21 March 2024

Global Markets Research

Daily Market Highlights

21 March: FOMC maintained rates and projection for 75bps cuts

US stocks at record highs; UST curve bull steepened with 30Y underperformed; DXY fell
PBoC refrained from easing and maintained lending rates; CNH closed flattish
No surprises from BNM's macro projections and policy rhetoric; MYR closed little changed

- The three major equity indices rallied to hit all-time hight after the FOMC held rates unchanged at 5.25-5.50% and maintained expectations for 75bps cuts before the end of 2024. The Dow Jones Industrial Average rallied 1.0%, S&P 500 gained 0.9% and Nasdaq jumped 1.3% d/d. Prior to the meeting, some investors had feared that a recent spate of hot inflation reports would potentially result in even fewer cuts than markets anticipated. Small and midsize firms outperformed, while amongst individual stocks, Chipotle rose 3.5% after announcing a stock split. while Paramount Global skyrocketed 11.8% following reports that Apollo Global Management offered $11bn to buy its film and TV studio.
- European markets closed mixed, as investors largely awaited Fed's monetary policy decision. Shares of luxury goods brands like LMVH and Hermes fell after Gucci's parent Kering issued a rare profit warning on declining Asia sales. Asian markets closed mostly in the green and is expected to extend its uptrend today taking its cue from the US markets and following the futures markets.
- In the bond market, Treasury yield curve steepened as the ultra long-end of the curve underperformed. The 2Y yield fell 8bps to 4.60%, 10Y yield slid 2bps to 4.27% but the 30Y yield rose 1bps to 4.45%. With the exception of the Italian bonds, 10Y European bond yields closed lower between 0-5bps.
- DXY fell 0.4% d/d to 103.39 post Fed's decisions and Powell's press conference, with all its G10 peers strengthening against the Dollar save for the JPY. JPY narrowed losses to close the day 0.3% weaker following Powell's comments and a Nikkei report that the BOJ is considering more rate hikes this year. Similarly, GBP also reversed earlier losses, and closed 0.5% d/d stronger after UK inflation eased more than expected to its lowest in 2.5 years. EUR appreciated by 0.5% d/d after ECB President Christine Lagarde said that the ECB won't commit to further cuts after a likely first move in June. Regional currencies closed mixed against the greenback, with CNH and MYR closing just above their flatlines at 7.2112 and 4.7367 after the central bank maintained its lending rates for the former and after BNM offered no surprises in both macro outlook and policy rhetoric for the latter.
- Oil prices retreated between 1.6-2.1% d/d, cooling a rally that pushed prices into the overbought territory. Meanwhile, the EIA reported that crude inventories declined in the US in the face of refinery outages in Russia.

FOMC maintained Fed funds rates, upward revisions to GDP and Fed funds rates forecasts

- As widely anticipated, the Federal Open Market Committee (FOMC) unanimously voted to maintain the Fed funds rates unchanged at 5.25-

Key Market Metrics

	Level	d/d (%)
Equities		
Dow Jones	39,512.13	1.03
S&P 500	5,224.62	0.89
NASDAQ	16,369.41	1.25
Stoxx Eur 600	505.21	0.00
FTSE 100	7,737.38	-0.01
Nikkei 225	40,003.60	0.66
CSI 300	3,585.38	0.22
Hang Seng	16,543.07	0.08
Straits Times	3,177.48	0.00
KLCI 30	1,535.79	-0.59
FX		
Dollar Index	103.39	-0.41
EUR/USD	1.0922	0.52
GBP/USD	1.2785	0.50
USD/JPY	151.26	0.27
AUD/USD	0.6586	0.83
USD/CNH	7.2112	-0.01
USD/MYR	4.7367	-0.01
USD/SGD	1.3397	-0.17
Commodities		
WTI ($/bbl)	81.68	-2.14
Brent ($/bbl)	85.95	-1.64
Gold ($/oz)	2,161.00	0.06
Copper ($$/MT)	8,928.00	-0.54
Aluminum($/MT)	2,273.00	0.18
CPO (RM/tonne)	4,342.50	-0.25

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

5.50%. Key highlights include: 1) The statement contained only one small tweak, describing job gains to have remained strong, rather than "Job gains have moderated since early last year but remain strong" previously. 2) Dot plot outlook for 2024 was unchanged and within our expectation, pencilling in a 75bps rate cut this year to end 2024 at 4.6%. However, rate forecasts for 2025, 2026 and longer run have been revised upwards to 3.9% (Prior: 3.6%), 3.1% (2.9%) and 2.6% (2.5%) respectively. 3) Similarly, GDP forecasts for 2024-2026 have been revised upwards to 2.1% (+0.7ppts), 2.0% (+0.2ppts) and 2.0% (0.2ppts) respectively, explaining the upward revisions to its median Fed funds rates. 4) In the press conference, Fed Chair Jerome Powell said that rates are likely at its peak and it's appropriate to begin easing this year, and demurred when asked if officials would lower rates in the May and June meeting. 5) Powell added that it is appropriate to slow the pace of balance-sheet runoff "fairly soon."

- Mortgage applications continued to show sensitivity to rate movements, and both purchase and refinance activity decreased over the week after mortgage rates rebounded to 6.97%. Consequently, total applications fell 1.6% w/w for the week ended March 15, after 2 consecutive weeks of consecutive gains (Mar 8: +7.1% w/w).

PBoC maintained 1- and 5-lending rates, refrained from easing

- The People's Bank of China (PBoC) maintained the 1- and 5Y- lending rates unchanged at 3.45% and 3.95% respectively. The decision was widely anticipated, almost a foregone conclusion after the central bank left its 1Y medium-term lending facility rate unchanged last week and on early signs of stabilisation in the economy. As it is, the better-than-expected IPI and fixed asset investment numbers recently may have reduced the urgency to cut rates, but still, patchy growth and persistent deflationary tendencies suggest that more stimulus should not be discounted, with in-house eyeing a potential cut in reserve requirement going forward.

Eurozone's consumer confidence improved but still below average

- Consumer confidence improved more than expected to -14.9 in March (Dec: -15.5), while construction output remained stable at +0.5% m/m in January, although moderated to +0.8% on a y/y basis (Jan: +2.8% y/y). The consumer confidence, at this level, is well below its long-term average, suggesting still tepid consumer spending into 1Q, but will continue to be supported by still strong wage growth and a tight labour market.

UK inflation cooled more than expected to its slowest pace since 2021

- Latest price prints reaffirmed a disinflation trend for the UK but with BOE Governor Andrew Bailey reiterating that he needs to see further evidence that price pressures will moderate sustainably towards the 2% target before easing, the drop in prices for February is unlikely to have a material impact on BOE's decision today and we are maintaining our view that BOE will only start cutting rates in 3Q of this year.
- Inflation, both headline and core, fell sharper than expected to 3.4% y/y and +4.5% y/y in February (Jan: +4.0% y/y and +5.1% y/y), but services inflation came slightly more elevated than expected at +6.1% y/y (Jan: +6.5% y/y). The easing in the annual inflation rates reflected downward contributions from nine categories, partially offset by upward contributions from two. Large downward effects from food & non-alcoholic beverages, and restaurants & hotels were partially offset by a large upward effect from housing and

household services.

- Meanwhile, producer prices (PPI) have remained largely stable, with input prices declining by 2.7% y/y but output prices unexpectedly grew by +0.4% y/y (Jan: -2.8% y/y and -0.3% y/y), the latter due to higher petroleum prices.
- In further signs of bottoming out for the housing market, the contraction in House Price index narrowed to -0.6% y/y in January from -2.2% y/y the prior month as borrowing costs continued to ease.

Australia's composite PMI rose on services; manufacturing remained soft

- The Judo Bank Flash Composite PMI rose for the fourth consecutive month to 52.4 in March (Feb: 52.1) and is now comfortably in expansion territory, indicative of an economy picking up from the cyclical slowdown of 2023. The strong recovery is in contrast with the RBA forecasts, rate cut expectations and broader perceptions of a weak economy, but was nonetheless not broad based. While the services PMI rose to 53.3 (Feb: 53.1), the manufacturing activity remained soft at 46.8 (Feb: 47.8), a 46-month low. The inflation readings improved, although the inflation measures for services pointed to elevated PPI and PPI in early 2024.

Japan's exports recorded its third month of expansion albeit a slower pace

- Japan's trade data was broadly positive this morning, with imports rebounding to +0.5% y/y in February (Jan: -9.8% m/m) while exports slowed, albeit less than forecast to +7.8% y/y (Jan: +11.9% y/y). This marks the third consecutive gain for the latter, lending support to the economy as domestic demand remains patchy at this juncture. Exports were supported by demand from the US, and on the product front, contributed by the electrical machinery segment, in line with the upcycle in global semiconductor sales.

Malaysia's GDP growth to improve in 2024, uncertainties remain

- In line with the Ministry of Finance (MOF), Bank Negara Malaysia (BNM) projects Malaysia's economic growth to accelerate to 4.0-5.0% in 2024 (point forecast: +4.5%) from 2023's +3.7% y/y. This is in line with our house view for a 4.7% y/y expansion this year. BNM expects domestic demand to drive the economy, further supported by improvement in the external sector. Risks on growth outlook remain on the downside, predominantly externally driven stemming from slower global growth, heightened geopolitical concerns, with added potential drag from shocks on commodity output. On the flip side, the central bank sees upside risks emanating from greater spillover from the tech upcycle, more robust tourism activity and faster implementation of investment projects.
- In the Economic and Monetary Review 2023, the central has flagged uncertainty surrounding its growth prospects and inflation outlook, downside for the former and upside for the later, driven by domestic policy changes and a challenging external environment. Against this backdrop, the central bank reiterated that policy stance will remain conducive to ensuring sustainable economic growth and price stability. The central bank also added that domestic monetary and financial conditions remain conducive to financial intermediation activities and as such, there is no change in our expectation that the BNM will maintain the OPR at 3.00% for the rest of 2024.

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 - 0.10	0 - 0.10	0 - 0.10	0 - 0.10
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-March	JN Jibun Bank Japan PMI Mfg (Mar P)	47.2
	JN Jibun Bank Japan PMI Services (Mar P)	52.9
	AU Employment Change (Feb)	0.5k
	AU Unemployment Rate (Feb)	4.10%
	HK CPI Composite YoY (Feb)	1.70%
	EC HCOB Eurozone Manufacturing PMI (Mar P)	46.5
	EC HCOB Eurozone Services PMI (Mar P)	50.2
	UK S&P Global UK Manufacturing PMI (Mar P)	47.5
	UK S&P Global UK Services PMI (Mar P)	53.8
	UK Bank of England Bank Rate	5.25%
	US Philadelphia Fed Business Outlook (Mar)	5.2
	US Initial Jobless Claims	209k
	US S&P Global US Manufacturing PMI (Mar P)	52.2
	US S&P Global US Services PMI (Mar P)	52.3
	US Leading Index (Feb)	-0.40%
	US Existing Home Sales MoM (Feb)	3.10%
22-March	JN Natl CPI YoY (Feb)	2.20%
	UK GfK Consumer Confidence (Mar)	-21
	UK Retail Sales Inc Auto Fuel MoM (Feb)	3.40%
	MA Foreign Reserves	$114.3b
	UK CBI Trends Total Orders (Mar)	-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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