23 May 2024

Global Markets Research

Daily Market Highlights

23 May: FOMC minutes reaffirmed higher for longer stance

US equities closed in red; UST yields rose for the shorter-end tenures; DXY advanced
RBA considered raising rates in its latest meeting, stood pat to avoid "excessive fine tuning"
Stronger than expected UK price prints tempered rate cut bets; Sunak sets election on July 4th

- US stocks traded lower between 0.2-0.5% d/d on Wednesday as minutes from the latest FOMC meeting flagged concerns over persistent inflation and that the current rates are insufficiently restrictive, reaffirming Fed's high-for-longer stance. Minutes from the meeting also showed that policy makers discussed willingness to hike rates if inflation did not keep moving lower toward its 2% goal. Investors also looked ahead to the widely anticipated release of Nvidia's latest earnings report. While the chipmaker dropped 0.5% d/d ahead of its earnings results after the bell, it later reported a 262% jump in sales, signalling continuing AI boom. Target shares, meanwhile, plunged 8.0% d/d after reporting results that missed estimates on the back of tepid discretionary spending, raising broader concerns over US consumer spending.
- Similarly, European markets closed in the red, with Stoxx Eur 600 down 0.3% d/d, weighed down by auto and basic resources stocks, the latter after copper prices retreated slightly overnight. FTSE 100 also edged down 0.6% d/d after data showing UK CPI cooling less than expected and as Prime Minister Sunak sets a July 4 election date. Asian markets closed mixed ahead to the widely-anticipated release of Nvidia's latest earnings report and FOMC minutes.
- With FOMC minutes reinforcing the Fed's high-for-longer stance mantra, Treasury yields closed modestly higher for the shorter-end tenures, while the 20- and 30Y slid in tune to 0-1bps. The 2Y yield rose 4bps to 4.87% and the 10Y increased 1bps to 4.42%. 10Y European bond yields rose in tune to 2-4bps, but the UK gilts jumped 10bps to 4.23% after the UK CPI prints.
- DXY hit a 1-week high of 104.91 (+0.3% d/d) after the release of the FOMC minutes. Most G10 currencies weakened against the Dollar, led by AUD, CHF and SEK (-0.4% to -0.7% d/d) while NZD and GBP were the outliers strengthening +0.1% d/d each. GBP closed at 1.2717 against USD, after reaching as high 1.2721 during the day after its inflation cooled less than expected. EUR slipped just below the flatline after ECB's Olli Rehn said that slowing inflation and moderating wage growth makes a strong call to start cutting rates in June. Asian currencies closed mixed against USD, with CNH, MYR and SGD depreciating between 0.1-0.3% d/d to 7.2542, 4.6968 and 1.3508 respectively.
- Crude oil prices tumbled between 1.0-2.3% d/d amidst a relatively hawkish stance by the Fed minutes. Data wise was mixed, with rising gasoline demand and smaller gains in US crude inventories. The report, nonetheless, had bearish elements with stockpiles in Cushing, Oklahoma rising to its highest in 10 months.

Key Market Metrics

	Level	d/d (%)
Equities		
Dow Jones	39,671.04	-0.51
S&P 500	5,307.01	-0.27
NASDAQ	16,801.54	-0.18
Stoxx Eur 600	521.18	-0.34
FTSE 100	8,370.33	-0.55
Nikkei 225	38,617.10	-0.85
CSI 300	3,684.45	0.23
Hang Seng	19,195.60	-0.13
Straits Times	3,307.90	-0.19
KLCI 30	1,622.09	-0.33
FX		
Dollar Index	104.91	0.28
EUR/USD	1.0823	-0.29
GBP/USD	1.2717	0.06
USD/JPY	156.80	0.40
AUD/USD	0.6620	-0.69
USD/CNH	7.2542	0.10
USD/MYR	4.6968	0.23
USD/SGD	1.3508	0.26
Commodities		
WTI ($/bbl)	77.25	-2.29
Brent ($/bbl)	81.74	-0.96
Gold ($/oz)	2,382.30	-1.77
Copper ($$/MT)	10,396.00	-3.94
Aluminum($/MT)	2,640.50	-2.76
CPO (RM/tonne)	3,899.50	0.10

Source: Bloomberg, HLBB Global Markets Research
** Dated as of 20 May for CPO; 21 May for Straits Times, KLCI, USD/MYR*

FOMC flagged concerns that the current rates are insufficiently restrictive, willing to tighten policy further should risks to inflation materialize

- Highlights to the minutes to the latest FOMC meeting include: 1) A number of Fed participants noted uncertainty regarding the degree of restrictiveness of current financial conditions and the associated risk that such conditions were insufficiently restrictive on aggregate demand and inflation. 2) Some members mentioned a willingness to tighten policy further should risks to inflation materialize and added that the longer-run equilibrium interest rates may be higher than previously thought. 3) The current fed funds rate was supported by continued solid economic growth and data showing a lack of further progress toward the 2% inflation objective. 4) Risks to the inflation forecast were tilted upwards due to supply-side disruptions from geopolitical events, severe supply bottlenecks or higher shipping cost. However, several policy makers noted improved labour market balance aided by immigration and productivity growth as sources of disinflation. 5) FOMC meetings noted that the finances of low- and moderate-income households were increasingly coming under pressure, pointing to increased usage of credit cards and buy-now-pay-later services, as well as increased delinquency rates for selected consumer loans. On the other hand, hefty wealth gains from recent equity and house price increases were favorable for wealthier households.
- Mixed indicators on the housing front. Spurred by lower mortgage rates, application volume picked up pace and accelerated to 1.9% w/w for the week ended May 17 (May 10: +0.5% w/w). On the other hand, existing home sales unexpectedly contracted by 1.9% m/m to 4.14m rate in May (Apr: -3.7% w/w) and consequently, unsold inventory rose to 3.5-month supply at the current sales pace (Mar: 3.2). The median existing-home sales price climbed +5.7% y/y $407.6k, the 10th y/y gain and the highest price ever for the month of April. While the latter is positive news for homeowners, the pace of price increases should taper off in coming months as more housing inventory becomes available.

RBA considered raising rates in its latest monetary policy meeting, but stood pat to avoid "excessive fine tuning"

- Highlights to the minutes of the latest RBA monetary policy meeting include: 1) Policy makers discussed raising the cash rate before deciding to stay pat as "members judged that it remained reasonable to look through short-term variation in inflation to avoid excessive fine-tuning". 2) The central bank also expressed limited tolerance for inflation returning to target later than 2026 and expects inflation to return to target within the same timeframe as expected in February, but that this was due to assumption of a higher than previously assumed cash rate (RBA expects no change in rates until 2025). 3) Data since the previous meeting had been stronger than expected, with the exception of consumer spending, which is expected to stay weak into 2024. 4) Raising the cash rate would be appropriate if productivity turns out weaker than expected, and if consumer spending picks up more rapidly, if labour market outcomes remained benign, real household disposable income were to recover and balance sheets remained relatively strong for most households, all which could delay the return of inflation to target. 5) Labour market conditions are expected to moderate gradually and the unemployment rate to be consistent with full employment by mid-2025.
- The Judo Bank Flash PMI for May remains firmly in expansionary territory, a contrast to recent weak consumer sentiment and spending indicators. The

Composite index fell slightly to 52.6 in May after reaching a 2-year high of 53.0 in April. Other activity indicators, such as employment and new orders, were higher in May, further reinforcing the point that business conditions are expected to continue to improve despite ongoing cost pressures and skill shortages. Growth was driven primarily by the services sector (53.1 vs 53.6), while the pace of decline in manufacturing stabilised at 49.6.

Stronger than expected UK inflation tempered rate cut bets

- The higher-than-expected reading for headline, core and services inflation as well as uptick in producer prices saw the OIS pushing back bets of BOE's first rate cut to November from June previously. Headline prices decelerated to +2.3% y/y in April, core to +3.9% y/y and services +5.9% y/y respectively (Mar: +3.2% y/y, +4.2% y/y and +6.0% y/y), with the higher-than-expected price pressures largely due to lingering pressures at restaurants and pubs as well as owners' equivalent rent. These more than offset largely downward effects from gas and electricity, which resulted from the lowering of the Ofgem energy price cap in April 2024. Other notable disinflation was also recorded from alcohol and tobacco, food and non-alcoholic beverages, recreation and culture, as well as communication.
- As it is, strong wage growth will most likely keep services inflation stubbornly high as per the data and coupled with the uptick in producer prices for the third month due to petroleum products (+1.1% y/y vs +0.7% y/y), we are thus maintaining our view that it will take time for price pressure to ease on family budgets, as well as on our first rate cut view in 3Q of this year. In a sign of stability in home prices, meanwhile, the House Price Index registered its first yearly growth in seven months at +1.8% y/y in April (Mar: +0.2% y/y).

Solid trade data from Japan; Core machinery orders overshot expectations but could contract in 2Q

- Mostly positive economic data from Japan, boding well for a 2Q GDP rebound. Exports accelerated to +8.3% y/y in April after the prior month's +7.3% y/y. Although less than consensus forecast, the pick-up reflected solid demand for auto exports, resumed shipments from Daihatsu Motor which had earlier idled production after the safety scandal, as well as on a positive upturn in demand for semiconductor and electronic components. Imports also rose a strong 8.3% y/y following the prior month's 5.1% y/y contraction, with boosts from crude and aircraft.
- Core machinery orders, meanwhile, topped estimates but moderated to +2.9% m/m in March (Feb: +7.7% y/y). Consequently, orders rebounded from -1.3% q/q in 4Q of 2023 to +4.4% q/q for the whole of 1Q. Recovery nonetheless remains fragile given that orders were forecast to drop 1.6% q/q the next quarter, weighed down by lower demand for both manufacturing and non-manufacturing sectors.

Singapore maintained 1Q GDP growth at 2.7%; 2024 growth forecast at 1-3%

- Singapore maintained its GDP growth forecast for 2024 at 1-3% on the back of improving prospects for the US and China, which will help cushion downside risks from the escalating geopolitical tensions, disruption to the disinflation process which could lead to tighter financial conditions for longer as well as on vulnerabilities in emerging markets arising from the desynchronisation of their monetary policy cycles with the advanced economies.

- At the same time, the government kept its 1Q GDP unchanged at +2.7% y/y, higher than consensus estimate's +2.5% y/y and 4Q's +2.2% y/y, with growth primarily driven by the finance and insurance, transportation and storage as well as wholesale trade sectors.

Malaysia to cut diesel subsidies, saving RM4bn annually

- Malaysia will begin cutting fuel subsidies to bolster its fiscal position starting with diesel, a move that will save about RM4bn annually. While Prime Minister Datuk Seri Anwar Ibrahim did not give a date when the subsidy cuts would take effect, he said that it would begin in the peninsula first, and later for Sabah and Sarawak. To prevent any drastic increases in the cost of goods and services, Anwar also said subsidies would be given to traders using diesel-powered commercial vehicles. This involves 10 public transportation vehicles and 23 goods transport vehicles.
- As it is, inflation is expected to tick up following the removal of blanket subsidies, with BNM projecting headline inflation rate of 2.0-3.5% for 2024, and our in-house at 2.2-3.2% and allowing the central bank to maintain the OPR at 3.00% for the year.

House View and Forecasts

FX	This Week	2Q-24	3Q-24	4Q-24	1Q-25
DXY	103-106	105.43	105.56	103.45	101.38
EUR/USD	1.07-1.10	1.06	1.05	1.06	1.06
GBP/USD	1.25-1.28	1.24	1.22	1.23	1.24
USD/JPY	153-157	152	149	146	143
AUD/USD	0.65-0.68	0.65	0.65	0.65	0.66
USD/MYR	4.66-4.71	4.73	4.68	4.64	4.57
USD/SGD	1.33-1.36	1.35	1.35	1.34	1.33

Rates, %	Current	2Q-24	3Q-24	4Q-24	1Q-25
Fed	5.25-5.50	5.25-5.50	5.25-5.50	5.00-5.25	4.50-4.75
ECB	4.50	4.25	3.75	3.50	3.50
BOE	5.25	5.25	4.75	4.50	4.50
BOJ	0 - 0.10	0 - 0.10	0 - 0.10	0 - 0.10	0 - 0.10
RBA	4.35	4.35	4.35	4.10	4.10
BNM	3.00	3.00	3.00	3.00	3.00

Source: HLBB Global Markets Research

Up Next

Date	Events	Prior
23-May	AU Consumer Inflation Expectation (May)	4.60%
	SI CPI YoY (Apr)	2.70%
	MA Foreign Reserves	$112.8b
	EC HCOB Eurozone Manufacturing PMI (May P)	45.7
	EC HCOB Eurozone Services PMI (May P)	53.3
	UK S&P Global UK Manufacturing PMI (May P)	49.1
	HK CPI Composite YoY (Apr)	2.00%
	UK S&P Global UK Services PMI (May P)	55
	US Initial Jobless Claims	222k
	US Chicago Fed Nat Activity Index (Apr)	0.15
	US S&P Global US Manufacturing PMI (May P)	50
	US S&P Global US Services PMI (May P)	51.3
	EC Consumer Confidence (May P)	-14.7
	US New Home Sales MoM (Apr)	8.80%
	US Kansas City Fed Manf. Activity (May)	-8
24-May	UK GfK Consumer Confidence (May)	-19
	JN Natl CPI YoY (Apr)	2.70%
	MA CPI YoY (Apr)	1.80%
	SI Industrial Production SA MoM (Apr)	-16.00%
	UK Retail Sales Inc Auto Fuel YoY (Apr)	0.80%

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

US Durable Goods Orders (Apr P)	2.60%
US Cap Goods Orders Nondef Ex Air (Apr P)	0.10%
US U. of Mich. Sentiment (May F)	67.4
US Kansas City Fed Services Activity (May)	9

Source: Bloomberg