18 March 2024

Global Markets Research

Daily Market Highlights

18 March: All eyes on central bank meetings this week

Another bearish session for Wall Street; DXY closed above 103 for the second day
China maintained 1Y MLF rate at 2.50%; drained liquidity from the banking system
Japan's union group announced biggest wage hike in 33 years; paving way for a rate hike

- It was another bearish session for Wall Street. The three major indices closed down between 0.5-1.0% d/d as investors remained jittery over FOMC's guidance this week, while earlier reports of hotter than expected consumer and producer prices undercut investors' hopes that the Fed would soon begin cutting rates, weighing on sentiment. Growth oriented sectors like information and technology struggled and were the worst performing sectors. Friday also marked "triple witching," which could have led to volatility during the day. "Triple witching" is the quarterly expiration of index futures, index options and single stock options on the same day.
- Elsewhere, European markets closed mostly lower on inflation jitters and as investors remained cautious ahead of rate decisions by the Bank of England and Federal Reserve this week. Amongst the notable market movers were Reckitt shares which plunged after a US jury ordered the company to pay $60m damages over its baby formula; Currys' shares which sank after JD.com said it would not pursue an offer for the British electronics retailer, and Germany's HelloFresh which rallied after the meal-kit company released its full-year results. Asian markets closed mixed and are set for a muted open today ahead of monetary policy decisions.
- Treasury yields climbed modestly by 1-4bps across the curve, with the exception of the 30Y. The 2Y closed up 3bps to 4.73%, while the 2Y gained 2bps to 4.31%. 10Y European bond yields closed up between 0-5bps save the Irish and Italian sovereign bonds.
- DXY climbed another 0.1% d/d to 103.43, its second day above the 103-handle. As it is, the Dollar was largely supported by FOMC's "no rush to cut" stance after the series of above forecast price prints last week, but focus will shift to the FOMC meeting and its dot plot this week. All G10 and regional currencies depreciated against USD, save for the EUR and DKK. While JPY weakened 0.5% d/d last Friday, we expect JPY to rebound today after Japan's union group won its biggest wage hike in 33 years at 5.28%, giving BOJ impetus to hike rate this week.
- Oil prices retreated slightly by 0.1-0.3% d/d but held steady near its 4-month high last Friday. The bullish momentum over the last week have largely been buoyed by OPEC+ cuts which has boosted bets that the market is heading towards a deficit. Nonetheless, headwinds persist for the crude market going forward, on the back of softer demand as well as rising non-OPEC supply.

China maintained 1Y MLF rate at 2.50% but unexpectedly drained liquidity from the banking system

- As widely expected, the People's Bank of China (PBoC) kept its 1Y medium-

Key Market Metrics

	Level	d/d (%)
Equities		
Dow Jones	38,714.77	-0.49
S&P 500	5,117.09	-0.65
NASDAQ	15,973.17	-0.96
Stoxx Eur 600	504.80	-0.32
FTSE 100	7,727.42	-0.20
Nikkei 225	38,707.64	-0.26
CSI 300	3,569.99	0.22
Hang Seng	16,720.89	-1.42
Straits Times	3,172.96	-0.42
KLCI 30	1,552.83	0.59
FX		
Dollar Index	103.43	0.07
EUR/USD	1.0889	0.06
GBP/USD	1.2736	-0.13
USD/JPY	149.04	0.48
AUD/USD	0.6560	-0.32
USD/CNH	7.2057	0.04
USD/MYR	4.7072	0.45
USD/SGD	1.3376	0.12
Commodities		
WTI ($/bbl)	81.04	-0.27
Brent ($/bbl)	85.34	-0.09
Gold ($/oz)	2,161.50	-0.28
Copper ($$/MT)	9,072.00	2.08
Aluminum($/MT)	2,274.50	1.02
CPO (RM/tonne)	4,325.00	2.46

Source: Bloomberg, HLBB Global Markets Research
** Dated as of 14 March for CPO*

term lending facility (MLF) rate unchanged at 2.50%, but unexpectedly withdrew 94bn yuan cash from the banking system on a net basis, in our opinion, most likely to shore up its currency. This is especially so since the latest economic indicators have remained sluggish and both monetary and fiscal policies would have to stay accommodative. New home prices fell at a steady pace of 0.4% m/m in February, with 59 cities recording contractions in prices as compared to 56 previously, while new yuan loans dropped to 1.5tn yuan (Jan: +4.9tn yuan). While this could be due to seasonal factors, the combined YTD data, which strips out the distortion from the timing of the Lunar New Year, also fell 342bn yuan from a year earlier, a sign of weak corporate and household demand.

- With this, consensus is expecting the central bank to maintain its 1Y and 5Y loan prime rates unchanged at 3.45% and 3.95% respectively this week, but eyeing a potential cut in RRR to bolster demand and fight deflationary pressures.

US IPI rebounded more than expected due to low base; consumer sentiment remained steady; import prices rose for the second month

- Industrial production (IPI) rebounded more than expected by +0.1% m/m in February (Jan: -0.5% m/m) as the output of manufacturing rose 0.8% m/m and the index for mining climbed 2.2% m/m. Nonetheless, both gains partly reflected recoveries from weather-related declines the prior month. The rise in manufacturing output reflected improvements in machinery, motor vehicles and electric equipment, while output for consumers fell on a slump in energy demand. All in, while the manufacturing sector has made progress over the past year, industrial and manufacturing were down 0.2% y/y and 0.7% y/y, suggesting lingering malaise for the sector. Separate data also showed that manufacturing activity in the New York district declined more than expected in March (Empire Manufacturing index: -20.9 vs -2.4) as new orders, shipment and employment indicators weakened.
- March's preliminary reading of the University of Michigan Sentiment index showed that sentiment remained largely unchanged overall, dipping slightly to 76.5 in March (Feb: 76.9) but there are emerging signs of a division between consumers bearing the brunt of higher prices and those able to maintain their living standards. Inflation expectations, meanwhile, remained contained, with the 1Y and 5-10Y ahead expectations holding steady at 3.0% and 2.9% respectively.
- In a sign that goods disinflation is slowing, import prices increased for the second consecutive month by +0.3% m/m in February (Jan: +0.8% m/m). The February and January advances were the first consecutive increases since August-September 2023, as prices for imported fuel jumped 1.8% m/m, its largest advance since September 2023. Even stripping this, the price index for nonfuel imports unexpectedly advanced 0.2% m/m (Jan: +0.6% m/m), driven by consumer goods; foods, feeds & beverages; capital goods as well as automotive vehicles.

Signs of easing inflationary expectations, strengthening housing market in the UK

- Positive slew of data from the UK. The BoE/Ipsos Inflation expectations over the coming year moderated to 3.0% in February (Nov 2023: +3.3%), were unchanged at 2.8% for the 12-months after that, and eased to 3.1% for the longer term (Nov: 3.2%). Rightmove house prices, meanwhile, logged its fastest gain in 10-months, accelerating to +1.5% m/m in February (Jan:

+0.9% m/m), suggesting growing confidence that the housing market has bottomed out and is strengthening. As it is buyers are enticed by the lower borrowing costs, sending buyer demand up 8% y/y and sales 13% y/y higher.

Japan's core machinery orders fell on manufacturing

- Data this morning showed that core machinery orders, a forward-looking indicator for capital spending, contracted more than expected by -1.7% m/m in January after December's blip of +1.9% m/m. Orders were weighed down by lower demand from the manufacturing sector (-13.2% m/m vs +6.0% m/m), as orders from overseas demand slumped on the back of softer global economy as well as possibly, due to delays in logistics due to Red Sea tension. Meanwhile, orders from non-manufacturing registered its first expansion in four months at +6.5% m/m (Dec: -2.3% m/m), with notable jump in the mining, transportation and information services sectors.

House View and Forecasts

FX	This Week	1Q-24	2Q-24	3Q-24	4Q-24
DXY	101-105	101.84	101.33	100.82	100.32
EUR/USD	1.07-1.11	1.10	1.11	1.11	1.10
GBP/USD	1.26-1.29	1.28	1.29	1.29	1.27
USD/JPY	144-150	142	140	137	134
AUD/USD	0.64-0.68	0.68	0.68	0.69	0.70
USD/MYR	4.65-4.72	4.69	4.66	4.62	4.56
USD/SGD	1.32-1.35	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
18-March	SI Non-oil Domestic Exports SA MoM (Feb)	2.30%
	CH Retail Sales YTD YoY (Feb)	--
	CH Fixed Assets Ex Rural YTD YoY (Feb)	--
	CH Surveyed Jobless Rate (Feb)	--
	CH Industrial Production YTD YoY (Feb)	--
	MA Exports YoY (Feb)	8.70%
	HK Unemployment Rate SA (Feb)	2.90%
	EC CPI Core YoY (Feb F)	3.10%
	EC Trade Balance SA (Jan)	13.0b
	US New York Fed Services Business Activity (Mar)	-7.3
	US NAHB Housing Market Index (Mar)	48
19-March	AU RBA Cash Rate Target	4.35%
	JN Industrial Production MoM (Jan F)	-7.50%
	EC ZEW Survey Expectations (Mar)	25
	EC Labour Costs YoY (4Q)	5.30%
	US Building Permits MoM (Feb)	-1.50%
	US Housing Starts MoM (Feb)	-14.80%
	JN BOJ Policy Balance Rate	-0.10%

Source: Bloomberg

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