaders on the regional front (0.2-0.4% d/d). MYR closed flattish at 4.7172.
- Oil rose in tune to 0.8% d/d on the back of risk-on sentiment spurred by cooling US CPI print, overshadowing signs of increase in crude stockpiles. Accordingly, the Energy Information Administration is expecting US crude oil production to increase 2% in 2024, while the International Energy Information warned of an oil supply glut for the rest of the decade as demand peaks.

Fed kept policy rates unchanged, signalled just 1 rate cut for 2024, 4 rate cuts in 2025

- As widely expected, the Federal Reserve Open Market Committee (FOMC) unanimously decided to leave the fed funds rate unchanged at 5.25-5.50%. Key highlights from the statement and dot plot include: 1) The statement noted that "there has been modest further progress toward the Committee's 2% inflation objective." This marks a shift from "a lack of" progress previously. 2) Fed's updated forecasts left 2024 growth and

Key Market Metrics

	Level	d/d (%)
Equities		
Dow Jones	38,712.21	-0.09
S&P 500	5,421.03	0.85
NASDAQ	17,608.44	1.53
Stoxx Eur 600	522.89	1.08
FTSE 100	8,215.48	0.83
Nikkei 225	38,876.71	-0.66
CSI 300	3,544.12	0.04
Hang Seng	17,937.84	-1.31
Straits Times	3,307.44	-0.05
KLCI 30	1,608.95	-0.16
FX		
Dollar Index	104.65	-0.56
EUR/USD	1.0809	0.63
GBP/USD	1.2798	0.46
USD/JPY	156.72	-0.26
AUD/USD	0.6664	0.88
USD/CNH	7.2630	-0.12
USD/MYR	4.7172	-0.04
USD/SGD	1.3472	-0.43
Commodities		
WTI ($/bbl)	78.50	0.77
Brent ($/bbl)	82.60	0.83
Gold ($/oz)	2,336.00	1.24
Copper ($$/MT)	9,944.50	1.90
Aluminum($/MT)	2,575.50	1.66
CPO (RM/tonne)	3,944.00	-0.11

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

unemployment unchanged, but headline and core PCE inflation projections were revised up to 2.6% and 2.8% respectively (Previous: 2.4% and 2.6%). 3) The new dot plot also signalled just 1 rate cut before year-end and 4 cuts in 2025 (Previous: 3 in 2024 and 3 in 2025). It is also important to note that the dot plot was evenly split between 1 and 2 rate cuts for 2024 – 4 members expect no change this year, 7 expect one cut, 8 expect two cuts. 4) The projection for the longer-run fed funds rate, a level viewed as neutral, moved up to 2.8% from 2.6%, a nod to Fed's higher-for-longer stance. 5) Little new in Fed Chair Jerome Powell's press conference, but Powell reiterated that a rate hike is not in the outlook. As it is, there is no change in our view that the Fed will deliver a 25bps rate cut to 5.00-5.25% by end-2024.

- May's softer than expected price prints should reassure Fed that inflation is slowing, with headline and core easing to 3.3% y/y and 3.4% y/y respectively (Apr: +3.4% y/y and +3.6% y/y). On a m/m basis, headline prices (0 vs +0.3% m/m) were kept in check by the 3.6% m/m drop in gasoline prices, but this was offset by the elevated shelter costs (+0.4% m/m for Apr and May). Airline fares, prices for new vehicles, communication, recreation, and apparel were also among those that fell over the month. It should be noted that April's core PCE prices came in at +0.2% m/m, and core CPI for May has repeated the feat (+0.2% m/m vs consensus/April: +0.3% m/m). Meanwhile, lower inflation rates supported real wages. Real average hourly earnings accelerated to +0.8% y/y in May (Apr: +0.5% y/y), the most in 3 months.
- Supported by lower mortgage rates (30Y FRM: 7.02% vs 7.07%) and higher inventory levels, mortgage applications recorded a strong rebound of +15.6% w/w for the week ending June 7 (May 31: -5.2% w/w). VA borrowers, in particularly, jumped on the chance to lower their rates, sending refinancing activity up +28.4% w/w (May 31: -6.8% w/w), while purchase applications also increased +8.6% w/w (May 31: -4.4% w/w).

UK's economy stagnated in wet April

- In a blow to Prime Minister Rishi Sunak's hopes that the economy is turning a corner before the general election, GDP was flat in April, a slowdown from March's +0.4% m/m but a shade better than consensus estimate's -0.1% m/m. Moving forward, growth outlook for the year remains a modest one, with consensus expecting a meagre 0.6% growth for the whole of 2024, up from +0.1% in 2023.
- As it is, wet weather contributed to the drop in retail sales and construction (-1.4% m/m vs -0.4% m/m) during the month, while manufacturing sector (-1.4% m/m vs +0.3% m/m) also fell sharper than expected on weakness in pharmaceutical products. Services, on the other hand, turned in +0.2% m/m growth (Mar: +0.5% m/m) driven by computer programming, consulting & publishing as well as arts, entertainment & recreation. The ONS also reported that consumer-facing services slipped 0.7% m/m, following growth of 0.7% m/m previously with wet weather hitting retail trade.
- Data this morning, meanwhile, showed that RICS House Price Balance unexpectedly weakened for the second month to -17% in May (Apr: -7%) as surveyors' outlook remains dented by elevated mortgage rates.

Australia's household spending remained soft despite the slight uptick

- CBA Household Spending Insights (HSI) index rebounded 1.1% m/m in May following April's 0.8% m/m fall. Nine of the 12 spending categories rose during the month, led by household goods, food & beverages and hospitality. Despite the uptick, spending has largely remained soft over the past 4 months, with spending continues to favour essentials rather than discretionary spending as consumer continue to feel the pinch from still elevated inflation and interest rates.

Japan's business conditions improved in 2Q and is expected to strengthen further in 2H

- Data this morning showed that business conditions improved in 2Q and is expected to gather momentum in 2H driven by the manufacturing sector. The BSI Large All Industry index rose 0.4ppts q/q in 2Q after 1Q's zero growth and is expected to increase by 6.6ppts and 6.8ppts respectively in 3Q and 4Q.

Anaemic CPI reading for China shows weak domestic demand

- CPI rose for the fourth month, albeit softer than expected at +0.3% y/y in May, while core moderated to +0.6% y/y from +0.7% y/y previously. Producer prices remained stuck in deflation, albeit with a narrower pace of -1.4% y/y (Apr: -2.5% y/y). As it is, largely driving some of the uptick in CPI in recent months were administrative decisions like the hike in utility costs and train fares rather than an improvement in domestic demand, and as such, a sign that more stimulus may be needed moving forward.

House View and Forecasts

FX	This Week	2Q-24	3Q-24	4Q-24	1Q-25
DXY	102-106	105.43	105.56	103.45	101.38
EUR/USD	1.07-1.11	1.06	1.05	1.06	1.06
GBP/USD	1.26-1.30	1.24	1.22	1.23	1.24
USD/JPY	153-158	152	149	146	143
AUD/USD	0.65-0.68	0.65	0.65	0.65	0.66
USD/MYR	4.67-4.72	4.73	4.68	4.64	4.57
USD/SGD	1.33-1.36	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	4.25	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-June	AU Unemployment Rate (May)	4.10%
	EC Industrial Production SA MoM (Apr)	0.60%
	US Initial Jobless Claims	229k
	US PPI Final Demand YoY (May)	2.20%
14-June	UK BoE/Ipsos Inflation Next 12 Mths (May)	3.00%
	HK PPI YoY (1Q)	2.70%
	HK Industrial Production YoY (1Q)	4.10%
	EC Trade Balance SA (Apr)	17.3b
	US Import Price Index YoY (May)	1.10%
	US U. of Mich. Sentiment (Jun P)	69.1
	JN BOJ Target Rate (Upper Bound)	0.10%

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.