22 March 2024

Global Markets Research

Daily Market Highlights

22 March: Dovish tones from central banks shook the markets

BOE maintained policy rate; SNB unexpectedly cut; CHF and GBP led losses against USD
Equity markets rallied to record highs; UST closed mixed after stronger US economic data
S&P composite PMIs were mostly expansionary; Japan's CPI jumped on low base effect

- All three major US equity indices rose between 0.2-0.7% d/d to new records again, boosted by more dovish tones across major central banks. On the heels of FOMC's three-rate cut stance, ***the Swiss National Bank (SNB) surprised the market with a 25bps cut in its main policy rate to 1.50%***, while the Bank of England (BOE) maintained its rates, but saw 2 rate hawks flying the coop. Artificial intelligence powered some of the day's biggest gains, with Micron Technology surging 14.1% d/d after the memory chip company swung to a surprised profit, while Super Micro Computer, the broad's index newest member, rebounded 8.4% d/d after a failed stock offering. Shares of Reddit also popped 48.4% d/d in their stock market debut. Shares of Apple and Alphabet, nonetheless, retreated after the US Justice Department sued Apple in an antitrust case over the iPhone.
- Similarly, Japanese and European stocks also closed at their fresh all-time highs following the latest monetary policy decisions, with UK stocks outperforming its regional peers. Equities in Asia are set for a mixed open today, with equities futures pointing to a rise in Nikkei 225 and declines for Australia and Hong Kong.
- The pick up in risk appetite and strong economic data left Treasury yields closing mixed. The 2Y yield gained 3bps to 4.64%, but the 10Y yield fell 1bps to 4.27%. 10Y European bond yields fell in tune to 1-4bps.
- The Dollar got a leg up from the upbeat US economic data as well as dovish central banks decisions across the Atlantic. DXY climbed 0.6% d/d to 104.01. All the G10 currencies weakened against USD, led by CHF (-1.2% d/d), closely followed by GBP (-1.0% d/d). Meanwhile, regional currencies closed mixed against the greenback, with KRW (+1.3% d/d) and MYR (+0.5% d/d) leading the gainers while SGD (-0.3% d/d) and JPY (-0.2% d/d) the laggers.
- Oil retreated for the second day between 0.2-0.8% d/d on the back of a stronger Dollar, further pressured by weaker US gasoline demand data by the EIA and reports of a United Nations draft resolution calling for a ceasefire in Gaza.

BOE voted by a majority of 8–1 to maintain bank rate at 5.25%

- As widely expected, the BOE maintained the bank rate at 5.25%. Key highlights from the statement include: 1) ***The decision was by a majority of 8–1 vote, with one member preferring to reduce bank rate by 0.25ppts***. Catherine Mann and Jonathan Haskel joined the majority for a pause, the first time no member supported an increase. 2) In a sign that the bank was setting the stage for a shift towards easing, the statement recognized that the policy is restrictive – "***The Committee recognised that the stance of monetary policy could remain restrictive even if Bank Rate were to be reduced***, given that it

Key Market Metrics

	Level	d/d (%)
Equities		
Dow Jones	39,781.37	0.68
S&P 500	5,241.53	0.32
NASDAQ	16,401.84	0.20
Stoxx Eur 600	509.77	0.90
FTSE 100	7,882.55	1.88
Nikkei 225	40,815.66	2.03
CSI 300	3,581.09	-0.12
Hang Seng	16,863.10	1.93
Straits Times	3,220.37	0.00
KLCI 30	1,541.41	0.37
FX		
Dollar Index	104.01	0.60
EUR/USD	1.0860	-0.57
GBP/USD	1.2658	-0.99
USD/JPY	151.62	0.24
AUD/USD	0.6570	-0.24
USD/CNH	7.2216	0.14
USD/MYR	4.7155	-0.45
USD/SGD	1.3439	0.31
Commodities		
WTI ($/bbl)	81.07	-0.75
Brent ($/bbl)	85.78	-0.20
Gold ($/oz)	2,184.70	1.10
Copper ($$/MT)	8,950.50	0.25
Aluminum($/MT)	2,301.50	1.25
CPO (RM/tonne)	4,360.50	0.41

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

was starting from an already restrictive level." 3) The bank reiterated that monetary policy will need to remain restrictive for sufficiently long to return inflation to the 2% target sustainably in the medium term. In this regard, the ***BOE expects inflation to fall to slightly below the 2% target in 2Q***, marginally weaker than previously expected due to the freeze in fuel duty. Services price inflation is expected to fall back gradually, although remains elevated at this juncture. 4) Governor Andrew Bailey said there had been further encouraging signs that inflation is coming down but he also added that the BOE needed more certainty that price pressures in the economy were fully under control. 5) The OIS is assigning a 47% probability of a rate cut in the June meeting and a 67% probability in August.

- GfK Consumer Confidence index came worse than expected and remained unchanged at -21 in March. Of note, the personal finances and economic situation next 12 months sub-indices improved, offset by worsened climate for major purchases and saving intentions sub-indices.

S&P composite PMIs were mostly expansionary for the majors

- Business activity in the US continued to increase solidly at the end of 1Q, although growth ticked down m/m. Matching expectations, the S&P Flash US Composite PMI eased to 52.2 in March (Feb: 52.5), reflecting a weaker than expected expansion in services activity (51.7 vs 52.3) due to higher costs of living, while manufacturing (52.5 vs 52.2) increased at its fastest pace in almost 2 years A similar trend was observed for new orders, while the rate of job creation edged up to its strongest YTD and inflationary pressures picked up.
- Business activity in the euro area came close to stabilising in March, as the flash Composite PMI registered only a marginal decline and better than expected at 49.9 (Feb: 49.2). The services sector (51.1 vs 50.2) gained momentum more than expected, cushioning the impact from the unexpected fall in the manufacturing sector (45.7 vs 46.5). By region, the ongoing contraction in France and Germany offset a gathering upturn for the rest of the bloc. Encouragingly, order books fell at a narrower pace and business confidence about the year ahead improved to a 13-month high.
- March data pointed to another solid upturn for the UK, further signs of the economy pulling out of a technical recession and more encouragingly, a more broad-based expansion. The flash Composite PMI was a fractionally slower than February's nine-month high at 52.9 (Feb: 53.0). This reflected largely expansionary, albeit softer than expected service economy (53.4 vs 53.8), while manufacturing turned a corner to 49.9 (Feb: 47.5), amid the fastest rise in new orders since May 2022.
- Activity in the Japanese private sector gathered momentum in March, with the Jibun Bank flash composite PMI rising to its strongest level in 7 months at 52.3 (Feb: 50.6). Service producers (54.9 vs 52.9) continued to drive growth, accelerating to a 10-month high, while manufacturers (46.5 vs 45.3) saw a more modest decline during the month. March also saw intensification of price pressures.

Economic data points to a stronger US economy

- Strength in weekly hours worked in manufacturing, stock prices, and residential construction drove February's Conference Board Leading Economic Index (LEI) to its first monthly increase in 2 years by +0.1% (Jan: -0.4%). However, consumers' expectations and the ISM Index of New Orders have yet to recover, and the 6- and 12-month growth rates remain negative, suggesting some headwinds to growth going forward, weighed down by rising consumer debt and elevated interest rates.

- Additional housing inventory, steady housing demand due to population and job growth as well as easing mortgage rates sent existing home sales surging more than expected to its highest in a year. Home sales jumped 9.5% m/m to 4.4m in February (Jan: +3.1% m/m), while total housing inventory rose 5.9% m/m, or at a 2.9-month supply at the current sales pace (Jan: 3.0 months). The jump in sales also boosted prices, sending median prices rising 5.7% y/y to $384.5k, its 8th consecutive month of y/y gains.
- Echoing FOMC's statement of labour strength, jobless claims eased near its historically low level at 210k for the week ended March 16 (-2k vs +2k), while the increase in continuing claims slowed to +4k the previous week (Mar 2: +9).
- The Philadelphia Fed Business Outlook index, edged down but unexpectedly remained in the expansionary territory at 3.2 in March (Feb: 5.2). This is the second consecutive positive reading and the index's fifth positive reading since May 2022, suggesting a mild increase in manufacturing activity. Of note, the employment index declined., while price indices remained below their long-run averages. Future indicators rose, suggesting more widespread expectations for growth over the next 6 months.

Australia's unemployment rate fell more than expected after the jump in employment

- With employment expanding more than expected by +116.5k in February and the number of unemployed falling by 52k, Australia's unemployment rate fell more than expected to 3.7% (Jan: 4.1%), around where it had been six months earlier. The large increase in employment in February followed larger-than-usual numbers of people in December (-62k) and January (+15k) who had a job that they were waiting to start or to return to. This translated into a larger-than-usual flow of people into employment in February and even more so than February last year. All in all, recent labour indicators suggest that employment has slowed since March 2023, but we have to bear in mind that this follows a particularly tight labour market prior to that.

Japan's inflation accelerated to its fastest pace in 3 months

- Inflation hit its fastest clip in 3 months, although less than forecasts at +2.8% y/y in February (Jan: +2.2% y/y). Mirroring Tokyo's CPI, much of the gains stemmed from base effects after utility subsidies weighed on prices in 2023. Core, which strips off fresh food and energy, slowed to 3.2% y/y (Jan: +3.5% y/y), also a tad weaker than expected, in line with pockets of weakness in consumer spending. The upward trend in wage will nonetheless, send prices to turnaround to an upward trajectory going forward.

Hong Kong's inflation picked up, albeit less than expected

- Inflation accelerated less than expected to 2.1% y/y in February (Jan: +1.7% y/y). Netting out the effects of all Government's one-off relief measures, the y/y increase was also larger at +1.2% y/y (Jan: +0.8% y/y) mainly due to the increases in food prices due to the Lunar New Year. Despite the uptick, underlying inflation has stayed and is expected to stay moderate, with upward pressure from domestic costs as the economy picks up offset by softening external price pressures.

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
22-March	UK Retail Sales Inc Auto Fuel MoM (Feb)	3.40%
	MA Foreign Reserves	$114.3b
	UK CBI Trends Total Orders (Mar)	-20
25-March	MA CPI YoY (Feb)	1.50%
	JN Leading Index CI (Jan F)	109.9
	SI CPI YoY (Feb)	2.90%
	UK CBI Retailing Reported Sales (Mar)	-7
	US Chicago Fed Nat Activity Index (Feb)	-0.3
	US New Home Sales MoM (Feb)	1.50%
	US Dallas Fed Manf. Activity (Mar)	-11.3
25-31 March	VN Retail Sales YoY (Mar)	8.50%
	VN GDP YoY (1Q)	6.72%
	VN Exports YoY (Mar)	-5.00%
	VN CPI YoY (Mar)	3.98%
	VN Industrial Production YoY (Mar)	-6.80%

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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