27 May 2024

Global Markets Research

Daily Market Highlights

27 May: Nasdaq closed at record high spurred by rally in Nvidia

Rebound in risk sentiment pushed DXY down; bond yields closed relatively steady and mixed
Upward surprises to US durable and capital goods orders; UK retail sales slumped on weather
FDI into China fell; Singapore's IPI saw narrower decline; stable CPI for Malaysia

- The Nasdaq closed Friday at a fresh record high as gains in chipmaker Nvidia outweighed worries that the Federal Reserve will delay interest rate cuts. The tech-heavy index closed up 1.1% d/d, as Nvidia shares climbed 2.6% d/d to above $1k for the first time, amidst enthusiasm over its blockbuster earnings report. The bullish sentiment also powered other tech names as well as the broader equity markets, sending the S&P 500 up 0.7% d/d, while the Dow Jones closed just above the flatline.
- Meanwhile, European and Asian markets fell on rate cut odds. Most sectors finished in the red for the former, as utilities led losses for a second day, while heavyweight chipmaker Samsung Electronics fell after a report that its latest HBM chips are not ready for use by Nvidia. Today, Asian stocks are set to climb following the rebound in risk sentiment and the futures.
- Treasury yields largely held steady, and closed mixed within +/- 1bps. The 2Y yields closed up 1bps at 4.95% but the 10Y slid 1bps to 4.47%. Similarly, 10Y European bond yields closed mixed and steady between -2 to +1bps.
- DXY slumped 0.4% d/d to 104.72, with most G10 currencies strengthening against the Dollar save for the JPY and CHF (less than -0.1% d/d each). NOK led gains against USD at +0.9% d/d, fuelled in part by higher oil prices while GBP and EUR appreciated by 0.3% d/d each. In central bank speak, Bundesbank President Joachim Nagel commented that the ECB should probably wait until September for any subsequent rate cuts. Regional currencies, meanwhile, mostly weakened against the Dollar save the INR and SGD (0.1 to 0.2% d/d gain). CNH and MYR depreciated between 0.1-2% d/d, the latter to 4.7115 following its weaker than expected CPI prints.
- Crude oil prices gained 0.9-1.1% d/d and bounced back from its 3-month low, and traders will be looking out for further visibility on fuel demand in the days ahead, as the summer driving season gets underway with the Memorial Day holiday.

Orders for durable and capital goods in the US surprised on the upside

- Durable and capital goods orders for April came in significantly better than expected, but downward revisions to the prior month's data leave investment outlook still uncertain. Non-defense capital goods excluding aircraft, a proxy for investment, expanded by +0.3% m/m after March's 0.1%m/m revised decline, while orders for durable goods defied expectations to grow by +0.7% m/m (Mar: +0.8% m/m revised), and were broad-based. One bright spot going forward is nonetheless, interest in investment in AI as well as boost due to the CHIPS and Science Act.
- The final University of Michigan Sentiment index was revised upwards 1.7ppts to 69.1 in May. Despite this, the index was still 8.1ppts down m/m

Key Market Metrics

	Level	d/d (%)
Equities		
Dow Jones	39,069.59	0.01
S&P 500	5,304.72	0.70
NASDAQ	16,920.79	1.10
Stoxx Eur 600	520.57	-0.19
FTSE 100	8,317.59	-0.26
Nikkei 225	38,646.11	-1.17
CSI 300	3,601.48	-1.11
Hang Seng	18,608.94	-1.38
Straits Times	3,316.56	-0.18
KLCI 30	1,619.40	-0.60
FX		
Dollar Index	104.72	-0.37
EUR/USD	1.0847	0.30
GBP/USD	1.2737	0.30
USD/JPY	156.99	0.04
AUD/USD	0.6628	0.33
USD/CNH	7.2615	0.05
USD/MYR	4.7115	0.16
USD/SGD	1.3499	-0.14
Commodities		
WTI ($/bbl)	77.72	1.11
Brent ($/bbl)	82.12	0.93
Gold ($/oz)	2,334.50	-0.12
Copper ($$/MT)	10,324.00	-0.90
Aluminum($/MT)	2,662.00	1.54
CPO (RM/tonne)	3,902.00	-0.61

Source: Bloomberg, HLBB Global Markets Research
** Dated as of 23 May for CPO*

and is at its 5-months low. The year-ahead outlook for business conditions, concerns over labour markets and high interest rates continued to dent sentiment, and thus, pose downside risk for consumer spending. Year-ahead inflation expectations, meanwhile, edged up 0.1ppts to 3.3%, above the 2.3-3.0% range seen in the two years prior to the pandemic, while long-run inflation expectations held steady at 3.0% for the second straight month.

- The Kansas City Fed Services Activity index grew moderately to 11 in May (Apr: 9) and expectations for future activity expanded further. Employment grew at its fastest pace in nearly two years, but firms' expectations for wage growth in the coming year are mixed.

UK retail sales fell sharply due to poor weather

- Retail sales fell sharper than expected by 2.3% y/y in April, worsening from +0.2%y/y previously. Sales volumes fell across most sectors, with clothing retailers, sports equipment, games and toys stores, as well as furniture stores doing particularly badly as poor weather reduced footfall, while early Easter sales also dented demand. Moving forward, retail sales will likely remain subdued, benefitting from the pick-up in real wages, hike in National Living Wage as well as cut in National Insurance, but will face headwinds from cautious consumers, who are still grappling with elevated cost of living and mortgage rates. This is reflected in the slight dip in "willingness of households to spend on big ticket items" by Gfk.

FDI into China continues to fall

- Foreign direct investment (FDI) into China continued to fall in April (-27.9% YTD), underscoring Beijing's struggle to attract investments to support its economy. According to officials, the y/y decline was mainly attributable to a high base last year, adding that the increase in newly established foreign-funded enterprises suggests that more investments can be expected in the future. In specific sectors, FDI in the manufacturing industry accounted for approximately 29% of the total FDI.

Singapore's manufacturing output extended decline on biomedical

- Manufacturing output fell 1.6% y/y in April, improving from previous month's contraction of 9.2% y/y, as output in the volatile biomedical cluster plunged due to pharmaceutical products. Stripping this, output rebounded 1.7% y/y, reversing from the prior month's 5.7% y/y slide as the contractions in electronics output narrowed (-1.1% y/y vs -11.3% y/y) while transport engineering (+10.6% y/y vs -7.3% y/y) and general manufacturing (+7.3% y/y vs -3.1% y/y) production turned positive. As it is, the manufacturing sector continued to track the NODX, which has remained contractionary. With trade and exports of electronics and electrical goods still anaemic, although mildly positive for the latter, we thus, do not expect a strong rebound in production in the near term.

Surprisingly stable CPI for Malaysia confirmed little inflationary pressure

- Headline CPI continued to surprise on the downside, holding steady at +1.8% y/y in April. This marked its third straight month of steady gain, reinforcing the lack of price pressure. However, core CPI picked up for the first time since Oct 2022 to +1.9% y/y in April (Mar: +1.7% y/y), driven by bigger price increases in food & beverages, health, recreation sports & culture, restaurant & accommodation services, as well as personal care, social protection & miscellaneous goods & services. Although we found comfort in the sub-2.0% increase in core CPI, and quicker gains from food & beverages aside (+3.2% vs +3.0%), we noticed the pick-up stemmed mainly from the services sectors, which could be a telltale sign of second round effects and cost pass-through. As of now, services CPI continued to increase at a steady pace 2.1% y/y in April, way below the 4.0% levels back in late 2022/early 2023, but it has since trended up from the recent low of +1.9% y/y seen in the last 3-4 months.

- Despite the surprisingly steady reading in headline CPI, we noticed some tentative signs of upside risk to inflation, as evident in the uptick in core CPI. In addition, six out of thirteen major categories of the overall CPI basket registered quicker price gains indeed. Although inflation at the current sub-2.0% levels does not warrant any cause for concern, we opine it warrants close monitoring. Imminent rollout of fuel subsidy reform potentially beginning as early as June (diesel) to be followed by RON95 further down the road, is also expected to introduce some upside to inflationary pressure. The inflation trajectory ahead will largely hinge on the timing and magnitude of the subsidy reform in RON95 which carries more weight (5.5%) compared to diesel (0.2%) in the CPI basket. Our scenario analysis assuming adjustment to RON95 to kick in in 4Q at varying rates suggests average CPI should remain very manageable at 2.7% for 2024 even if prices are being fully floated to market prices in one single adjustment. Most of the inflationary impact should be more evident in 2025 before normalizing in 2026. We therefore do not foresee a strong case for any OPR hike at this juncture provided the policy-driven spike in inflation is transitory.

House View and Forecasts

FX	This Week	2Q-24	3Q-24	4Q-24	1Q-25
DXY	103-107	105.43	105.56	103.45	101.38
EUR/USD	1.06-1.10	1.06	1.05	1.06	1.06
GBP/USD	1.25-1.29	1.24	1.22	1.23	1.24
USD/JPY	154-160	152	149	146	143
AUD/USD	0.64-0.69	0.65	0.65	0.65	0.66
USD/MYR	4.67-4.74	4.73	4.68	4.64	4.57
USD/SGD	1.33-1.37	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
27-May	CH Industrial Profits YoY (Apr)	-3.50%
	HK Exports YoY (Apr)	4.70%
28-Apr	JN PPI Services YoY (Apr)	2.30%
	AU Retail Sales MoM (Apr)	-0.40%
	EC ECB 1 Year CPI Expectations (Apr)	3.00%
	UK CBI Retailing Reported Sales (May)	-44
	US House Price Purchase Index QoQ (1Q)	1.50%
	US FHFA House Price Index MoM (Mar)	1.20%
	US S&P CoreLogic CS US HPI YoY NSA (Mar)	6.38%
	US Conf. Board Consumer Confidence (May)	97
	US Dallas Fed Manf. Activity (May)	-14.5

Source: Bloomberg

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