20 September 2024

Global Markets Research

Daily Market Highlights

20 Sep: Risk-on mood amid soft landing hope

Fed rate cut and decline in initial jobless claims spurred soft-landing optimism

The Dow and S&P500 rallied to fresh record highs; UST curve steepened further

USD weakened; GBP advanced on BOE pause; JPY weakened ahead of BOJ meet

- Risk-on sentiments made a return, with global equities submerged in a sea of green while bonds were under pressure on paring of haven demand. The bigger than usual 50bps Fed rate cut and dovish guidance for more cuts ahead, coupled with the decline in initial jobless claims to a four-month low, all spurred optimism that the US economy would be able to avert a hard landing. The three benchmark US stock indices rebounded from previous day's losses, rallying to close the day 1.3-2.5% d/d higher, led by tech stocks that drove the NASDAQ up above the 18,000 level again for the first time since 22-July. The Dow and broader S&P500 also rallied on the day to fresh record highs.
- European and Asian equities disregarded the overnight post-FOMC declines in Wall Street and rallied, as investors are becoming more optimistic that the bigger than usual Fed rate cut will help avert deeper slowdown in the US labour market and hence, the economy.
- In the bond space, US treasuries traded mixed but curve steepening persisted. The front end 2-year note yield fell 4bps to 3.58% while the 10-year note yields added 1bp to 3.71%. European 10-year bond yields ended mixed between -2 to +5bps on the day.
- The Dollar Index continued to see some swings before closing lower by 0.3% d/d at 100.63, its lowest in three weeks. The USD weakened against all G10s save for the haven JPY and CHF. JPY weakened 0.2% on the day to 142.63 ahead of the BOJ policy meeting today where rates are expected to be kept unchanged. The sterling was seen advancing since early Asian session followed by a spike higher to 1.3314 post-BOE rate pause announcement although it failed to sustain such gains. GBP/USD was seen pulling back from its intraday high to end the day 0.5% stronger at 1.3284 as at Thursday's close.
- Asian FX ended the day generally stronger vs the USD after a day of volatile trade as markets sought to digest the outcome and guidance from the FOMC. The MYR outperformed again, clocking in another sizeable gain of 0.9% on the day, last closed at 4.2065, its strongest ever level since Apr-22. We expect some consolidation going forward as the pair is in an oversold position again. The CNY and SGD also traded on a biddish tone and ended the day at 7.0716 and 1.2917 respectively against the USD.
- On the commodity front, oil prices rebounded to increase 2.7-2.9% d/d amid growth optimism stemming from the Fed's rate cut. WTI last closed at $72.07/ barrel while the Brent ended at $74.90/ barrel.

Key Market Metrics

	Level	d/d (%)
Equities		
Dow Jones	42,025.19	1.26
S&P 500	5,713.64	1.70
NASDAQ	18,013.98	2.51
Stoxx Eur 600	521.67	1.38
FTSE 100	8,328.72	0.91
Nikkei 225	37,155.33	2.13
CSI 300	3,196.04	0.79
Hang Seng	18,013.16	2.00
Straits Times	3,633.18	1.13
KLCI 30	1,665.65	0.30
FX		
Dollar Index	100.63	-0.30
EUR/USD	1.1162	0.39
GBP/USD	1.3284	0.53
USD/JPY	142.63	0.24
AUD/USD	0.6814	0.74
USD/CNH	7.0716	-0.34
USD/MYR	4.2065	-0.87
USD/SGD	1.2917	-0.27
Commodities		
WTI ($/bbl)	72.07	2.72
Brent ($/bbl)	74.90	2.88
Gold ($/oz)	2,588.40	1.04
Copper ($$/MT)	9,539.00	1.48
Aluminum($/MT)	2,540.00	0.71
CPO (RM/tonne)	3,951.00	1.29

Source: Bloomberg, HLBB Global Markets Research
** Dated as of 18 Sep for CPO*

BOE left rates unchanged as expected and reiterated gradual easing path

- BOE policy makers voted 8-1 to keep rates unchanged and reaffirmed that the easing path will be gradual, depending on the trajectory in disinflation. "It is vital that inflation stays low, so we need to be careful not to cut too fast or by too much", implying the BOE is in no urgency to cut especially given the uptick in core and services CPI earlier in the week. Given BOE's commitment to a gradual rate reduction approach and expectation of further easing in inflationary pressure, we expect the BOE to cut rate by another 25bps before the year ends.
- This morning, release showed GfK consumer confidence staged a surprised deterioration to -20 in September (Aug: -13), its worst in six months, as consumers turned more pessimistic over economic outlook, personal finances outlook and climate for major purchases in the next 12 months.

US initial jobless claims fell to a 4-month low; Philly Fed business outlook rebounded; smaller decline in leading index; existing home sales fell more than expected

- Philly Fed business outlook rebounded more than expected to a positive print of 1.7 in September (Aug: -7.0), lifted by increases in prices paid and number of employees. Meanwhile, new orders and shipments turned negative, at -1.5 and -14.3 respectively, pointing to demand headwinds.
- Initial jobless claims unexpectedly fell to 219k for the week ended 14-Sept (prior 231k), its lowest print in four months. Continuing claims also unexpectedly pulled back to 1829k for the week ended 7-Sept (prior 1843k), all suggesting a still decent job market although this latest reading was somewhat distorted by Labour Day holiday which usually sees lower filing.
- Leading index posted a smaller than expected contraction of 0.2% m/m in August (Jul: -0.6% m/m), supported by average workweek and jobless claims, in another sign the labour market is expected to remain decent to drive growth in the next 3-6 months. A jump in building permits also helped while a hefty decline in ISM new orders was the biggest drag, in line with recent indicators forewarning softening demand ahead.
- Contrary to the pleasant surprises in housing starts, existing home sales fell more than expected by 2.5% m/m in August (Jul: +1.5% m/m), as single family home sales fell. Months of supply increased to 4.2 in August (Jul and 3-month average: 4.1 months). That said, higher inventories and lower mortgage rates are expected to steer demand going forward, hence helping revive sales.

Steady job market in Australia shall allow the RBA to stay pat this year

- Australia added more jobs than expected in August (47.5k vs 26.0k consensus and 48.9k prior) of which all of the increase comes from part time jobs (50.6k) while 3.1k full time jobs were lost, a sign that employers were less willing to commit to full time hiring probably amid lack of confidence over future growth outlook. Unemployment rate held steady at 4.2% as expected, but nonetheless marked its highest since Jan-22. Today's positive job data shall allow the RBA to stay the course without rushing into cutting rates. We therefore maintain our house view for the RBA to keep rates unchanged at 4.35% this year with its first cut likely in 1Q25.

Sustained exports growth for Malaysia

- Exports saw a sustained increase of 12.1% y/y in August (July: +12.3% y/y), while imports expanded at a slightly faster pace of 26.2% y/y (July: +25.4%

y/y), both at multi-months high. A closer look at the details however showed uneven growth across sectors and markets. E&E and chemical & its related manufacturing products saw quicker exports growth during the month, whereas agriculture exports saw slower growth and mining exports contracted. Imports of capital, consumption and intermediate goods all posted more moderate gains, despite staying at very elevated levels.

- We remain cautiously optimistic that exports will continue to expand at a decent pace despite some bumps expected in the next two months before picking up again towards the end of the year. External demand is still forthcoming although recent signs of further slowdown in the China economy is expected to cloud export prospects for countries like Malaysia, who has strong trade linkages with China. This should however be cushioned by Malaysia's diversified base of exports, with exports to the region (30% of total exports) and the US (14%) softening the blow.

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
20-Sep	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%
23-Sep	AU Judo Bank Australia PMI Mfg (Sep P)	48.5
	AU Judo Bank Australia PMI Services (Sep P)	52.5
	MA CPI YoY (Aug)	2.00%
	SI CPI YoY (Aug)	2.40%
	MA Foreign Reserves (41518)	$116.8b
	EC HCOB Eurozone Manufacturing PMI (Sep P)	45.8
	EC HCOB Eurozone Services PMI (Sep P)	52.9
	UK S&P Global UK Manufacturing PMI (Sep P)	52.5
	UK S&P Global UK Services PMI (Sep P)	53.7
	US Chicago Fed Nat Activity Index (Aug)	-0.34
	US S&P Global US Manufacturing PMI (Sep P)	47.9
	US S&P Global US Services PMI (Sep P)	55.7

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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