

15 January 2024

## Global Markets Research

### Daily Market Highlights

## 15 Jan: Milder US PPI due to energy boosted rate cut bets

**2Y UST yields fell to its lowest since May 2023, but DXY gained slightly**

**UK's monthly GDP rebounded; flat growth in December to avert a technical recession**

**CNH led losses in Asia on weak exports, prices, and financing data; all eyes on PBoC today**

- On Friday, investors got some encouraging news on inflation with US producer prices (PPI) coming in softer-than-expected contrary to the hotter-than-expected CPI print the prior day. Markets initially reacted positively to the PPI release but turned lower through morning trading. Still, the S&P 500 and Nasdaq managed to chalk up gains by less than 0.1% d/d each, the former near its all-time high but the Dow slipped 0.3% d/d. Wall Street was weighed down by airline stocks and companies that rely on discretionary spending.
- Meanwhile, a slew of big banks reported earnings on Friday. Bank of America lost 1.1% d/d on 4Q trading revenue miss. Wells Fargo shed 3.3% d/d as costs exceeded estimates on FDIC contribution and severance charges. JPMorgan Chase lost 0.7% d/d even after the bank posted record net interest income and sees windfall continuing into 2024. Citigroup, meanwhile, added just above 1.0% d/d after announcement the company is cutting 10% of its workforce.
- European stocks rallied led by the media and industrial sectors after ECB President Christine Lagarde's earlier comment that interest rates will fall once inflation is under control. Asian markets, meanwhile, fell as China's annual exports and inflation dropped. Nikkei 225 bucked the trend to extend its record rally.
- 2Y Treasury yields dropped 11bps to 4.14%, its lowest level since May 2023 as traders boosted bets that Fed will start cutting rates in March after the PPI report. The 10Y lagged, closing 3bps lower at 3.94%. 10Y European bond yields fell between 2-9bps.
- DXY sank to as low as 102.09 after the PPI numbers, but clawed back to 102.40 or up 0.1% d/d at close. Benefitting from risk aversion due to geopolitical tensions, USD strengthened against most of its G10 peers save the JPY, NZD and NOK, the latter gained as oil prices increased. EUR, amongst the most exposed regions to higher energy costs, weakened by 0.2% d/d while GBP depreciated by 0.1% d/d as the economy remained at risk of a technical recession despite the uptick in monthly GDP. Leading losses in Asia was CNH at -0.2% d/d. MYR and SGD weakened slightly by 0.1% d/d each to 4.6477 and 1.3314.
- Oil jumped further between 0.9-1.1% d/d as US and its allies launched airstrikes against the Houthi rebels, fanning Middle East tension.

#### Milder than expected US PPI due to energy prices

- Both headline and core PPI came softer than expected at +1.0% y/y and +1.8% y/y in December (Nov: +0.8% and +2.0% y/y), the latter its smallest increase since 2020. On a m/m basis, prices fell for the third month by 0.1%, as prices for goods dropped 0.4% m/m, mostly due to energy while services costs were unchanged.

#### Key Market Metrics

	Level	d/d (%)
<b>Equities</b>		
Dow Jones	37,592.98	-0.31
S&P 500	4,783.83	0.08
NASDAQ	14,972.76	0.02
Stoxx Eur 600	476.76	0.84
FTSE 100	7,624.93	0.64
Nikkei 225	35,577.11	1.50
CSI 300	3,284.17	-0.35
Hang Seng	16,244.58	-0.35
Straits Times	3,191.72	-0.30
KLCI 30	1,487.34	0.29
<b>FX</b>		
Dollar Index	102.40	0.11
EUR/USD	1.0951	-0.19
GBP/USD	1.2753	-0.05
USD/JPY	144.88	-0.28
AUD/USD	0.6686	-0.03
USD/CNH	7.1893	0.20
USD/MYR	4.6477	0.08
USD/SGD	1.3314	0.05
<b>Commodities</b>		
WTI (\$/bbl)	72.68	0.92
Brent (\$/bbl)	78.29	1.14
Gold (\$/oz)	2,051.60	1.60
Copper (\$\$/MT)	8,339.00	-0.19
Aluminum(\$/MT)	2,219.50	-0.69
CPO (RM/tonne)	3,783.50	0.64

Source: Bloomberg, HLBB Global Markets Research

\* Dated as of 11 Jan for CPO

- As it is, the PPI release comes a day after upside surprises from CPI data, where headline accelerated by +0.3% m/m and +3.4% y/y, higher than Wall Street expectations and Fed's 2% inflation target. While PPI is generally considered a leading index as it measures pipeline prices that companies get for intermediate goods and services, the decline for intermediate goods this month was largely traced to energy materials, suggesting that the path for Fed to achieve its target will be a bumpy ride.

#### **UK's economy rebounded more than expected in November, remains at risk of a technical recession**

- UK's economy rebounded more than expected by +0.3% m/m in November (Oct: -0.3% m/m) but remains at risk of slipping into a technical recession. The data suggests that the economy would require flat growth in December to avoid a contraction for the whole of 4Q, and growth during the month will be weighed down by wet weather and strikes by doctors. November gains, meanwhile, reflects a rebound in services (+0.4% m/m vs -0.1% m/m) and industrial output (+0.3% m/m and -1.3% m/m), while the construction sector continued to contract by 0.2% m/m (Oct: -0.4% m/m).
- Data this morning by Rightmove showed that house prices recorded its first monthly gain in 3 months by +1.3% in January (Dec: -1.9%). While prices are still down 0.7% y/y, the latest monthly data added to signs that the slowdown in the housing sector could be easing as demand picks up.

#### **Australia's loan growth for homes decelerated sharply**

- Home loan growth continued to climb in November, albeit less than expected by +1.0% m/m (Oct: +7.1% m/m) even as interest rates and house prices increased. Largely supporting new loan commitments and the housing market were investors and first home buyers, as reflected by occupier loans decelerating more than investor loans.

#### **Japan's Eco Watchers Outlook index unexpectedly fell**

- Eco Watchers Outlook index unexpectedly fell to 49.1 in December (Nov: 49.4), driven primarily by decline in the household segment. As it is, consumer spending has increased steadily at a moderate pace despite inflationary pressures, and is expected to stay resilient going forward supported by expectations of wage increases as well as household savings that had accumulated as a result of pandemic-related restrictions.

#### **China's consumer prices fell, monthly exports beat expectations, aggregate financing slowed**

- A slew of weak economic data from China, boosting odds of rate cuts to support the economy. Consumer prices (CPI) registered its longest streak of decline since 2009 and slipped 0.3% y/y in December (Nov: -0.5% y/y), less than consensus forecast while producer prices fell more than expected by 2.7% y/y (Nov: -3.0% y/y). The former was weighed down by continued contraction in consumer goods and softer services inflation, a sign of weak domestic demand. For the whole of 2023, headline CPI stood at +0.2%, way below the government's target of 3.0%. As it is, continued declines in inflation is a concern for the economy as it could lead to lower corporate revenues, hitting wages and profits and encourage consumers to delay purchases.
- Exports, meanwhile, accelerated more than expected to +2.3% y/y (Nov: +0.5% y/y), while imports unexpectedly registered mild positive growth of +0.2% y/y (Nov: -0.6% y/y). Despite this, external demand for China remained

weak as the pick-up in export was partly due to low base effect and total exports were down 4.6% y/y for the whole of 2023, its first annual decline since 2016. Exports to the US, EU and its regional partners continued to fall but these were negated by strong demand from Russia as well as for EVs.

- Aggregate financing slowed more than expected to 1.9tn yuan in December (Nov: 2.5tn yuan) as corporate financing halved to 461bn yuan (Nov: 895bn yuan). This reflects a drop in shadow banking and bond funding, the latter as confidence amongst corporates remains weak. Household new long-term borrowing dropped to 147bn yuan (Nov: 233bn yuan) in line with the weak property market.

#### House View and Forecasts

FX	This Week	1Q-24	2Q-24	3Q-24	4Q-24
DXY	100-104	100	99	99	98
EUR/USD	1.08-1.11	1.11	1.11	1.10	1.09
GBP/USD	1.26-1.30	1.28	1.29	1.27	1.26
USD/JPY	142-147	139	137	135	133
AUD/USD	0.65-0.69	0.69	0.69	0.70	0.71
USD/MYR	4.61-4.66	4.55	4.50	4.45	4.39
USD/SGD	1.31-1.34	1.31	1.30	1.29	1.28

  

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
15-Jan	CH 1-Yr Medium-Term Lending Facility Rate	2.50%
	AU CBA Household Spending MoM (Dec)	1.80%
	EC Industrial Production SA MoM (Nov)	-0.70%
	EC Trade Balance NSA (Nov)	11.1b
16-Jan	AU Westpac Consumer Conf Index (Jan)	82.1
	JN PPI YoY (Dec)	0.30%
	UK Payrolled Employees Monthly Change (Dec)	-13k
	UK Average Weekly Earnings 3M/YoY (Nov)	7.20%
	EC ECB 1 Year CPI Expectations (Nov)	4.00%
	EC ECB 3 Year CPI Expectations (Nov)	2.50%
	EC ZEW Survey Expectations (Jan)	23
	US Empire Manufacturing (Jan)	-14.5

Source: Bloomberg

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