HongLeong Bank

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Global Markets Research

Daily Market Highlights

19 Sep: FOMC delivered a pre-emptive 50bps cut

Markets whipsawed post-FOMC; 50bps outsized cut unlikely to be repeated

Broad selloffs in equities and bonds; USD weakened against most G10s

Eurozone and UK CPI prints did little to change ECB and BOE rate path outlook

- US markets whipsawed in a knee-jerk reaction as the FOMC announced an outsized 50bps rate cut. The three benchmark US equity indices jumped immediately after the announcement but later pared gains to end the day 0.3% lower as investors digested Fed Chair Powell's less dovish than expected press conference and dot plot guidance for more gradual cuts going forward. European markets also closed out the day lower with the Euro Stoxx 600 and FTSE100 losing 0.5-0.7% d/d. Trading in Asian equities was a tad more mixed, with gains in Japan, China and Hong Kong but losses in the South-east Asian bourses. Futures are pointing to a mixed to lower opening in Asian markets this morning tracking the overnight losses in Wall Street.
- Global bonds saw a broad selloff. The UST curve bear steepened with the 2-year note yields added 1bps to 3.62% while the 10s added 6bps to 3.70% at close, both bounced back from the initial drop post FOMC announcement. European bond yields were also higher by 5-8bps.
- In the FX space, the Dollar Index ended the day rather flat (-0.07%) just below the 101 level at 100.93, narrowing the knee-jerk losses from a session low of 100.22 during the day following the Fed rate cut. The greenback weakened against all majors save for the SEK and CAD, weakening the most vs the NZD and GBP. The sterling gained 0.4% after UK CPI penned out largely as expected but elevated core and services CPI suggest the BOE's easing path will be gradual with the next cut likely in November. Asian FX largely strengthened prior to the FOMC announcement, led by the MYR which strengthened 0.4% on the day to 4.2435. CNY gained 0.2% to 7.0954 while the SGD advanced 0.1% to 1.2952 on the day.
- On the commodity front, oil prices fell by about 1.3% on the day on concerns over weaker demand which far outweighed rising geopolitical tension in the Middle-east. WTI and Brent last closed at $70.16/ barrel and $72.80/ barrel respectively.

The Fed cut for the first time in 4½ years by 50bps; the pre-emptive outsized cut unlikely to be repeated

- The Fed kickstarted its easing cycle with a 50bps cut to 4.75-5.00%, bigger than the norm and market consensus for a 25bps cut, in what we see as a pre-emptive move to prevent further manifestation in risks to the labour market. The latest statement offered little new insights, merely echoed recent Fed rhetoric of slowing job growth and greater confidence inflation is progressing towards the 2.0% target. Trailing recent shift in risk associated with the softening labour market, the Fed now expects a higher

Key Market Metrics

	Level	d/d (%)
Equities		
Dow Jones	41,503.10	-0.25
S&P 500	5,618.26	-0.29
NASDAQ	17,573.30	-0.31
Stoxx Eur 600	514.59	-0.50
FTSE 100	8,253.68	-0.68
Nikkei 225	36,380.17	0.49
CSI 300	3,171.01	0.37
Hang Seng	17,660.02	1.37
Straits Times	3,592.42	-0.03
KLCI 30	1,660.59	-0.22
FX		
Dollar Index	100.93	-0.07
EUR/USD	1.1119	0.04
GBP/USD	1.3214	0.40
USD/JPY	142.29	-0.08
AUD/USD	0.6764	0.12
USD/CNH	7.0954	-0.22
USD/MYR	4.2435	-0.36
USD/SGD	1.2952	-0.14
Commodities		
WTI ($/bbl)	70.16	-1.36
Brent ($/bbl)	72.80	-1.33
Gold ($/oz)	2,561.70	-0.44
Copper ($$/MT)	9,400.00	0.22
Aluminum($/MT)	2,522.00	0.62
CPO (RM/tonne)	3,900.50	-2.38

Source: Bloomberg, HLBB Global Markets Research
** Dated as of 17 Sep for CPO*

unemployment rate of 4.4% for this and next year (June estimate: 4.0% for 2024 and 4.2% for 2025), reflecting their take of a softer labour market.

- The decision was not unanimous (11-1), with one policy maker, Governor Bowman, voted for a smaller 25bps cut. Meanwhile, the updated dot plot guided for more gradual cuts ahead. The Fed updated median dot plot now expects the Fed fund rates to settle at 4.4% by end-2024, 3.4% by end 2025 and 2.9% by end-2026 (June dot plot: 5.1% for 2024; 4.1% for 2025 and 3.1% for 2026), effectively bringing forward the rate cuts to 2024.
- This implied the Fed is projecting a total of 100bps cut this year (from 25bps in June), converging with market pricing and suggesting there will be a further 50bps cut before the year ends. **We are maintaining our view for 25bps cut each in November and December this year.** Further out, the Fed maintained a 100bps cut for 2025 and reduced the quantum of rate cuts from 100bps to 50bps for 2026. Long run rates have however been upgraded yet again, from 2.8% to 2.9%, also in line with our view for a higher neutral rate.
- In its quarterly economic projection, 2024's real GDP growth has been tweaked lower by 0.1ppt to 2.0% while next year and 2026's growth have been maintained at 2.0%. Inflation forecasts have also been cut between 0.1-0.3ppt for this and next year, with core PCE expected to settle at 2.6% and 2.2% in 2024 and 2025 respectively (June estimate: 2.8% for 2024 and 2.3% for 2025).

Stronger than expected rebound in US housing starts amid normalization from storm-delayed activities

- A bag of robust housing market data from the US overnight but this was likely due to resumption of activities post storm disruption. Housing starts staged a faster than expected rebound to +9.6% m/m in August (Jul: -6.9% m/m), mainly driven by a sharp turnaround in single family starts (+15.8% vs -12.8%) which grew for the first time in six months, while multifamily starts fell 4.2% m/m (Jul: +9.8% m/m), its first decline in three months. Forward looking building permits also rebounded more than expected by increasing 4.9% m/m (Jul: -3.3% m/m).
- In a separate release, MBA mortgage applications increased at its best pace in five weeks, by 14.2% w/w for the week ended 13-Sept (prior: +1.4%), driven by a jump in refinancing activities (+24.2% vs +0.9%) and new purchases (+5.4% vs +1.8%) as mortgage rates fell 14bps to its lowest in two years at 6.15%.

Easing CPI gains in the Eurozone; no change to rate cut outlook

- Final CPI eased to 2.2% y/y in August (Jul: +2.6% y/y), its lowest reading since Jul-21, due to contraction in energy prices (-3.0% vs +1.2% y/y) during the month. Similar to observations in other countries, services inflation remained sticky (+4.1% vs +4.0% y/y) and core CPI stabilized at 2.8% y/y for the 3rd straight month, suggesting persistent underlying inflationary pressure despite the moderation in headline CPI back to the 2.0% target. This suggests the policy easing path will be gradual. No change to our house view for a 25bps cut in 4Q.

UK inflation prints penned out largely as expected; unlikely to change odds of a BOE pause today

- CPI rebounded to increase 0.3% m/m as expected in August (Jul: -0.2% m/m) shored up by a jump in air fares, and translated into a steady 2.2% y/y increase. Core CPI and CPI services accelerated, albeit within expectations at 3.6% and 5.6% y/y respectively in August (Jul: +3.3% and +5.2% y/y), suggesting underlying inflationary pressure remains sticky. On the contrary, PPI turned in softer – PPI output unexpectedly fell 0.3% m/m in August (Jul: 0.0%) while PPI input deepened its fall to -0.5% m/m (Jul: -0.3% m/m), signalling lack of price pressure at the producers level that would likely translate into lower consumer prices in the months ahead. Expect the BOE to stay pat at today's MPC meeting and maintain our house view for one more 25bps cut in 4Q.

Lethargic Westpac leading index in Australia

- Westpac leading index saw continued small contraction in August (-0.05% vs -0.03% m/m), hit by declines in commodity prices, expectation index and yield spread. Sluggishness in the Australian economy would inevitably pave the way for the RBA to cut rates, as inflation slowly but surely inches back to the 2.0% target.

House View and Forecasts

FX	This Week	3Q-24	4Q-24	1Q-25	2Q-25
DXY	100-103	102.41	100.87	99.86	98.86
EUR/USD	1.09-1.12	1.11	1.12	1.10	1.08
GBP/USD	1.29-1.33	1.29	1.30	1.30	1.29
USD/JPY	139-145	145	143	140	137
AUD/USD	0.66-0.69	0.66	0.66	0.67	0.68
USD/MYR	4.20-4.30	4.50	4.40	4.35	4.30
USD/SGD	1.29-1.32	1.33	1.32	1.30	1.28

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

Source: HLBB Global Markets Research

Up Next

Date	Events	Prior
19-Sep	AU Unemployment Rate (Aug)	4.20%
	MA Exports YoY (Aug)	12.30%
	UK Bank of England Bank Rate	5.00%
	US Philadelphia Fed Business Outlook (Sep)	-7
	US Initial Jobless Claims (14 Sep)	230k
	US Leading Index (Aug)	-0.60%
	US Existing Home Sales MoM (Aug)	1.30%
20-Sep	UK GfK Consumer Confidence (Sep)	-13
	JN Natl CPI Ex Fresh Food YoY (Aug)	2.70%
	CH 5-Year Loan Prime Rate (44075)	3.85%
	CH 1-Year Loan Prime Rate (44075)	3.35%
	UK Retail Sales Inc Auto Fuel MoM (Aug)	0.50%
	HK CPI Composite YoY (Aug)	2.50%
	EC Consumer Confidence (Sep P)	-13.5
	JN BOJ Target Rate (44075)	0.25%

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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