16 February 2024

Global Markets Research

Daily Market Highlights

16 Feb: Cold weather weighed on US retail sales and IPI

S&P 500 closed at fresh record high again; UST yields and DXY fell

European Commission: Inflation to fall faster, economy to grow more slowly in 2024

UK slipped into technical recession; Australia's unemployment rate jumped to a 2Y high

- The S&P 500 closed at a new record high, and all the three major US stock indices ended in positive territory after clawing back the steep losses suffered earlier in the week. This marks the 11th record high that the 500-stock benchmark has cinched so far this year. The index climbed 0.6% d/d, while Nasdaq and Dow Jones also added 0.3% and 0.9% d/d respectively, with traders appearing to shrug off the large batch of mixed economic data released overnight. Aided by higher oil prices, energy companies were amongst the best performing stocks, while weaknesses were observed in a handful of large technology stocks.
- European markets gained with focus on corporate earnings, and with UK's FTSE underperforming its peers after the economy slipped into a technical recession. Asian markets rebounded after Wednesday's sell-off. Nikkei 225 closed 1.2% d/d higher and briefly surpassed the 38k mark despite its GDP miss.
- UST yields initially fell after fresh data showed that retail sales fell in January but quickly rebounded. The 2Y yield closed just below the flatline at 4.57%, while the 10Y fell 3bps to 4.23%. 10Y European bonds yields closed mixed between -10 to +2bps.
- DXY tumbled to its session low of 104.18 from its intra-day peak of 104.71, before settling at 104.30 (-0.4% d/d), weakening against all its G10 peers and closing mixed against regionals. GBP weakened moderately to 1.2543 against USD shortly after UK's GDP data release, but pared its losses to close the day 0.3% stronger at 1.2600. JPY, on the other hand, held firm throughout the day amidst intervention talks, appreciating 0.4% d/d to 149.93. Closer to home, SGD strengthened 0.2% d/d against USD despite the downward revision in its 4Q GDP, while MYR strengthened 0.1% d/d ahead of the final 4Q GDP release.
- Oil prices rallied between 1.5-1.8% d/d as a risk on mood eclipsed International Energy Agency's demand warning. Oil prices had fallen earlier in the session after IEA said that the market could be in surplus all year due to expanding non-OPEC+ supplies and a slowdown in consumption. Accordingly, global oil demand slowed by 35% in 4Q amidst a deceleration in China and the agency expects global demand to increase by 1.2mb/d in 2024, just half the rate of last year. On the supply side, IEA also estimated that OPEC+ cut just 330k b/d, a fraction of its pledge.

Key Market Metrics

	Level	d/d (%)
Equities		
Dow Jones	38,773.12	0.91
S&P 500	5,029.73	0.58
NASDAQ	15,906.17	0.30
Stoxx Eur 600	488.54	0.68
FTSE 100	7,597.53	0.38
Nikkei 225	38,157.94	1.21
CSI 300	3,364.93	0.64
Hang Seng	15,944.63	0.41
Straits Times	3,176.69	1.20
KLCI 30	1,528.38	-0.06
FX		
Dollar Index	104.30	-0.41
EUR/USD	1.0772	0.42
GBP/USD	1.2600	0.27
USD/JPY	149.93	-0.43
AUD/USD	0.6525	0.52
USD/CNH	7.2176	-0.09
USD/MYR	4.7825	-0.08
USD/SGD	1.3457	-0.20
Commodities		
WTI ($/bbl)	78.03	1.81
Brent ($/bbl)	82.86	1.54
Gold ($/oz)	2,002.10	0.59
Copper ($$/MT)	8,314.00	1.43
Aluminum($/MT)	2,224.50	-0.49
CPO (RM/tonne)	3,978.50	1.63

Source: Bloomberg, HLBB Global Markets Research
** Dated as of 14 Feb for CPO, 8 Feb for CSI 300*

Cold weather dragged on retail sales and IPI in the US

- Retail sales tumbled more than expected by 0.8% m/m in January (Dec: +0.4% m/m) as cold weather across the US kept shoppers at home and also reflected holiday spending season payback. Spending pullback was broad-based, led by weaknesses in interest-sensitive sectors like cars and auto dealers, building materials, garden equipment and supplies dealers, suggesting that consumers are still cautious over their budget. However, we do not expect sales to fall off the cliff given the sturdy employment market and also because January's decline was only the second contraction in over the past 10 months.

- Impacts from cold weather were also felt in the production sector, with IPI edging down 0.1% m/m in January (Dec: No change). Both manufacturing and mining output fell, with notable weather-related decreases observed for petroleum & coal products, chemicals and plastics & rubber products for the manufacturing sector and a pullback in oil and gas extraction and a drop in coal production for the latter. Production of utilities, on the other hand, jumped 6.0% m/m as demand for heating surged.
- Suggesting a potential turnaround for the IPI and sales in February was improved regional indices for the month. Both the Empire State Manufacturing Survey and Philadelphia Fed Business Outlook indices improved more than expected to -2.4 and +5.2 (Jan: -43.7 and -10.6), the latter marking its first positive reading since August, while optimism for the former remained subdued.
- Import prices unexpectedly rose 0.8% m/m in January (Dec: -0.7% m/m), the first monthly increase since September 2023 and the largest since March 2022. Despite the January increase, import prices fell 1.3% y/y and have not risen on a 12-month basis since January 2023. Higher prices for both nonfuel and fuel imports contributed to the overall increase, with prices for consumer goods, capital goods, automotive vehicles and foods, feeds & beverages all contributing to the former.
- Initial jobless claims unexpectedly fell for the second week by 8k to 212k for the week ended February 10 (Feb 3: -7k), but continuing claims jumped 30k to 1895k the prior week (Jan 27: -29k). As it is, overall claims had fallen below the pre-pandemic average of 218k in 2019, suggesting a still resilient labour market. Having that said, the string of layoff announcements recently suggests that claims may rebound above the 2019 level again.
- Expectations that mortgage rates will continue to moderate, prospects of future rate cuts and a protracted lack of existing inventory boosted builder sentiment for the third straight month, sending the NAHB Housing Market Index up to 48 in February (Jan: 44). This is above consensus forecast and the highest level since August 2023. Moving forward, while mortgage rates still remain too high for many prospective buyers, NAHB anticipates that due to pent-up demand, many more buyers will enter the marketplace if mortgage rates continue to decline this year.

European Commission: Inflation will fall faster, economy grow more slowly

- Key highlights from the latest European Commission's forecast include: 1) The EU economy has entered 2024 on a weaker footing than expected. The EC expects the economy to accelerate from +0.5% in 2023 to 0.8% in 2024 (-0.4ppts) and 1.5% in 2025, on the back of growing real wages, a resilient labour market which should encourage consumers to spend more as well as on normalised trade performances. 2) Inflation is set to slow down faster than projected, largely driven by falling energy prices. In the euro area, it is expected to decelerate from 5.4% in 2023 to 2.7% in 2024 and to 2.2% in 2025. The EC added that the end of the energy support measures as well as geopolitical tensions could still contribute to raising prices.
- The euro area recorded a €65.9bn trade surplus in 2023, a turnaround from a deficit of -€332.2bn in 2022 as the contraction in exports outpaced imports at 13.5% y/y and 1.2% y/y respectively, the former mainly due to lower energy

imports from Russia.

UK slipped into technical recession

- Britain's economy entered a technical recession in the 4Q of 2023 after it shrank by a worse-than-expected 0.3% q/q in 4Q (3Q: -0.1% q/q) and with all main sectors contracting during the quarter. On a monthly basis, GDP is estimated to have fallen by 0.1% m/m in December, following November's +0.2% m/m and October's -0.5% m/m and the economy is estimated to have expanded by +0.4% y/y in 2023 (2022: +4.5% y/y). The Bank of England has recently emphasized that it expects the economy to pick up in 2024, but the larger than expected fall in GDP will put pressure on the BOE to cut rates sooner rather than later, especially with the general election around the corner. The economy is expected to be supported by a recovery in real incomes as well as lower energy costs and easing financial conditions.
- Separately, policymaker Megan Greene said that there is no guarantee that the central bank will immediately cut its policy rates when inflation falls to 2%.

Australia's unemployment rate jumped to a 2Y high as employment change disappointed; household spending intentions rebounded

- While economic indicators continued to be swayed by summer volatility, fresh data point to moderating pace of economic growth in Australia. Unemployment rate rose more than expected to a 2-year high of 4.1%, while the economy only added 500 jobs in January, significantly lower than the consensus forecast of 25k. According to the Australian Bureau of Statistics (ABS), employment market remained stable and similar to January 2022 and 2023, the increase in the unemployment rate during the month coincided with a higher-than-usual number of people who were not employed but who said they will be starting or returning to work in the future. This reflects changing seasonal dynamics within the labour market, around when people start working after the summer holiday period.
- Separately, the CBA Household Spending index rebounded by 3.1% m/m in January (Dec: -3.5% m/m) led by a jump in recreation and household goods, while the annual increase held steady at 3.6% y/y. Consumer inflation expectations, meanwhile, held steady for the third month at +4.5% y/y in February

House View and Forecasts

FX	This Week	1Q-24	2Q-24	3Q-24	4Q-24
DXY	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
16-Feb	SI Non-oil Domestic Exports SA MoM (Jan)	-2.80%
	MA GDP Annual YoY	3.80%
	UK Retail Sales Inc Auto Fuel MoM (Jan)	-3.20%
	US Building Permits MoM (Jan)	1.90%
	US New York Fed Services Business Activity (Feb)	-9.7
	US Housing Starts MoM (Jan)	-4.30%
	US PPI Final Demand YoY (Jan)	1.00%
	US U. of Mich. Sentiment (Feb P)	79
18-Feb	CH 1-Yr Medium-Term Lending Facility Rate	2.50%
	CH 1-Yr Medium-Term Lending Facilities Volume	995.0b
19-Feb	JN Core Machine Orders MoM (Dec)	-4.90%

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