26 January 2024

Global Markets Research

Daily Market Highlights

26 Jan: ECB and BNM maintained policy rates

Lagarde sad that it is premature to discuss rate cuts; BNM maintained neutral stance
PBoC cut RRR by 50bps as expected; expect more property supportive measures
Broadly better S&P PMIs for the majors; US 4Q GDP topped estimates thanks to consumers

- US equity markets notched their sixth day of gains after the stronger-than-expected 4Q GDP defied concern for a recession and bolstered outlook for a soft-landing scenario. The S&P was up 0.5% d/d as IBM shares soared 9.5% d/d after strong report demand for its AI platform, Watsonx. Tesla shares, nonetheless, slumped 12.0% after the EV maker said growth would slow in 2024, while Boeing lost 5.7% d/d after regulators put limits on its 737 Max jets output.
- Elsewhere, European stocks also rose after the strong US GDP and after ECB maintained its key policy rates and talked down prospect of a rate cut. CSI 300 and Hang Seng were firmly higher, leading gains in Asian markets after PBoC's decision to cut its RRR, a pre-CNY norm policy move by the central bank to boost liquidity. Gains were nevertheless tempered by shares of EV makers and suppliers after Tesla's warning.
- In the bond market, the Treasury yield curve shifted lower, with the 2Y down 9bps to 4.29% and the 10Y slipping 6bps to 4.12%. With the exception of the Norwegian bonds, 10Y European bond yields fell 3-8bps.
- DXY rose 0.3% d/d to 103.57, strengthening against 6 of its G10 peers after the strong US GDP suggests that the Fed would be in no rush to cut rates. European currencies weakened in tune of 0.1-0.4% d/d, while in Asia, JPY gave back some of its gains from Wednesday and closed weaker by 0.1% d/d. In Asia, CNH depreciated by less than 0.3% d/d, while MYR weakened to as high as 4.7365 before paring its losses to close 0.1% d/d weaker at 4.7315 on Wednesday. USD/ SGD last closed marginally higher at 1.3402.
- Oil prices rallied as much as 3.0% d/d as demand expectations rose on China stimulus, while the supply side tightened on falling crude inventories in the US and after a drone attack on a major Russian refinery. According to the Energy Information Agency, US crude inventories fell by more than 9m last week to the lowest since October.

ECB maintained policy rates, Lagarde said that it is premature to discuss cuts

- As widely expected, the European Central Bank (ECB) kept the interest rate on the main refinancing operations, the marginal lending facility and the deposit facility unchanged at 4.50%, 4.75% and 4.00% respectively. Key highlights from the statement and the accompanying press conference includes 1) The economy is likely to have stagnated in 4Q. 2) On inflation, the statement highlighted "declining trend in inflation" as compared to elevated prices pressures previously. 3) The statement removed upside risks on inflation from inflation expectations and from extreme weather events. These were, however, replaced with upside risks from freight costs and possibly, downside risks to energy prices. 4) President Christine Lagarde commented that it is

Key Market Metrics

	Level	d/d (%)
Equities		
Dow Jones	38,049.13	0.64
S&P 500	4,894.16	0.53
NASDAQ	15,510.50	0.18
Stoxx Eur 600	478.53	0.30
FTSE 100	7,529.73	0.03
Nikkei 225	36,236.47	0.03
CSI 300	3,342.92	2.01
Hang Seng	16,211.96	1.96
Straits Times	3,147.64	-0.18
KLCI 30	1,504.10	0.53
FX		
Dollar Index	103.57	0.33
EUR/USD	1.0846	-0.36
GBP/USD	1.2708	-0.14
USD/JPY	147.66	0.10
AUD/USD	0.6585	0.12
USD/CNH	7.1799	0.25
USD/MYR	4.7315	0.08
USD/SGD	1.3402	0.04
Commodities		
WTI ($/bbl)	77.36	3.02
Brent ($/bbl)	82.43	2.99
Gold ($/oz)	2,017.80	0.09
Copper ($$/MT)	8,568.50	0.07
Aluminum($/MT)	2,238.50	0.40
CPO (RM/tonne)	3,959.00	0.28

Source: Bloomberg, HLBB Global Markets Research
** Dated as of 24 Jan for KLCI and USD/MYR, 23 Jan for CPO*

premature to discuss cuts, suggesting that the first cut will unlikely to materialize in March, as per our expectation.

PBoC cut RRR by 50bps

- The People's Bank of China (PBoC) said it would cut the reserve requirements (RRR) by 50bps effective 5th February to consolidate and enhance the positive economic recovery. The move is within our expectation and is expected to unleash 1 trillion yuan in long-term capital. PBoC governor Pan Gongsheng also added that the central bank and the National Financial Regulatory Administration have been working on new policies to support real estate projects.

BNM paused and maintained a neutral stance

- At its first MPC meeting for 2024 on Wednesday, BNM decided to leave the OPR unchanged at 3.00% as widely expected. This marked its fourth straight meeting of a rate pause, as BNM assessed that the growth and inflation outlook pens out largely as expected with no surprises since the last meeting. The policy statement today also closely mirrored the previous statement in November, hence did nothing but reaffirmed our view for OPR to stay pat for the rest of the year. BNM highlighted that the tightening cycle has peaked for most central banks, but the monetary policy stance will likely remain tight in the near term. The central bank also continued to reassure that the recent MYR performance is primarily driven by external factors, and that the central bank will continue to ensure sufficient liquidity to support the orderly functioning of the domestic foreign exchange market.
- Added signs of a soft landing in the world economy coupled with potential reemergence of upside risk to inflation imply global monetary policy path will likely stay tight for a longer than initially estimated period i.e. the cut may be later and the quantum of the cut will be smaller. We maintain our view for policy easing to kick in towards the middle of the year with the ECB likely frontrunning the Fed and the BOE given its relatively weaker growth prospects. Domestically, no change to our view for BNM to keep OPR steady for the year, to ensure growth and price stability. We will however keep a close tab on potential upside risks to inflation stemming from upcoming subsidy rationalisation plans.

Broadly better-than-expected S&P PMIs, manufacturing sector less negative, services sector accelerated

- The flash S&P PMI for the US signalled a stronger-than-expected upturn in activity at the start of 2024, as output growth quickened to its sharpest rate in 7 months. The expansion was driven by service providers (52.9 vs 51,4), while the manufacturing sector turned expansionary for the first time in 3 months (50.3 vs 47.9), a 15-month high. Firms reported stronger new order growth for both the sectors, helping push business confidence for the year ahead to a 20-month high. Companies also reported a sharp cooling of inflation pressures.
- Mixed numbers from the Eurozone, but pointing to a more moderate downturn for the bloc overall but intensified price pressures. Manufacturing experienced a widespread easing in the downward trajectory and improved more than expected to 46.6 (Jan: 44.4). The export sector played a pivotal role in this improvement. The services PMI, on the other hand, unexpectedly worsened to 48.4 (Dec: 48.8) but an increasing proportion of companies are actively expanding their workforce.

- PMIs suggest a stronger-than-expected upturn in the UK economy, led by the strongest expansion in the services sector since May 2023 (53.8 vs 53.4), whereas the contraction in the manufacturing sector narrowed (47.3 vs 46.2). The survey also signals a return of modest private sector employment growth, supported by improving demand conditions and improved optimism towards the business outlook.
- Jibun Bank Japan PMI signalled a renewed expansion in output at the start of 2024, following the stagnation seen at the end of 2023. While modest, the composite index is still the strongest since September. Service providers (52.7 vs 51.5) led the way with a steeper increase in business activity and the strongest in 4 months. Manufacturers (48.0 vs 47.9) meanwhile. signalled its 8th month of deterioration, albeit easing. Forward-looking indicators suggest that demand and activity may rise over the coming months.

US 4Q GDP beat forecasts

- 4Q GDP came in better-than-expected at 3.3% q/q (3Q: +4.9% q/q), boosting optimism that the Fed can deliver a soft landing and capping an unexpectedly strong year of +2.5% for the whole of 2023 (2022: +1.9%). The economy's main engine of growth, consumer spending surprised on the upside at +2.8% q/q (3Q: +3.1% q/q), reflecting increases in both services (food services & accommodation, healthcare) and goods (non-durables, recreational goods & vehicles). Business investment also expanded at a modest +1.9% q/q (+1.4% q/q), while residential investment posted mild growth of +1.1% q/q (3Q: +2.6% q/q), driven by still low inventory levels in the existing market.
- Goods trade deficit narrowed more than expected to $88.5bn in December (Nov: -$89.3bn) as the rebound in exports (+2.5% m/m vs -3.2% m/m) outpaced imports (+1.3% m/m vs -2.3% m/m). Exports increased in all categories save for automotive and capital goods, while imports were mixed, with uptick observed for industrial supplies and consumer goods.
- Orders for durable goods came in softer than expected, unchanged in December (Nov: +5.5% m/m) amidst a slump in transportation equipment but demand elsewhere held up. Transportation equipment orders dropped 0.9% m/m after surging by 15.3% m/m previously, as demand for civilian aircraft slowed sharply. Excluding transportation, new orders would have increased by 0.6% m/m (Nov: +0.5% m/m) driven by primary metals.
- A drop in mortgage rates continued to support the housing market, sending new home sales rising more than expected to 664k in December. The m/m uptick of +8.0% m/m (Nov: -9.0% m/m) was nonetheless below forecasts due to an upward revision in the November data. Supporting demand was softer y/y median sales prices for the fourth month at $413.2k as more homes became available for sale. Data also suggests that annual sales expanded for the first time in 3 years in 2023 (+4.2% y/y vs -16.9% y/y). In the mortgage market, applications slowed to +3.7% w/w for the week ended January 19 (Jan 12: +10.4% w/w) as refinance applications declined w/w and remained at low levels as there was little incentive for homeowners to refinance with rates at these levels. Purchase activity continues to be on an upward trend,
- Jobless claims rose more than expected by 25k to 214k for the week ended January 20 (Jan 13: -14k), while continuing claims rose 27k the week prior to 1833k (Jan 6: -27k). As mentioned earlier, claims can be volatile at the beginning of the year, partially due to weather, but still reflects an overall less tight labour market.
- In regional performances, regional activity in Kansas City, as measured by the Fed Manufacturing Activity Index contracted more than expected to -9 in

January (Dec: -1). Future activity nonetheless, is expected to increase. Input prices also increased sharply and firms expect them to rise further during the year. The Chicago Fed Nat Activity Index unexpectedly worsened to -0.15 in December (Nov: +0.01) with 48 of the 85 monthly indicators making negative contributions. A reading below zero indicates below trend growth and a sign of easing pressures on future inflation.

UK's consumer confidence improved but still negative

- GfK consumer confidence beat estimates, improving to -19 in January (Dec: -22) as all sub-indices reported improvements albeit contractionary. The exception was the savings intention index which remained stable at 27, while the personal finances next 12 months improved to zero (Dec: -2).

Japan's PPI-Services held steady; Tokyo CPI eased more than expected

- Data this morning on price prints were mixed. Tokyo's headline and core CPI (excluding fresh food & energy) eased more than expected to +1.6% y/y and +3.1% y/y in December (Nov: +2.4% y/y and +3.5% y/y), the first time since prices cooled below the 2% since Spring 2022, while Japan's PPI Services held steady at +2.4% y/y in December, a 30-year high. As it is, BOJ, in its latest quarterly outlook has expected nationwide inflation to stay above 2% for fiscal 2024.

Hong Kong's exports picked up on low base effect, will continue to face challenges on slower global economy

- Exports accelerated more than expected to +11.0% y/y in December (Nov: +7.4% y/y), partially due to low base effects. Exports to the Mainland and the US rose visibly, and those to the Eurozone registered a marginal increase. Exports to other major Asian markets recorded mixed performance. Looking ahead, external demand will continue to be weighed down by heightened geopolitical tensions and slowing global economic growth.

House View and Forecasts

FX	This Week	1Q-24	2Q-24	3Q-24	4Q-24
DXY	101-105	100	99	99	98
EUR/USD	1.07-1.11	1.11	1.11	1.10	1.09
GBP/USD	1.25-1.29	1.28	1.29	1.27	1.26
USD/JPY	145-150	139	137	135	133
AUD/USD	0.64-0.68	0.69	0.69	0.70	0.71
USD/MYR	4.68-4.74	4.55	4.50	4.45	4.39
USD/SGD	1.33-1.36	1.31	1.30	1.29	1.28

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
26-Jan	SI Industrial Production SA MoM (Dec)	-7.80%
	US Personal Income (Dec)	0.40%
	US Personal Spending (Dec)	0.20%
	US PCE Core Deflator YoY (Dec)	3.20%

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	US Pending Home Sales MoM (Dec)	0.00%
27-Jan	US Kansas City Fed Services Activity (Jan)	-10
	CH Industrial Profits YTD YoY (Dec)	-4.40%
29-Jan	US Dallas Fed Manf. Activity (Jan)	-9.3

Source: Bloomberg