

15 May 2024

Global Markets Research

Daily Market Highlights

15 May: All eyes on US CPI today following elevated PPI prints

**Elevated US PPI driven by services; traders took comfort in downward revisions to March's PPI
Dollar weakened against most G10 peers; UST yields fell led by front-end; Nasdaq hit record high
BOE's Pill: A summer rate cut is in play; UK labour market is cooling but wage growth is stable**

- The three US equity majors closed in green with Nasdaq jumping to fresh record high despite the release of a higher-than-expected PPI print and as investors waited for CPI, on how inflation is faring. The Nasdaq rallied 0.8% d/d, Dow Jones added 0.3% while the S&P 500 gained 0.5% d/d. The PPI reading did not materially change market pricing for Fed rate cuts, as traders took comfort that March's reading was revised lower to show a 0.1% m/m decline. Fed Chair Jerome Powell called the PPI data mixed, and reiterated that the central bank is maintaining a wait-and-see stance on when it can start cutting rates.
- Elsewhere, Stoxx Eur 600 index ended 0.2% d/d higher, with most sectors in positive territory led by auto stocks, while Asian markets closed mixed. Given the overnight rally in US equities, Asian markets are set for a positive open today.
- Treasury yields fell 4-5bps, led by the Fed-sensitive front end of the curve, with the 2Y closing at 4.82% and the 10Y at 4.44%. With the exception of the UK gilts, 10Y European bond yields, on the other hand, closed 2-4bps higher.
- DXY slipped 0.2% d/d to 105.01, with all the G10 currencies strengthening against the Dollar save for the JPY (-0.1% d/d to 156.42). EUR and GBP appreciated by 0.3% d/d each to 1.0819 and 1.2592 respectively, the latter even after BOE Chief Economist Huw Pill commented that an interest rate cut in summer is in play in a new dovish signal. Regional currencies closed mixed against the greenback, with CNH flattish at 7.2398, while MYR and SGD strengthened 0.1-0.3% d/d to 4.7175 and 1.3518 respectively.
- Oil prices settled lower between 1.2-1.4% d/d after the higher-than-expected PPI data stoked concerns that interest rates may stay high, dampening demand but potential supply risks from Mideast tensions and wildfires in Canada put a floor on prices. In a news update, OPEC stuck to its forecast for relatively strong growth in global oil demand in 2024 (+2.3mb/d in 2024 and +1.9mb/d in 2025).

Higher than expected PPI in the US; sentiment amongst small business owners remained below long-term average on cost pressures

- Producer prices (PPI) overshot expectations in April, with both headline and core (excluding food, energy, trade) rising by 0.5% m/m and 0.4% m/m respectively (Mar: -0.1% m/m and +0.2% m/m). Nearly three-quarters of the gain in prices were attributable to a 0.6% m/m increase in services (Mar: -0.1% m/m), while prices for goods moved up 0.4% m/m (Mar: -0.2% m/m). A 3.9% m/m jump in portfolio management fees drove the uptick in services inflation, further bolstered by machinery & equipment, wholesaling, residential real estate services, automobiles retailing, hotel accommodation and truck transportation of freight. Strong commodity prices and domestic

Key Market Metrics

	Level	d/d (%)
Equities		
Dow Jones	39,558.11	0.32
S&P 500	5,246.68	0.48
NASDAQ	16,511.18	0.75
Stoxx Eur 600	521.65	0.15
FTSE 100	8,428.13	0.16
Nikkei 225	38,356.06	0.46
CSI 300	3,657.05	-0.21
Hang Seng	19,073.71	-0.22
Straits Times	3,313.35	0.29
KLCI 30	1,605.88	0.19
FX		
Dollar Index	105.01	-0.19
EUR/USD	1.0819	0.27
GBP/USD	1.2592	0.26
USD/JPY	156.42	0.13
AUD/USD	0.6627	0.29
USD/CNH	7.2398	0.00
USD/MYR	4.7175	-0.25
USD/SGD	1.3518	-0.13
Commodities		
WTI (\$/bbl)	78.02	-1.39
Brent (\$/bbl)	82.38	-1.18
Gold (\$/oz)	2,359.90	0.72
Copper (\$\$/MT)	10,114.00	-0.70
Aluminum(\$/MT)	2,551.00	0.35
CPO (RM/tonne)	3,920.00	1.70

Source: Bloomberg, HLBB Global Markets Research
* Dated as of 13 May for CPO

demand have prompted businesses to raise prices or passed the higher costs to consumers this year, largely contributed to the slight pick-up in inflation recently, and will likely keep expectations of a near-term rate cut by the Fed in check.

- Cost pressures, including historically high levels of owners raising compensation to keep and attract employees, weighed on confidence for small business owners. While the NFIB Small Business Optimism index unexpectedly inched up 1.2 points to 89.7 in April, marking its first increase this year, the index at this level remains below its-long term average of 98.0 and suggests that owners were very pessimistic.

Improved investor sentiment in the Eurozone

- The ZEW Survey expectations index increased slightly by 3.1 points to 47.0 in April, while the situation indicator rose sharply by 10.2 points -38.6. For its biggest economy, confidence increased 4.2 points to 47.1 following the stronger-than-expected growth of the German economy in 1Q, further bolstered by better assessments of China as a key export market. The increased optimism is reflected in particular in the sharp rise in expectations for domestic consumption, followed by the construction and machinery sectors.

Cooling labour market in the UK, but still strong wage growth

- Continued tentative signs that the jobs market is cooling, with the number of workers on payroll unexpectedly falling (Apr: -84.6k vs Mar: -4.6k), jobless claims ticking up to +8.9k (Mar: -2.4k) and the number of vacancies declining 26k to 898k for the quarter ended April, although the latter remain above pre-pandemic levels. The unemployment rate rose for the third month to 4.3% in March (Feb: 4.2%), within consensus's estimate and BOE's expectations that it will trend upwards towards 4.6% in mid-2025.
- Complicating BOE's monetary policy decision, is nonetheless, higher than expected wage growth (+6.0% y/y in Feb & Mar) and the hike in minimum wage growth starting in April, a potential jeopardy to BOE who has pencilled in a continued easing in pay growth, to around 5%–6% this year and market expectations of 2-3 rate cut by the end of 2024.

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
15-May	CH 1-Yr Medium-Term Lending Facility Rate	2.50%
	AU Wage Price Index QoQ (1Q)	0.90%
	EC GDP SA QoQ (1Q P)	0.30%
	EC Employment QoQ (1Q P)	0.30%
	EC EU Commission Economic Forecasts	
	US MBA Mortgage Applications	2.60%
	US Empire Manufacturing (May)	-14.3
	US CPI Ex Food and Energy YoY (Apr)	3.80%
	US Real Avg Weekly Earnings YoY (Apr)	0.60%
	US Retail Sales Advance MoM (Apr)	0.70%
	US NAHB Housing Market Index (May)	51
16-May	JN GDP Annualized SA QoQ (1Q P)	0.40%
	AU Unemployment Rate (Apr)	3.80%
	AU Employment Change (Apr)	-6.6k
	JN Industrial Production MoM (Mar F)	3.80%
	US Building Permits MoM (Apr)	-4.30%
	US Initial Jobless Claims	231k
	US Housing Starts MoM (Apr)	-14.70%
	US New York Fed Services Business Activity (May)	-0.6
	US Philadelphia Fed Business Outlook (May)	15.5
	US Import Price Index YoY (Apr)	0.40%
	US Industrial Production MoM (Apr)	0.40%

Source: Bloomberg

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