

21 February 2024

**Global Markets Research**
**Daily Market Highlights**

## 21 Feb: PBoC cut 5Y lending rates while maintaining the 1Y

**PBoC's move aimed to boost the ailing property market, yet maintaining support for yuan  
RBA considered interest-rate hike and does not rule out further increases**

**Conference Board's leading index for the US fell further, but does not signal recession**

- US equity markets closed in red between 0.2-0.9% d/d as Nvidia led a broader tech decline ahead of the chipmaker's earnings report. Shares of Nvidia, which is set to report earnings Wednesday after the bell, fell nearly 4.4%. Although Nvidia is expected to post impressive results, investors have expressed concerns about its sky-high valuation. Aside from Nvidia, five of the other "Magnificent Seven" stocks also slipped. In corporate news, Capital One Financial agreed to purchase Discover Financial Services in an all-stock deal worth \$35bn, while Walmart shares jumped 3.2% d/d on quarterly earnings and revenue beat.
- European indices closed mostly in the red, with technology and mining stocks leading the decline for Stoxx Eur 600, the latter as iron ore prices fell. Shares of Barclays rallied 8.6% d/d after the lender announced substantial cost cuts to boost returns above 12% in the coming years. Asian markets, meanwhile, closed mixed, but CSI 300 added 0.2% d/d after PBoC cut its 5Y loan prime rates. Hang Seng also rose 0.6% d/d.
- With the exception of the 20- and 30Y, Treasury bond yields fell 1-3bps across the curve after the Philadelphia Fed non-manufacturing and US leading index worsened. The 2Y yield fell 3bps to 4.61% and the 10Y dropped slightly less than 1bps to 4.28%. 10Y European bond yields also declined between 2-7bps, led by UK gilts.
- DXY fell 0.2% d/d to 104.08 along with the lower UST yields and weakness in the US technology shares. Most G10 currencies strengthened against USD save for the NOK and CAD, while regional currencies closed mixed against the greenback. Of note, GBP climbed 0.2% d/d despite BOE Governor Andrew Bailey saying that inflation does not need to fall to its 2% target before policymakers back an interest rate cut, while AUD strengthened 0.1% d/d as offshore yuan and copper prices rose. MYR briefly weakened to its 26-year low of 4.8000 before paring some of its losses and closed 0.2% d/d weaker at 4.7987. BNM governor Datuk Abdul Rasheed Ghaffour, in a statement on Tuesday, said that the Ringgit's current level does not reflect the positive prospects of the economy and added that the recent performance of the Ringgit is similar to other regional currencies, in that they have been influenced by external factors.
- Oil prices pulled back in tune to 1.5% d/d as concerns over a longer period of elevated rates weighed on broader sentiment, countering impact from increased geopolitical tensions in the Middle East. Traders are also adopting a wait see attitude ahead of OPEC+ meeting in early March where they will decide whether to extend output cuts in 2Q.

**Key Market Metrics**

	Level	d/d (%)
<b>Equities</b>		
Dow Jones	38,563.80	-0.17
S&P 500	4,975.51	-0.60
NASDAQ	15,630.78	-0.92
Stoxx Eur 600	491.90	-0.10
FTSE 100	7,719.21	-0.12
Nikkei 225	38,363.61	-0.28
CSI 300	3,410.85	0.21
Hang Seng	16,247.51	0.57
Straits Times	3,244.06	0.56
KLCI 30	1,555.59	1.10
<b>FX</b>		
Dollar Index	104.08	-0.20
EUR/USD	1.0808	0.27
GBP/USD	1.2623	0.23
USD/JPY	150.01	-0.08
AUD/USD	0.6549	0.14
USD/CNH	7.2017	-0.13
USD/MYR	4.7987	0.24
USD/SGD	1.3436	-0.18
<b>Commodities</b>		
WTI (\$/bbl)	78.18	-1.28
Brent (\$/bbl)	82.34	-1.46
Gold (\$/oz)	2,027.50	0.80
Copper (\$\$/MT)	8,500.00	0.78
Aluminum(\$/MT)	2,193.50	-0.16
CPO (RM/tonne)	3,986.50	0.80

Source: Bloomberg, HLBB Global Markets Research  
\* Dated as of 19 Feb for CPO

#### **China cut 5Y loan prime rates to 3.95%**

- Against expectations, the People's Bank of China (PBoC) maintained its 1Y loan prime rate unchanged at 3.45% but cut its 5Y loan prime rates more than expected to 3.95% from 4.20% previously. This is the first cut in 8 months and the largest since the rate was introduced in 2019. Used as a reference lending rate for mortgages, the cut in the 5Y showed efforts by the policy makers to fight against the deep housing rout.

#### **RBA considered interest-rate hike and does not rule out further increases**

- Highlights from the minutes to the latest RBA meeting include: 1) Policy makers considered raising the cash rate target by a further 25bps but judged that leaving the policy rate unchanged was the stronger one. 2) Policy makers agreed that it was appropriate not to rule out further increase in the cash rate. 3) Increasing the cash rate target during that meeting would not prevent the Board from easing monetary policy if the economy were to weaken more sharply than envisaged. 4) The case to increase the cash rate was centred on the observation that it would take some time for inflation to return to target (2 years and so), full employment in the labour market and staff's assessment that aggregate demand remains above the economy's supply potential. 5) The case to maintain rates was due to easing risk of inflation not returning to target within a reasonable timeframe, and also because of weaker than previously expected labour market and consumer spending.
- Westpac Leading Index fell by a larger margin of 0.08% m/m in January (Dec: -0.03% m/m), the second month of contraction. Weighing on the index were declines in US IPI, dwelling approvals and monthly hours worked as well as softer expansion in the S&P/ASX200 and yield spread sub-indices.

#### **US Conference Board's Leading Index fell further, but does not signal recession**

- The Conference Board's Leading Index (LEI) worsened more than expected by 0.4% in January (Dec: -0.2%) as weekly hours worked in manufacturing continued to decline and the yield spread remained negative. On a positive note, however, the contraction in LEI narrowed to -3.0% over the 6-month period ending January (vs -4.1% 6-months prior), and 6 out of its 10 components were positive contributors, the first time in the past two years. With this, while the economy will continue to face headwinds, the index at this level does not signal recession ahead.
- The Philadelphia Fed Non-Manufacturing Activity index fell to -8.8 in February (Jan: -3.7) as the index for new orders turned negative. Firms continued to report an increase in employment, while prices paid moved lower but continued to indicate overall increases in prices. Firms continue to expect growth at their own firms and in the region over the next six months.

#### **Eurozone's construction output rebounded**

- Construction output rebounded by 0.8% m/m and 1.9% y/y in December (Nov: -0.4% m/m and -1.9% y/y), the latter the strongest growth since February 2023. That's a strong end to 4Q, reversing decreases in the prior 2 months but outlook remained largely muted given the weak performance in Germany as well as on the back of a still elevated interest rates environment.

#### **Japan's exports picked up, boosted by demand for cars and chi-related gears**

- Data this morning showed that exports unexpectedly accelerated to +11.9% y/y in January (Dec: +9.7% y/y), a much needed support for the economy as

shipments of cars and chip-related gear advanced while imports fell for the 10<sup>th</sup> consecutive month (-9.6% y/y vs -6.9% y/y) due to slides in imports of coal and LNG. Mirroring regional trends, trade data for Japan will also be partially skewed by the timing of Lunar New Year holidays in China.

#### Hong Kong's unemployment rate unchanged at 2.9%

- Unemployment rate unexpectedly remained low and steady at 2.9% for the 3 months ended January and with unemployment rates of most sectors either declining or staying unchanged. Moving forward, the labour market is expected to stay tight in the near term underpinned by continued economic growth as well as large-scale job fairs, amongst others, to boost employment amongst youths.

#### Malaysia's exports bounced back to positive gain

- Exports rebounded more than expected with an 8.7% y/y increase in January (Dec: -10.1% y/y), mainly spurred by a commendable turnaround in manufacturing and agriculture exports, and partly boosted by a low base in the previous corresponding month. This first positive exports gain in eleven months was better than both consensus (+3.0%) and our (+5.0%) forecasts, offering hopes an export-led recovery in 2024 is starting off the year on a favourable footing. Hefty turnaround in shipment to the US and much smaller decline in exports to Singapore more than offset extended declines in exports to China.
- On the other hand, imports picked up steam for the fifth straight month, with growth jumping from +2.9% y/y in December to +18.8% y/y in January, thanks to impressive pick-ups across the board, a sign of brighter consumption and exports outlook ahead. That said, the outpaced growth in imports vis-à-vis exports narrowed the trade surplus to RM10.1bn in January (Dec: RM11.8bn), its smallest surplus since the pandemic and would continue to exert a drag on overall GDP.
- The rebound confirmed our view that the sequential decline in exports is over, setting the stage for further recovery in exports going forward. Added signs of an upcycle in the global tech industry, coupled with anticipation of a recovery in global trade and steady commodity prices, are expected to help underpin recovery in Malaysia's external trade this year, providing a lift to overall GDP growth as a result. No change to our view for the Malaysian economy to continue expanding at a moderate pace of 4.7% in 2024, riding on sustained domestic demand and recovery in exports.

#### House View and Forecasts

FX	This Week	1Q-24	2Q-24	3Q-24	4Q-24
DXY	102-106	101.84	101.33	100.82	100.32
EUR/USD	1.06-1.09	1.10	1.11	1.11	1.10
GBP/USD	1.24-1.28	1.28	1.29	1.29	1.27
USD/JPY	146-152	142	140	137	134
AUD/USD	0.64-0.67	0.68	0.68	0.69	0.70
USD/MYR	4.74-4.80	4.69	4.66	4.62	4.56
USD/SGD	1.33-1.36	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
21-Feb	AU Wage Price Index QoQ (4Q)	1.30%
	UK CBI Trends Total Orders (Feb)	-30
	US MBA Mortgage Applications	-2.30%
	EC Consumer Confidence (Feb P)	-16.1
22-Feb	US FOMC Meeting Minutes	
	AU Judo Bank Australia PMI Mfg (Feb P)	50.1
	AU Judo Bank Australia PMI Services (Feb P)	49.1
	JN Jibun Bank Japan PMI Mfg (Feb P)	48
	JN Jibun Bank Japan PMI Services (Feb P)	53.1
	MA Foreign Reserves	\$114.8b
	HK CPI Composite YoY (Jan)	2.40%
	EC HCOB Eurozone Manufacturing PMI (Feb P)	46.6
	EC HCOB Eurozone Services PMI (Feb P)	48.4
	UK S&P Global UK Manufacturing PMI (Feb P)	47
	UK S&P Global UK Services PMI (Feb P)	54.3
	EC CPI Core YoY (Jan F)	3.30%
	US Chicago Fed Nat Activity Index (Jan)	-0.15
	US Initial Jobless Claims	212k
	US S&P Global US Manufacturing PMI (Feb P)	50.7
	US S&P Global US Services PMI (Feb P)	52.5
	US Existing Home Sales MoM (Jan)	-1.00%

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@hibb.hongleong.com.my](mailto:HLMarkets@hibb.hongleong.com.my)

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