22 February 2024

Global Markets Research

Daily Market Highlights

22 Feb: Fed cautioned over lowering rates too soon

Fed: Risks of moving too quickly to ease monetary policy; attentive to inflation risks
US stock markets closed mixed; UST yields rose; DXY barely hanging on to the 104-handle
Australia's wage growth accelerated above 4%; composite-PMI turned expansionary

- Nasdaq slid for a third session in a row, ahead of the highly anticipated quarterly earnings report from chip giant Nvidia after the bell. The index closed down 0.3% d/d, while S&P 500 rallied late in the session to close 0.1% d/d higher. The Dow Jones Industrial Average also added 0.1% d/d. Shares of Nvidia plunged 2.9% d/d in regular trading, sending the information technology sector to one of the laggards in the broad index. Investors also pored over the latest FOMC meeting minute, with the key signal being the Fed is worried about cutting interest rates too soon. Elsewhere in corporate news, Palo Alto Networks shed 28.4% d/d after the cybersecurity company cut its full-year revenue guidance.
- European markets closed slightly lower as global equity markets struggled. Shares of HSBC sank 8.4% d/d after its profits plummeted 80%. Hang Seng jumped 1.6% d/d as wider Asian stocks traded mixed, the former led by property, technology and health-care stocks.
- Treasury yields advanced across the curve after the FOMC meeting minutes showed caution over lowering interest rates too quickly. The 2Y rose 5bps to 4.67%, while the 10Y gained 4bps to 4.32%. 10Y European bond yields rose between 1-9bps.
- DXY edged lower by 0.1% d/d to 104.01, with most G10 currencies strengthening against USD save for the SBK and JPY. CHF and NZD led gains against USD, while EUR and GBP appreciated by 0.1% d/d each, the latter after the UK posted a record fiscal surplus. Similarly, regional currencies also appreciated against USD save for the SGD and TWD. MYR closed the day at 4.7943 after touching 4.8053 during the day.
- Oil prices closed mixed between -0.4% and +0.8% d/d as simmering geopolitical tensions and tight supplies vied with broader risk-off mood.

No surprises from the FOMC meeting minutes, Fed is in no rush to cut rates

- Key highlights from the minutes to the latest FOMC meeting include: 1) On the economy, FOMC members noted that consumer spending had been stronger than expected, several Fed districts reported increased optimism over investment prospects and that the labor market remained tight, although demand and supply had continued to come into better balance. The risks around Fed's forecast for GDP, is nonetheless, skewed to the downside. 2) Fed officials ***do not think that it will be appropriate to cut the Fed funds rate until they have greater confidence that inflation is moving sustainably towards 2%***. In this regard, they remained highly attentive to inflation risks and noted that progress toward price stability could stall, particularly if demand strengthened or supply-side healing slowed more than expected. 3) FOMC members judged that the policy rate was likely at its peak for this tightening

Key Market Metrics

	Level	d/d (%)
Equities		
Dow Jones	38,612.24	0.13
S&P 500	4,981.80	0.13
NASDAQ	15,580.87	-0.32
Stoxx Eur 600	491.05	-0.17
FTSE 100	7,662.51	-0.73
Nikkei 225	38,262.16	-0.26
CSI 300	3,456.87	1.35
Hang Seng	16,503.10	1.57
Straits Times	3,217.11	-0.83
KLCI 30	1,552.40	-0.21
FX		
Dollar Index	104.01	-0.07
EUR/USD	1.0819	0.10
GBP/USD	1.2638	0.12
USD/JPY	150.30	0.19
AUD/USD	0.6551	0.03
USD/CNH	7.1994	-0.03
USD/MYR	4.7943	-0.09
USD/SGD	1.3440	0.03
Commodities		
WTI ($/bbl)	77.91	-0.35
Brent ($/bbl)	83.03	0.84
Gold ($/oz)	2,022.30	-0.26
Copper ($$/MT)	8,542.00	0.49
Aluminum($/MT)	2,219.50	1.19
CPO (RM/tonne)	3,997.00	1.06

Source: Bloomberg, HLBB Global Markets Research
** Dated as of 20 Feb for CPO*

cycle, but ***most noted the risks of moving too quickly to ease the stance of policy***. ***This is in line with our forecast for the first rate cut to begin only in the June meeting, the earliest.*** 4) Many participants suggested that it would be appropriate to begin discussions of balance sheet issues in March to slow the pace of runoff.

- Mortgage applications fell for the second week by 10.6% w/w for the week ended February 16 (Feb 9: -3.3% w/w) as mortgage rates moved back above 7% for the first time since December. Both purchase and refinancing activities logged double digit contractions during the week, as homebuyers continued to be sensitive towards rate changes.

Eurozone's consumer confidence improved but still below long-term average

- Matching consensus forecasts, consumer confidence picked up 0.6ppts to -15.5 in February (Jan: -16.1). The index at this level remains well below long-term average, signalling that consumer spending may remain soft in the near term.

UK total orders remained below normal, selling price expectations accelerated

- CBI trends total orders remained below "normal" in February, but improved more than expected to -20 (Jan: -30 and long-run average -13), suggesting that manufacturing conditions remained challenging for the UK. Expectations for future selling price inflation nonetheless ticked up to their strongest since July 2023.

Australia's wage growth accelerated above 4%; composite PMI turned expansionary on services; supporting RBA's hawkish stance

- Wage growth accelerated more than expected to +4.2% y/y in 4Q (3Q: upwardly revised +4.1% y/y), its highest recorded growth since 1Q of 2009, and above the 4% level RBA said is consistent with the central bank's 2-3% target. Wage growth was driven by organisation-wide annual wage and salary reviews, with the public sector boosted further by the newly implemented enterprise agreements for essential workers in the health care & social assistance as well as education & training, and thus, can vary due to the cyclical pattern of enterprise bargaining.
- The Flash Composite PMI for Australia turned expansionary at 51.8 in February (Jan: 49.0) driven solely by the services sector (52.8 vs 49.1). In contrast, manufacturing PMI fell again, sliding to 47.7 from 50.1 previously as manufacturers continued to see high interest rates and soft conditions dampening demand. As it is, the composite index has experienced sharp improvements in the first two months of 2024, and while it is too early to say that the economy is experiencing a cyclical recovery, the implication is that soft landing is expected and will weaken the case for monetary policy easing any time soon.

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
22-Feb	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%
23-Feb	UK GfK Consumer Confidence (Feb)	-19
	CH New Home Prices MoM (Jan)	-0.45%
	MA CPI YoY (Jan)	1.50%
	SI CPI YoY (Jan)	3.70%
	EC ECB 1 Year CPI Expectations (Jan)	3.20%

Source: Bloomberg

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