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Global Markets Research

Daily Market Highlights

18 Jan: Equities and bonds faltered amidst pared rate cut bets

Strong US retail sales and renewed surge in UK CPI pushed back rate cut expectations
DXY hit a 1-month high; longer dated UST yields hit 5-week highs; UK gilt yields jumped
China's 4Q GDP missed estimates; weakness in consumer sector; CSI fell to a 5-year low

- US Treasuries and equities fell after traders dialled back expectations on how soon the Fed might start cutting rates after US retail sales data came stronger than expected, a sign of economic strength. The 3 major indices fell between 0.3-0.6% d/d. with all the 11 sectors in S&P 500 registering declines. Shares of the Magnificent Seven tech stocks retreated, save Meta Platforms, and investors flocked to safety, to selective defensive stocks in the food maker and healthcare industries. In corporate update, Spirit Airlines slumped 22.5% d/d after the federal court judge blocked JetBlue Airways' plan to buy Spirit.
- Elsewhere, European stocks closed lower, with FTSE 100 sliding 1.5% d/d after UK inflation unexpectedly picked up to 4.00%. In Asia, Hang Seng tumbled 3.7% d/d and CSI 300 fell to an almost 5Y low after China's 4Q GDP growth missed estimates.
- Longer dated Treasury yields hit their 5-week highs after the strong US retail sales data. The 10Y closed up 4bps at 4.10% after trading as high as 4.13% during the day. The 2Y jumped 14bps to 4.36%. Led by UK gilts, 10Y European bond yields also rose between 6-19bp. The 2Y gilt yield jumped 22bps to 4.35% as traders trimmed bets for monetary policy easing after the British inflation rate unexpectedly hit 4.00%.
- The Dollar hit a fresh 1-month high, with the DXY hitting as high as 103.69 before retreating and closing at 103.45 (+0.1% d/d), strengthening against its G10 peers save for the GBP, DKK and EUR. Supporting EUR was warnings from ECB policy makers that markets are getting ahead of themselves on rate cuts, while GBP strengthened after the UK CPI inflation data. USD also closed stronger against regional currencies with the exception of the HKD.
- Oil closed mixed between -0.5% d/d and +0.2% d/d amidst another choppy session in a tug of war between Red Sea risks, crude outages in the US and a broad risk-off sentiment in the financial markets. OPEC's Secretary General, meanwhile, said that oil demand will defy predictions of a peak due to technological advances.

Generally better-than-expected economic data in the US

- Key highlights from the latest Beige Book: 1) There was little or no change in economic activity but there was notably strong holiday spending. 2) Nearly all Districts reported decreases in manufacturing activity. 3) Most Districts indicated firms' expectations for future growth were positive or/and had improved, partially due to prospects of falling interest rates. 4) Concerns about the office market, weakening demand and the political cycle were often cited as sources of economic uncertainty.
- Retail sales increased more than expected in December and at its strongest pace in 3 months by +0.6% m/m (Nov: +0.3% m/m), capping a solid holiday

Key Market Metrics

| | Level | d/d (%) |
|--------------------|-----------|---------|
| Equities | | |
| Dow Jones | 37,266.67 | -0.25 |
| S&P 500 | 4,739.21 | -0.56 |
| NASDAQ | 14,855.62 | -0.59 |
| Stoxx Eur 600 | 467.71 | -1.13 |
| FTSE 100 | 7,446.29 | -1.48 |
| Nikkei 225 | 35,477.75 | -0.40 |
| CSI 300 | 3,229.08 | -2.17 |
| Hang Seng | 15,276.90 | -3.71 |
| Straits Times | 3,142.22 | -1.34 |
| KLCI 30 | 1,491.21 | -0.18 |
| FX | | |
| Dollar Index | 103.45 | 0.09 |
| EUR/USD | 1.0883 | 0.07 |
| GBP/USD | 1.2676 | 0.31 |
| USD/JPY | 148.16 | 0.66 |
| AUD/USD | 0.6552 | -0.49 |
| USD/CNH | 7.2218 | 0.04 |
| USD/MYR | 4.7172 | 0.48 |
| USD/SGD | 1.3447 | 0.16 |
| Commodities | | |
| WTI (\$/bbl) | 72.56 | 0.22 |
| Brent (\$/bbl) | 77.88 | -0.52 |
| Gold (\$/oz) | 2,006.50 | -1.17 |
| Copper (\$\$/MT) | 8,268.00 | -1.04 |
| Aluminum(\$/MT) | 2,178.00 | -1.63 |
| CPO (RM/tonne) | 3,877.00 | 0.94 |

Source: Bloomberg, HLBB Global Markets Research
 * Dated as of 16 Jan for CPO

season and suggesting that consumer spending should keep the economy on solid ground heading into 2024. Nine of the 13 categories posted increases, with the biggest gains seen for motor vehicles and general merchandise stores, the latter benefiting from retailers offering discounts. In tandem with this, the so-called core retail sales, used as a gauge for the consumer spending component of GDP, also accelerated to +0.8% m/m (Nov: +0.5% m/m).

- Industrial production (IPI) unexpectedly edged up by +0.1% m/m in December (Nov: 0), but still remained consistent with a sluggish production sector overall. Manufacturing output rose +0.1% m/m, supported by a pickup in motor-vehicle production tied to the end of the United Auto Workers' strike. Excluding this, factory production would have slipped for the third month by -0.1% m/m. Major market groups posted mixed results during the month, while capacity utilization for manufacturing remained unchanged at 77.1%, 1.1ppts below its long-run average.
- In the housing market, lower interest rates sent mortgage applications strengthening to +10.4% w/w for the week ended January 12 (Jan 5: +9.9% w/w) and builder confidence (using the NAHB/Wells Fargo HMI as a benchmark) increasing more than expected and for the second month to 44 in January (Dec: 37). However, builders continue to face challenges with building material cost and availability, as well as supply of lots available.
- Import prices unexpectedly remained unchanged in December (Nov: -0.5% m/m) after two straight monthly decreases, but the trend in imported inflation remained subdued. Weighing on prices were lower fuel prices (-0.3% m/m) while nonfuel prices were unchanged. For the latter, higher prices for nonfuel industrial supplies & materials and automotive vehicles were offset by lower prices for capital goods and foods, feeds & beverages.
- The New York Fed Services Business Activity index continued to decline modestly in January (-9.7 vs -14.6) while optimism over the 6-month outlook improved but remained subdued. Business climate remained worse than normal, employment declined modestly, wage increases picked up and the pace of price increases was little changed.

Final Eurozone's CPI prints left unchanged

- Eurozone's final headline and core CPI for December was left unchanged at +2.9% y/y and +3.4% y/y respectively (Nov: +2.4 % y/y and +3.6% y/y). Driving inflation during the month was food, alcohol & tobacco (+6.1% vs -6.9%), followed by services (stable at 4.0%), non-energy industrial goods (2.5% vs 2.9%) and energy (-6.7% vs -11.5%).

UK inflation rate surprised with rise to 4%, led by alcohol and tobacco

- UK inflation prints surprised on the upside, with headline unexpectedly accelerating to +4.0% y/y and core holding steady at 5.1% y/y respectively in December (Nov: +3.9% y/y and +5.1% y/y). This is the first month where the headline has picked up since February 2023, fuelled by a rise in alcohol and tobacco prices. On the core front, keeping prices elevated were clothing as well as recreational & cultural goods & services, the latter can be volatile depending on the composition of best seller charts. In an accompanying statement, the Finance Minister said that inflation is still on track for 2% but as seen in the US., France and Germany, inflation does not fall in a straight line.
- The contraction in producer input prices, meanwhile, widened to -2.8% y/y in December (Nov: - 2.7% y/y) but has largely been relatively stable since June 2023. Driving lower prices during the month was prices for chemicals and fuel.

- Mixed data in the housing market, but suggesting a still weak property market. The House Price Index fell at a larger pace for the third month by -2.1% y/y in November (Oct: -1.3% y/y), with home prices in London plunging 6.0% y/y (Oct: -3.4% y/y). In contrast, the RICS House Price Balance improved more than expected, for the fourth month and across all sub-indices to -30% in December (Nov: -41%).

Australia's consumer inflation expectations held steady at 4.5%

- Data this morning showed that consumer inflation expectations held steady at 4.5% in January, a deceleration from November's 4.9% as well as 5.6% this time last year.

Japan's core machine orders fell more than expected

- Core machine orders fell more than expected by -4.9% m/m and -5.0% y/y November (Oct: +0.7% m/m and -2.2% y/y). An indicator of future capital spending, orders were weighed down by a steep plunge in orders from the manufacturing sector (-7.8% m/m vs -0.2% m/m), while orders from non-manufacturing also retreated marginally (-0.4% m/m vs +1.2% m/m).

China's economy grew by 5.2% in 2023

- As mentioned by Chinese Premier Li Qiang earlier, China's economy expanded by 5.2% in 2023, matching consensus forecasts but above the government's official target of 5.0%. For 4Q however, growth accelerated to +5.2% in a y/y basis (3Q: +4.9% y/y) but moderated to +1.0% on a q/q basis (3Q: +1.5% q/q), both missing consensus forecasts.
- As it is, December data was mixed, but showed clear signs of softer consumer spending (retail sales undershot expectations at +7.4% y/y vs +10.1% y/y) as jobless rate unexpected ticked up to 5.1% (Nov: 5.0%) as well as very weak property sector. The latter is clearly seen with new home prices continuing falling 0.5% m/m (Nov: -0.4% m/m) and property investment plunging 9.6% YTD. On the flip side, industrial output and fixed asset investment unexpectedly picked up to +6.8% y/y in December and +3.0% YTD (Nov: +6.6% and +2.9%). Driving the former was a noticeable improvement in the manufacturing sector, especially for chips and electronics vehicles (EVs), while the latter was supported by state-owned enterprises rather than the private sector.

Singapore's NODX unexpectedly fell 1.5%

- Prior month's positive growth for non-oil domestic exports (NODX) proved short lived in a sign of a still vulnerable external sector. NODX unexpectedly fell 1.5% y/y in December (Nov: +1.0% y/y) as electronics exports continued to contract (-11.7% y/y vs -12.8% y/y), while non-electronics grew for the second month albeit at a moderated pace of +1.4% y/y (Nov: +5.2% y/y) due to pharmaceutical products. The contraction was also widespread amongst its top markets, led by Taiwan, South Korea and Japan, but exports to China, Hong Kong, EU and US rose.

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 | 144-149 | 139 | 137 | 135 | 133 |
| AUD/USD | 0.65-0.69 | 0.69 | 0.69 | 0.70 | 0.71 |

| | | | | | |
|---------|-----------|------|------|------|------|
| USD/MYR | 4.63-4.72 | 4.55 | 4.50 | 4.45 | 4.39 |
| USD/SGD | 1.32-1.35 | 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 |
|--------|---|--------|
| 18-Jan | AU Unemployment Rate (Dec) | 3.90% |
| | JN Industrial Production MoM (Nov F) | -0.90% |
| | HK Unemployment Rate SA (Dec) | 2.90% |
| | US Building Permits MoM (Dec) | -2.50% |
| | US Philadelphia Fed Business Outlook (Jan) | -10.5 |
| | US Housing Starts MoM (Dec) | 14.80% |
| | US Initial Jobless Claims | 202k |
| 19-Jan | JN Natl CPI Ex Fresh Food, Energy YoY (Dec) | 3.80% |
| | MA Exports YoY (Dec) | -5.90% |
| | UK Retail Sales Inc Auto Fuel MoM (Dec) | 1.30% |
| | US U. of Mich. Sentiment (Jan P) | 69.7 |
| | US U. of Mich. 1 Yr Inflation (Jan P) | 3.10% |
| | US U. of Mich. 5-10 Yr Inflation (Jan P) | 2.90% |
| | US Existing Home Sales MoM (Dec) | 0.80% |
| | MA GDP YoY (4Q A) | 3.30% |

Source: Bloomberg

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