26 April 2024

## Global Markets Research

## Daily Market Highlights

# 26 April: Spotlight is on US core PCE tonight

### US financial markets and DXY tumbled after US 1Q GDP slowed more than expected
### US consumer spending moderated amid sticky inflation
### Stable CPI for Malaysia signalled well-contained inflationary pressure

- Both the US equity and bond markets tumbled on Thursday after the advanced estimate of 1Q GDP showed a sharper than expected slowdown in growth and pointed to persistent inflationary pressures. The Dow slid 1.0% d/d, weighed down by steep declines in Caterpillar and IBM post-earnings release, while S&P 500 and Nasdaq closed lower by 0.4-0.5% d/d. The communication sector was the worst performer, but energy companies, utilities and some technology companies pared its earlier losses and edged slightly in the positive territory.
- Meanwhile, European and Asian markets closed mixed. Of note, Stoxx Eur 600 ended 0.6% d/d lower, with most sectors in negative territory, led by industrial and consumer discretionary stocks. Mining stocks had a boost after Anglo American said it had received a takeover bid by BHP Group. Earnings also came from Deutsche Bank, Barclays, Nestle and Airbus and they were mixed.
- Markets were focusing on downside surprises in growth and upside surprises in inflation, that prompted further dial back in rate cut hopes and drove Treasury yields up 4-7bps across the curve, led by the short ends. A full quarter-point cut is now being pushed further down the road to December. The 2Y yield rose 7bps to 5.00%, while the 10Y gained 6bps to 4.70%. 10Y European bond yields rose between 2-5bp.
- The US Dollar sagged against its G10 peers after the negative GDP surprise, except against SEK (-0.1% d/d) and JPY (-0.2% d/d). The Dollar Index weakened 0.2% d/d to 105.60. GBP led gains against the greenback at +0.4% d/d, while EUR appreciated by 0.3% d/d after ECB policy maker Madis Muller said that he is not in favour of lowering borrowing costs for a second straight meet after the expected first rate cut in June. Regional currencies closed mixed against the Dollar. CNH, MYR and SGD all appreciated 0-0.2% d/d.
- Crude oil prices rose 0.9-1.1% d/d as a weaker Dollar boosted commodities priced in the currency and on potential geopolitical risk from Israeli invasion of the southern Gaza city of Rafah. These erased earlier losses from cloudy demand outlook after the disappointing US 1Q GDP.

**US economy registered its slowest growth in two years as sticky inflation hit consumers; pending home sales picked up; initial jobless claims fell**

- The US economy grew at its slowest pace in nearly two years, with GDP moderating more than expected to 1.6% q/q in 1Q (4Q: +3.4%). However, subtracting volatile categories like inventories and trade, final sales to domestic purchases (2.8% q/q vs 3.5% q/q) suggest underlying domestic demand strength that could potentially create inflationary pressures and support the Fed's policy pause at this juncture. The core PCE price index

**Key Market Metrics**

| | Level | d/d (%) |
|---|---|---|
| **Equities** | | |
| Dow Jones | 38,085.80 | -0.98 |
| S&P 500 | 5,048.42 | -0.46 |
| NASDAQ | 15,611.76 | -0.64 |
| Stoxx Eur 600 | 502.38 | -0.64 |
| FTSE 100 | 8,078.86 | 0.48 |
| Nikkei 225 | 37,628.48 | -2.16 |
| CSI 300 | 3,530.28 | 0.25 |
| Hang Seng | 17,284.54 | 0.48 |
| Straits Times | 3,287.75 | -0.16 |
| KLCI 30 | 1,569.25 | -0.14 |
| **FX** | | |
| Dollar Index | 105.60 | -0.24 |
| EUR/USD | 1.0730 | 0.29 |
| GBP/USD | 1.2514 | 0.40 |
| USD/JPY | 155.65 | 0.19 |
| AUD/USD | 0.6518 | 0.31 |
| USD/CNH | 7.2553 | -0.24 |
| USD/MYR | 4.7760 | -0.03 |
| USD/SGD | 1.3590 | -0.22 |
| **Commodities** | | |
| WTI ($/bbl) | 83.57 | 0.92 |
| Brent ($/bbl) | 89.01 | 1.12 |
| Gold ($/oz) | 2,329.80 | 0.23 |
| Copper ($$/MT) | 9,865.00 | 0.94 |
| Aluminum($/MT) | 2,563.50 | -1.52 |
| CPO (RM/tonne) | 4,062.50 | -1.52 |

*Source: Bloomberg, HLBB Global Markets Research*
** Dated as of 24 April for CPO*

accelerated more than expected to +3.7% q/q in 1Q from +2.0% q/q in 4Q23. Consumer spending eased but remained decent at 2.5% q/q (4Q: +3.3% q/q), while residential fixed investment and imports accelerated. For the latter, separate data also showed that goods trade deficit widened to $91.8bn in March (Feb: -$90.3bn) as the contraction in exports (-3.5% m/m) outpaced imports ( -1.7% m/m). This marked a reversal from February's increases of +2.9% m/m (exports) and +1.8% m/m (imports).

- Pending home sales surprised on the upside with a 3.4% m/m gain in March (Feb: +1.6% m/m). The Pending Home Sales Index, at 78.2 is the highest in a year, but has remained in a fairly narrow range over the last 12 months without a measurable breakout. As such, meaningful gains will only occur with declining mortgage rates and rising inventory. Moving forward, NAR expects existing-home sales to rise by 9.0% in 2024 and another 13.2% in 2025, and median home prices to increase by 1.8 for 2024 and 2025.
- The surprisingly low reading for jobless claims reaffirmed resilience in the labour market and further supports a Fed pause. Jobless claims fell 5k to 207k for the week ending April 20 (Apr 13: 0), while continuing claims fell 15k to 1781k the week prior (Apr 6: -14k).
- The Kansas City Fed Manufacturing Activity index unexpectedly worsened again to -8 in April (Mar: -7) and expectations for future activity remained flat. Firms cut their capital expenditures to its lowest since August 2022, amidst margin compression.

**ECB expects inflation to fluctuate around current levels in the coming months**

- Key highlights from the ECB's Economic Bulletin: 1) Real GDP growth is expected to remain subdued in 1Q, given the persistent divergence between a struggling manufacturing sector and a more resilient services sector. 2) There are tentative signs of a gradual pick-up in the economy later in the year, supported by rising real incomes, but risks to growth remain tilted to the downside. 3) Inflation is expected to fluctuate around current levels in the coming months and to then decline to the 2% target next year, owing to weaker growth in labour costs, impact from the restrictive monetary policy and the fading impact of the energy crisis and the pandemic.

**UK's retail spending fell sharply according to CBI; consumer confidence improved marginally**

- CBI Retailing Reported Sales fell sharply to -44% in April (March: +0.2%), likely due to the earlier timing of Easter this year. The fall in retail sales was nonetheless greater than expected and is expected to continue to decline next month, although at a slower pace. Moving forward, the sector is likely to benefit from some favourable tailwinds this year, as falling inflation continues to drive growth in households' real earnings.
- Potentially driving the lower retail spending was the relatively weak consumer confidence index during the month (-19 vs 21), although we are encouraged that the score on personal finances next 12 months has stabilised and inched into positive territory.

**Tokyo's inflation slowed sharply on education**

- Tokyo's headline and core (excluding fresh food) inflation rates slowed sharply and by more than expected to +1.8% y/y and +1.6% in April (Mar: +2.6% y/y and +2.4% y/y), but the outcome was largely distorted by the start of education subsidies for the capital which saw education costs falling 8.8%

y/y from +1.9% y/y previously. With the education subsidy only for Tokyo, the same downward impact may not be felt nationwide and we expect the BOJ to maintain its policy settings steady today.

### Hong Kong's exports rebounded more than expected

- Exports rebounded more than expected to increase 4.7% y/y in March after February's 0.8% y/y decline due to the Lunar New Year effect. Exports to the Mainland rose further, while those to the US and EU fell. Exports to other major Asian markets were mixed. By commodity, exports of electrical machinery, apparatus and appliances & electrical parts as well as telecommunications & sound recording & reproducing apparatus and equipment increased, in line with the recovery in the global E&E sector. A recovery in external demand globally is expected to support exports going forward.

### Stable CPI for Malaysia signalled well-contained inflationary pressure

- Headline CPI held steady at +1.8% y/y in March, defying market as well as our expectations for a higher +2.0% y/y print. This proved last month's uptick, its first up move in 19 months, as just a blip, and that inflationary pressure remains very well-contained in the system in the absence of sizable cost pass-through and imported inflation. Further easing in core CPI to +1.7% y/y during the month (Feb: +1.8% y/y), its lowest since Jan-22, further reaffirmed our view of moderate and modest price outlook despite price adjustment in some policy-administered items like eggs, electricity and water.
- On a m/m basis, consumer prices registered a softer increase of 0.1% in March, easing sharply from February's +0.5% m/m increase, its biggest gain in twenty months. Most sectors saw stable to smaller increases, except alcohol/ tobacco (+0.2% vs 0.0% m/m), furnishing/household (+0.2% vs +0.1%), and miscellaneous goods & services (+0.4% vs +0.3%).

### House View and Forecasts

| FX | This Week | 2Q-24 | 3Q-24 | 4Q-24 | 1Q-25 |
|---|---|---|---|---|---|
| DXY | 104-108 | 103.44 | 102.41 | 101.38 | 100.37 |
| EUR/USD | 1.05-1.08 | 1.09 | 1.10 | 1.08 | 1.07 |
| GBP/USD | 1.23-1.26 | 1.27 | 1.28 | 1.27 | 1.25 |
| USD/JPY | 152-156 | 148 | 145 | 142 | 140 |
| AUD/USD | 0.63-0.66 | 0.66 | 0.67 | 0.67 | 0.68 |
| USD/MYR | 4.75-4.80 | 4.68 | 4.63 | 4.56 | 4.49 |
| USD/SGD | 1.35-1.38 | 1.34 | 1.32 | 1.31 | 1.30 |

| Rates, % | Current | 2Q-24 | 3Q-24 | 4Q-24 | 1Q-25 |
|---|---|---|---|---|---|
| Fed | 5.25-5.50 | 5.25-5.50 | 4.75-5.00 | 4.50-4.75 | 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 |
|---|---|---|
| 26-Apr | AU PPI YoY (1Q) | 4.10% |
| | SI Industrial Production SA MoM (Mar) | 14.20% |
| | EC ECB 1 Year CPI Expectations (Mar) | 3.10% |

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| | | |
|---|---|---|
| | US Personal Income (Mar) | 0.30% |
| | US Personal Spending (Mar) | 0.80% |
| | US PCE Core Deflator YoY (Mar) | 2.80% |
| | US U. of Mich. Sentiment (Apr F) | 77.9 |
| | US Kansas City Fed Services Activity (Apr) | 7 |
| | JN BOJ Target Rate (Upper Bound) | 0.10% |
| 29-Apr | EC Economic Confidence (Apr) | 96.3 |
| | US Dallas Fed Manf. Activity (Apr) | -14.4 |
| 29-30 Apr | SI Unemployment rate SA (Mar) | 2.00% |

*Source: Bloomberg*