

14 February 2024

Global Markets Research
Daily Market Highlights

14 Feb: Hotter-than-expected US CPI trimmed rate cut bets

US and European equity markets slid; treasury yields and DXY jumped after the CPI print
US headline CPI eased, core held steady; prices accelerated m/m driven by shelter costs
Slower than expected easing in UK wage growth and jobs supports view of a rate pause

- The three major indices fell 1.4-1.8% d/d after the hotter-than-expected US CPI data sent Treasury yields higher, dashing hopes of a rate cut in March as well as trimmed expectations of a handful of rate cuts this year. Stocks sensitive to interest rates were particularly weak, while Russell 2000, an index of small and midsize corporates, tumbled 4.0% d/d. In corporate news, shares of JetBlue Airway spiked 21.6% d/d after activist investor Carl Icahn reported a nearly 10% stake in the airline.
- European markets also closed down following the hotter-than-expected US CPI print, weighed down by a selloff in rate sensitive factors like tech and real estates. In Asia, Nikkei 225 closed 2.9% d/d higher after briefly hitting the 38k mark for the first time since 1990s. Nonetheless, Asian markets are set to follow the US rout today after the inflation miss.
- Led by the front end, Treasury yields spiked, with the 2Y up 18bps to 4.66%, and the 10Y gaining 14bps to 4.31%. Led by UK gilts, 10Y European bond yields also gained between 2-9bps.
- DXY benefitted from the shaved rate cut expectations, surging 0.8% d/d to 104.96, rallying against all its G10 peers and rising back above 150 against JPY. USD closed mixed against regional currencies earlier in the day, with MYR strengthening slightly to 4.7633 but SGD depreciated by 0.5% d/d to 1.3511.
- Oil prices rose 0.9-1.2% d/d after a robust demand outlook from OPEC as well as from IEA. The latter expects global consumption to increase by 1.2m to 1.3 mb/d in 2024, but this will be easily matched by higher production from the Americas.

US inflation topped estimates

- CPI prints came slightly above estimates, with headline moderating to +3.1% y/y (Dec: +3.4% y/y) while core unexpectedly held steady at +3.9% y/y. On a m/m basis, prices accelerated to +0.3% m/m (Dec: +0.2% m/m), with shelter prices accounting for two-thirds of the monthly increase and climbing +0.6% m/m (Dec: +0.4% m/m). The hotter than expected CPI print partially reflects residual seasonality factors at work as January reading has historically been high for the year, but the high and volatile and service costs as well as strong real average hourly earnings growth of +1.4% y/y (Dec: +1.0% y/y), its highest since July, suggests the slowing inflation trend towards 2.0% will not be a smooth one and does not leave much room for Fed to manoeuvre in March.
- The NFIB Small Business Optimism Index unexpectedly fell to 89.9 in January (Dec: 91.9), marking the 25th consecutive month below the 50-year average of 98. The net percent of owners who expect real sales to be higher declined 12 points m/m to a net negative 16%, a very negative shift in expectations as inflation remains a key obstacle on Main Street.

Key Market Metrics

	Level	d/d (%)
Equities		
Dow Jones	38,272.75	-1.35
S&P 500	4,953.17	-1.37
NASDAQ	15,655.60	-1.80
Stoxx Eur 600	482.83	-0.95
FTSE 100	7,512.28	-0.81
Nikkei 225	37,963.97	2.89
CSI 300	3,364.93	0.64
Hang Seng	15,746.58	-0.83
Straits Times	3,141.87	0.11
KLCI 30	1,531.37	1.26
FX		
Dollar Index	104.96	0.76
EUR/USD	1.0709	-0.58
GBP/USD	1.2592	-0.29
USD/JPY	150.80	0.97
AUD/USD	0.6453	-1.19
USD/CNH	7.2314	0.22
USD/MYR	4.7633	-0.04
USD/SGD	1.3511	0.48
Commodities		
WTI (\$/bbl)	77.87	1.24
Brent (\$/bbl)	82.77	0.94
Gold (\$/oz)	1,992.90	-1.25
Copper (\$\$/MT)	8,260.00	0.30
Aluminum(\$/MT)	2,225.50	-0.07
CPO (RM/tonne)	3,952.50	0.14

Source: Bloomberg, HLBB Global Markets Research
 * Dated as of 9 Feb for CPO and Hang Seng; 8 Feb for CSI 300

ZEW Survey Expectations improved for the Euro area and Germany

- ZEW Survey Expectations for the Eurozone and Germany improved to 25.0 and 19.9 respectively in January (Dec: 22.7 and 15.2). The latter came below street estimates as more than two-thirds of the respondents expect the ECB to make interest rate cuts over the next 6 months in light of falling inflation rates. It does not change views that the German economy remains in a bad place as the assessment of the current economic situation deteriorated to the lowest level since June 2020.

Strong wage growth in the UK supports view of a rate pause

- UK labour data points to still strong wage growth and a tight labour market, although easing, and giving the Bank of England (BOE) more grounds for caution over the timing of the first rate cut. Average weekly earnings eased less than expected to +5.8% in the three months ended December (Nov: +6.7%), while the number of payrolled employees continues to increase (+48k vs +31k). In tandem with this, the unemployment rate fell to 3.8% (Dec: 3.9%) while the economic inactivity rate was largely unchanged q/q but was up y/y, driven by those who were long-term sick. The claimant count increased by +14.1k in January (Dec: +5.5k), while the estimated number of vacancies fell by 26k, but are still above pre-pandemic levels.

Australia's business conditions index fell as confidence remained subdued

- The NAB Business Conditions eased slightly to 6 in January (Dec: 8) and confidence remained subdued at +1 (Dec: 0). As it is, the headline index remained below its long-term average, weighed down by still elevated interest rates and amidst a raft of global uncertainty, pointing to softer economic growth ahead.

House View and Forecasts

FX	This Week	1Q-24	2Q-24	3Q-24	4Q-24
DX	102-106	101.84	101.33	100.82	100.32
EUR/USD	1.06-1.09	1.10	1.11	1.11	1.10
GBP/USD	1.25-1.28	1.28	1.29	1.29	1.27
USD/JPY	146-151	142	140	137	134
AUD/USD	0.64-0.67	0.68	0.68	0.69	0.70
USD/MYR	4.73-4.80	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
14-Feb	UK CPI Core YoY (Jan)	5.10%
	UK PPI Input NSA YoY (Jan)	-2.80%
	UK House Price Index YoY (Dec)	-2.10%
	EC GDP SA QoQ (4Q P)	0.00%
	EC Employment QoQ (4Q P)	0.20%
	EC Industrial Production SA MoM (Dec)	-0.30%
	US MBA Mortgage Applications	3.70%

15-Feb	JN GDP SA QoQ (4Q P)	-0.70%
	AU Consumer Inflation Expectation (Feb)	4.50%
	AU Employment Change (Jan)	-65.1k
	AU CBA Household Spending MoM (Jan)	-3.90%
	JN Industrial Production MoM (Dec F)	1.80%
	UK Monthly GDP (MoM) (Dec)	0.30%
	EC Trade Balance NSA (Dec)	20.3b
	US Empire Manufacturing (Feb)	-43.7
	US Retail Sales Advance MoM (Jan)	0.60%
	US Import Price Index MoM (Jan)	0.00%
	US Initial Jobless Claims	218k
	US Industrial Production MoM (Jan)	0.10%
	US NAHB Housing Market Index (Feb)	44

Source: Bloomberg

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