18 October 2024

Global Markets Research

Daily Market Highlights

18 Oct: All eyes on Malaysia's Budget 2025 and China's 3Q GDP

Firmer USD & UST yields after stronger than expected US retail sales and jobless claims

ECB delivered a dovish 25bps rate cut amid easing inflation outlook; dampening the EUR

Strong labour data for Australia; first deceleration in Japan's core CPI in five months

- The US equity markets traded mostly in the green during last night's session, but ultimately ended the day mixed. The Dow rallied 0.4% d/d to another record close, supported by a jump in Travelers shares after its profit beat. Nasdaq also inched higher to close just above the flatline, but S&P closed in the red. Risk-on appetite for semiconductor stocks helped to cushion the fall for the latter, boosted by strong results from Taiwan Semiconductor Manufacturing.
- European markets rallied (Stoxx Eur 600: +0.8% d/d) after ECB cut rates for the third time this year, while sectors like food & beverages as well as banks gained following positive chatter from corporates like Nestle and Nordea Bank Abp. In Asia, markets broadly traded lower after gains in China and Hong Kong property stocks fizzled out after China's briefing on housing stimulus, which included measures like doubling its financial support for the "whitelist" real estate projects to 4tn yuan, disappointed.
- In the bond space, Treasury yields jumped 3-9bps after the better-than-expected US retail sales and drop in jobless claims data. The 2Y UST yield rose 3bps to 3.97%, while the 10Y increased 8bps to 4.09%. In Europe, 10Y sovereign yields rose in tune to 1-3bps after ECB's policy decision, a turnaround from the prior day's 2-5bps decline in yields.
- In the forex space, DXY closed up 0.2% d/d to 103.83 after data showing stronger than expected growth in US retail sales reaffirmed bets of smaller rate cuts going forward. The Dollar traded mixed against its G10 peers, but mostly strengthened against regionals. JPY led losses against USD at 0.4% d/d (to 150.21), while EUR weakened 0.3% d/d after ECB flagged risks to growth in its policy statement and traders ramped up bets that the central bank will deliver a jumbo rate cut in December. On the flip side, GBP and AUD strengthened 0.2% d/d and 0.4% d/d respectively. AUD gained after its strong labour data saw traders pencilling in bets that the RBA will likely remain status quo in 2024. Closer to home, CNH closed flattish at 7.1370 after China's policy stimulus announcement, while SGD weakened 0.1% d/d after its trade data decelerated sharply. MYR depreciated 0.3% d/d to 4.3090 ahead of the unveiling of Budget 2025 today.
- In the commodities market, crude oil prices rebounded by 0.3-0.4% d/d after a 4-day losing streak after reports showed US stockpiles fell, and amid lingering concerns of supply disruption in the Middle East due to the Iran-Israel tension.

Key Market Metrics

	Level	d/d (%)
Equities		
Dow Jones	43,239.05	0.37
S&P 500	5,841.47	-0.02
NASDAQ	18,373.61	0.04
Stoxx Eur 600	523.91	0.83
FTSE 100	8,385.13	0.67
Nikkei 225	38,911.19	-0.69
CSI 300	3,788.22	-1.13
Hang Seng	20,079.10	-1.02
Straits Times	3,625.25	0.96
KLCI 30	1,641.44	0.54
FX		
Dollar Index	103.83	0.23
EUR/USD	1.0831	-0.29
GBP/USD	1.3011	0.16
USD/JPY	150.21	0.38
AUD/USD	0.6696	0.43
USD/CNH	7.1370	0.00
USD/MYR	4.3090	0.28
USD/SGD	1.3143	0.07
Commodities		
WTI ($/bbl)	70.67	0.40
Brent ($/bbl)	74.45	0.31
Gold ($/oz)	2,691.00	0.64
Copper ($$/MT)	9,516.00	-0.44
Aluminum($/MT)	2,553.50	-1.18
CPO (RM/tonne)	4,392.00	0.83

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

ECB cut rates by 25bps; inflation expected to ease towards target next year; economy was weaker than expected and risks is tilted down

- As widely anticipated, the ECB lowered its key policy rates by 25bps each to 3.25% for deposit facility, 3.40% for main refinancing operations and 3.65% for marginal lending facility wef 23 October. The decision to cut rates was premised upon expectations that while inflation may rise in the coming months, it is expected to ease to target next year, a more dovish note as compared to the previous statement.
- The economy was also weaker than what ECB had anticipated and risks to growth are tilted to the downside, due to low consumer and business confidence which could weigh on consumption and investment, geopolitical risks, slower demand for its exports as well as from lagged effects from its previously tight monetary policy. While President Christine Lagarde offered no guidance for rates going forward saying that ECB will be data dependent, market is pencilling a certainty that the ECB will deliver another round of 25bps rate cut in the next meeting scheduled in December. We have also revised our house view for a further 25bps reduction before the year ends.
- Data wise, Eurozone's final headline CPI for September was revised down 0.1ppts to 1.7% y/y, while core was left unchanged at 2.7% y/y (prior: 2.2% y/y and 2.8% y/y). September marks the first-time headline CPI has retreated below ECB's target of 2.0% since 2021, suggesting softer cost pressures and backing the case for more rate cuts going forward. Trade balance also unexpectedly narrowed to €11.0bn in August from €13.7bn previously, as export growth turned contractionary at -0.1% m/m while imports slowed to +1.0% m/m, suggesting soft external and domestic demand for the bloc.

Better than expected retail sales, jobless claims and builder claims data from the US; industrial production affected by Boeing strikes and hurricanes

- An all around better-than-expected economic data from the US save for IPI, reaffirming expectations of smaller rate cut bets going forward. September's retail sales (+0.4% m/m vs +0.1% m/m) grew solidly in a sign of a resilient consumer sector, has and will likely be supported by strong income growth and a resilient labour market going forward. Ten of the thirteen industries posted increases during the month, led by miscellaneous stores. Sales of discretionary items like clothing and sport goods also rose, while food services and drinking places, a proxy of services rebounded.
- In a sign of a still resilient labour market, initial jobless claims came in lower than expected at 241k for the week ended October 12 (prior: 260k). This marks the first decline in 3 weeks, but may be distorted by volatility due to weather.
- The NAHB Housing Market Index, a measure of builder confidence, inched up more than expected and for the second month by 2ppts to 43, driven by optimism over easing inflation rates and anticipation that mortgage rates will moderate going forward.
- Industrial production (IPI) fell more than expected by 0.3% m/m in September from +0.3% m/m previously, partially weighed down by temporary factors like the hurricanes and Boeing strike. Manufacturing, which accounts slightly for more than 10% of US GDP, fell 0.4% m/m after gaining +0.5% m/m the previous month, weighed down by lower output of electrical equipment, motor vehicles and aerospace & others.

Strong labour data from Australia reaffirms rate cut bets only in 2025

- Labour data came in surprisingly stronger than expected, with employment surging +64.1k in September from +42.6k previously, fuelled by strong demand for full-time employees. Consequently, the unemployment rate also unexpectedly held steady at 4.1% and saw traders reigning in any rate cut bets for the rest of 2024. This is in line with our in-house forecasts for no change in its policy rate for the RBA, especially since a relatively tight market suggests upward pressure on wages.

Japan's core inflation eased for the first time in 5 months due to government subsidies

- There were no surprises on headline inflation for September (+2.5% y/y vs +3.0% y/y), but core, which excludes fresh food eased less than expected to +2.4% y/y from +2.9% y/y previously. Core CPI marked its first deceleration in 5 months, primarily driven by government subsidies for utilities, and as such, will unlikely change BOJ's tightening monetary policy path going forward, nor our view of another round of rate hike in 1Q of 2025.

Singapore's NODX softened sharply, mainly due to electronics

- NODX severely disappointed, decelerating sharply to +2.7% y/y in September from +10.7% y/y previously. Both electronics (+4.0% y/y vs +35.1% y/y) and non-electronic exports (+2.3% y/y vs +3.6% y/y) grew, albeit at a smaller pace, the latter due to petrochemicals, while shipments to the US, Hong Kong, Japan and China declined during the month.

House View and Forecasts

FX	This Week	4Q-24	1Q-25	2Q-25	3Q-25
DXY	101-105	101.56	100.54	99.53	99.04
EUR/USD	1.08-1.11	1.11	1.12	1.13	1.14
GBP/USD	1.29-1.32	1.33	1.35	1.36	1.37
USD/JPY	145-151	146	142	138	135
AUD/USD	0.66-0.69	0.68	0.69	0.70	0.71
USD/MYR	4.25-4.34	4.25	4.20	4.15	4.10
USD/SGD	1.29-1.32	1.31	1.29	1.27	1.25

Rates, %	Current	4Q-24	1Q-25	2Q-25	3Q-25
Fed	4.75-5.00	4.25-4.50	3.75.-4.00	3.50-3.75	3.25-3.50
ECB	3.25	3.00	2.75	2.50	2.25
BOE	5.00	4.75	4.50	4.25	4.00
BOJ	0.25	0.25	0.40	0.40	0.55
RBA	4.35	4.35	4.10	3.85	3.60
BNM	3.00	3.00	3.00	3.00	3.00

Source: HLBB Global Markets Research

Up Next

Date	Events	Prior
18-Oct	CH New Home Prices MoM (Sep)	-0.73%
	CH GDP YoY (3Q)	4.70%
	CH Industrial Production YoY (Sep)	4.50%
	CH Retail Sales YoY (Sep)	2.10%
	CH Fixed Assets Ex Rural YTD YoY (Sep)	3.40%
	CH Surveyed Jobless Rate (Sep)	5.30%
	MA Exports YoY (Sep)	12.10%
	UK Retail Sales Inc Auto Fuel MoM (Sep)	1.00%
	HK Unemployment Rate SA (Sep)	3.00%
	US Housing Starts MoM (Sep)	9.60%
	US Building Permits MoM (Sep)	4.90%
21-Oct	UK Rightmove House Prices YoY (Oct)	1.20%
	CH 5-Year Loan Prime Rate	3.85%
	CH 1-Year Loan Prime Rate	3.35%
	US Leading Index (Sep)	-0.20%

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

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