4 March 2025

## Global Markets Research

## Daily Market Highlights

# 4 Mar: Haven buying amid a risk-off environment

**Disappointing US ISM and affirmed tariff hikes unnerved markets; US equities tumbled**
**UST yields, DXY fell after traders raised rate cut bets; DXY pared losses after tariff nod**
**Risk-off mood likely to dent Asian stocks and FX; all eyes on RBA minutes today**

- Tepid manufacturing data and affirmation by President Trump that the 25% tariffs on Canada and Mexico will proceed as planned dashed hopes for a last-minute reprieve. Investors turned risk-off and sparked a sell-off in US equities overnight. At the point of writing, President Trump has also signed an executive order to raise additional tariffs on China to 20%, while ordering a pause to military aid to Ukraine.
- The S&P 500 lost 1.8% d/d, one of its worst selloffs in 2025, while the Dow and Nasdaq also plunged 1.5% d/d and 2.6% d/d respectively, the latter weighed down heavily by an 8.7% d/d plunge in Nvidia shares. Losses were broad-based, with seven of the eleven sectors closing in red.
- As US stocks fell, European stocks rallied (Stoxx Eur 600: +1.1 d/d), as investors snapped up defence stocks with regional leaders holding security talks that included higher military spending. Asian stocks closed mixed, and will likely fall today after the overnight US market rout.
- Outside of stocks, Treasury yields fell as the weak US ISM manufacturing index and higher tariffs raised investors' concerns over slowing growth ahead and as investors sought safer assets. Treasury yields fell another 4-7bps (prior: -4 to -6bps) across the curve, and the benchmarks 2- and 10Y closed at 3.95% and 4.16% respectively. 10Y European bond yields, on the other hand, jumped 3-9bps (prior: -5 to +1bps), as investors prepared for a surge in government borrowings to fund the defence spending.
- In the forex space, the DXY tumbled to as low as 106.47, as the weak US ISM manufacturing index saw investors raising rate cut bets (close to 3 quarter points cut in 2025) and weighing on the Dollar. The DXY however pared some of these losses after Trump reaffirmed the tariff hikes to Canada and Mexico. Still, the DXY closed the day 0.8% d/d lower at 106.75 and the Dollar closed weaker against all its G10 peers save for the CAD (-0.2% d/d).
- Leading gains against the Dollar were European currencies like SEK (+2.6% d/d), EUR (+1.1% d/d to 1.0487), DKK (+1.1% d/d) and GBP (+1.0% d/d to 1.2701), as a likely increase in fiscal spending fan hopes that this could boost future growth, supporting the currency.

**Key Market Metrics**

| | Level | d/d (%) |
|---|---|---|
| **Equities** | | |
| Dow Jones | 43,191.24 | -1.48 |
| S&P 500 | 5,849.72 | -1.76 |
| NASDAQ | 18,350.19 | -2.64 |
| Stoxx Eur 600 | 563.13 | 1.07 |
| FTSE 100 | 8,871.31 | 0.70 |
| Nikkei 225 | 37,785.47 | 1.70 |
| CSI 300 | 3,888.47 | -0.04 |
| Hang Seng | 23,006.27 | 0.28 |
| Straits Times | 3,908.92 | 0.34 |
| KLCI 30 | 1,571.39 | -0.21 |
| **FX** | | |
| Dollar Index | 106.75 | -0.81 |
| EUR/USD | 1.0487 | 1.08 |
| GBP/USD | 1.2701 | 0.99 |
| USD/JPY | 149.50 | -0.75 |
| AUD/USD | 0.6225 | 0.26 |
| USD/CNH | 7.3029 | 0.13 |
| USD/MYR | 4.4650 | 0.06 |
| USD/SGD | 1.3469 | -0.33 |
| **Commodities** | | |
| WTI ($/bbl) | 68.37 | -1.99 |
| Brent ($/bbl) | 71.62 | -2.13 |
| Gold ($/oz) | 2,901.10 | 1.85 |
| Copper ($$/MT) | 9,419.00 | 0.65 |
| Aluminum($/MT) | 2,611.00 | 0.21 |
| CPO (RM/tonne) | 4,687.50 | -1.46 |

*Source: Bloomberg, HLBB Global Markets Research*
** CPO dated as of 28 Feb*

JPY extended its gains, appreciating by 0.8% d/d to 149.50 on haven buying.

- Meanwhile, regional currencies closed mixed against the greenback, but are expected to see some weakness today with Trump's tariff announcement. Safer SGD appreciated 0.3% d/d to 1.3469 against USD, while CNH and MYR depreciated 0.1% d/d each to 7.3029 and 4.4650 respectively.
- In the commodity space, crude oil prices fluctuated earlier in the session as markets await clarity on Trump's tariff plan, before making a dive amid reports that OPEC+ will proceed with a planned oil output increase, defying market's expectations. This sent the WTI and Brent tumbling at least 2% d/d each to $68.37/barrel and $71.62/barrel.

**Upward revisions to PMI manufacturing for the majors; broadly improved manufacturing activities amongst regionals but headwinds looming**

- The final US Manufacturing PMI was revised up 1.1ppts to 52.7 in February (prior: 51.2). This marks its best reading since June 2022, but improvement could be short lived as production and purchasing were only buoyed by companies and customers building inventory to beat price hikes and potentially supply issues caused by tariffs.
- The final Eurozone's Manufacturing PMI was revised up 0.3ppts to 47.6 (prior: 46.7), its highest in 2 years. That said, it's still too early to call it a recovery as new orders continued to fall, albeit at a softer pace. Germany, France and Italy posted softer contractions for their PMIs, but Spain dipped below the 50-threshold for the first time in just over a year.
- The final UK Manufacturing PMI was revised up 0.5ppts to 46.9 (prior: 48.3). That said, this is a 14-month low as weak demand, low confidence and rising cost pressures accelerated the downturns in output and new orders. The Autumn Budget's changes to the national minimum wage and employer NICs also drove up inflation fears and intensified the downward trend in staff headcounts.
- The final Japan PMI was revised 0.1ppts up to 49.0 (prior: 48.7), suggesting a softer deterioration in the health of the manufacturing sector. The near-term outlook remains clouded amid weakness in domestic and global manufacturing demand, with notable emphasis placed on muted conditions in key markets such as the US, Europe and China.
- The Caixin China Manufacturing PMI rose more than expected by 0.7ppts to 50.8, as the holiday period saw robust consumption momentum, and technological innovations in certain industries added to the positive sentiment. That said, the economy still faces significant challenges, from the higher tariffs in the US and rising uncertainties in employment and household income, the latter could constrain efforts to boost domestic demand.

- Malaysia's manufacturing PMI improved to 49.7 (prior: 48.7), suggests some stabilisation for the sector, although conditions remained generally challenging. The outlook for the coming months appears brighter, as firms were hopeful that the renewed expansion in new orders will be sustained, and is consistent with modest GDP growth for 1Q.
- Vietnam Manufacturing PMI remained below the 50-threshold for the third month at 49.2 (prior: 48.9), as manufacturers reported subdued demand conditions and headwinds from the transportation sector, namely speed, availability and cost of freight. On a more positive note, firms were increasingly optimistic over future output in hopes that economic conditions will stabilize in the months ahead.
- Meanwhile, Singapore's official PMI dipped slightly by 0.2ppts to 50.7 in February, as the lynchpin electronics sector dipped 0.1ppts to a slower expansion at 51.0. As it is, the manufacturing sector has been losing momentum for the past two months as the front-loading effects could be wearing off and the sector will face headwinds from global trade uncertainties, be it from heightened risks of ongoing geopolitical and trade tensions and potentially costly supply chain disruptions.

**US ISM Manufacturing disappointed amid tariff concerns; construction spending also weakened**

- The US manufacturing numbers disappointed, with the ISM print undershooting consensus forecast at 50.3 in February from 50.9 previously, with big drops observed for new orders (48.6 vs 55.1) and employment (47.6 vs 50.3). Tariff uncertainty clearly played a role and has prompted companies to factor in this risk in their pricing (62.4 vs 54.9).
- Construction spending data also disappointed, with spending falling more than expected by 0.2% m/m in January from +0.5% m/m previously. The downtick was led lower private construction activities, in line with the lower home sales recently, while public construction spending increased.

**Softer inflation rates for the Eurozone gives leeway for the ECB to cut this week**

- After a quite strong January reading, February's headline and core inflation moderated to 2.4% y/y and 2.6% y/y (prior: 2.5% y/y and 2.7% y/y) respectively. Although higher than expected, the soft reading will contribute to views that the inflation threat is fairly mild, and reaffirms our expectations that the ECB will deliver another quarter point cut in its policy rates later this week. Moving forward, weak demand will also help contain price increases, but the geopolitical developments suggest that upside risks persist.

### UK's mortgage approvals fell less than expected ahead of the stamp duty hike

- UK's mortgage approvals fell less than forecast to 66.2k in January from 66.5k the prior month, as homebuyers rushed to complete transactions before the stamp duty goes up in April. This suggests that approvals will likely remain elevated until March, followed by a period of weakness in the following months.

### Low and stable unemployment rate for Japan

- In a positive nod to a resilient labour market, consumption and more rate hikes, data this morning showed Japan's jobless rate held steady at 2.5% in January, with the job-to-applicant ratio improving to 1.26 from 1.25 previously. On the corporate front, capex spending unexpectedly fell 0.2% y/y in 4Q (prior: +8.1% y/y), its first drop since 2021 as orders from the manufacturing sector eased, and fell for non-manufacturing.

### Continued contraction in Hong Kong's retail sales

- Retail sales recorded a much narrower contraction of 3.2% y/y in January (prior: -9.6% y/y), partially due to the earlier arrival of the Chinese New Year this year. As it is, local residents spending more across the border taking advantage of the strength of the HKD has partially contributed to the sluggish retail sales print, but this impact has been negated by stronger tourist arrivals recently and will likely benefit from increased government support for consumers under Budget 2025, which includes allowance to eligible social security recipients and reduced salaries tax.

### House View and Forecasts

| FX | This Week | 1Q-25 | 2Q-25 | 3Q-25 | 4Q-25 |
|---|---|---|---|---|---|
| DXY | 105-109 | 109.10 | 108.58 | 106.93 | 105.27 |
| EUR/USD | 1.02-1.06 | 1.03 | 1.03 | 1.05 | 1.06 |
| GBP/USD | 1.24-1.28 | 1.24 | 1.24 | 1.25 | 1.27 |
| USD/CHF | 0.88-0.92 | 0.91 | 0.91 | 0.90 | 0.88 |
| USD/JPY | 145-152 | 158 | 155 | 150 | 146 |
| AUD/USD | 0.61-0.64 | 0.62 | 0.63 | 0.64 | 0.66 |
| NZD/USD | 0.55-0.59 | 0.56 | 0.56 | 0.57 | 0.58 |
| USD/CNY | 7.23-7.31 | 7.37 | 7.30 | 7.23 | 7.15 |
| USD/MYR | 4.42-4.49 | 4.55 | 4.50 | 4.40 | 4.35 |
| USD/SGD | 1.33-1.37 | 1.37 | 1.35 | 1.32 | 1.29 |

| Rates, % | Current | 1Q-25 | 2Q-25 | 3Q-25 | 4Q25 |
|---|---|---|---|---|---|
| Fed | 4.25-4.50 | 4.25-4.50 | 4.25-4.50 | 4.25-4.50 | 4.00.-4.25 |
| ECB | 2.75 | 2.50 | 2.00 | 2.00 | 2.00 |
| BOE | 4.50 | 4.50 | 4.25 | 4.00 | 4.00 |
| SNB | 0.50 | 0.25 | 0.25 | 0.25 | 0.25 |
| BOJ | 0.50 | 0.50 | 0.50 | 0.75 | 0.75 |
| RBA | 4.10 | 4.10 | 3.85 | 3.60 | 3.60 |
| RBNZ | 3.75 | 3.75 | 3.50 | 3.25 | 3.00 |

| | | | | | |
|---|---|---|---|---|---|
| BNM | 3.00 | 3.00 | 3.00 | 3.00 | 3.00 |

*Source: HLBB Global Markets Research*

## Up Next

| Date | Events | Prior |
|---|---|---|
| 4-Mar | AU RBA Minutes of Feb. Policy Meeting | |
| | AU Retail Sales MoM (Jan) | -0.10% |
| | JN Consumer Confidence Index (Feb) | 35.2 |
| | EC Unemployment Rate (Jan) | 6.30% |
| 5-Mar | AU S&P Global Australia PMI Services (Feb F) | 51.4 |
| | AU GDP SA QoQ (4Q) | 0.30% |
| | HK S&P Global Hong Kong PMI (Feb) | 51 |
| | SI S&P Global Singapore PMI (Feb) | 49.9 |
| | JN Jibun Bank Japan PMI Services (Feb F) | 53.1 |
| | CH Caixin China PMI Services (Feb) | 51 |
| | SI Retail Sales SA MoM (Jan) | -1.50% |
| | EC HCOB Eurozone Services PMI (Feb F) | 50.7 |
| | UK S&P Global UK Services PMI (Feb F) | 51.1 |
| | EC PPI YoY (Jan) | 0.00% |
| | US MBA Mortgage Applications | -1.20% |
| | US ADP Employment Change (Feb) | 183k |
| | US S&P Global US Services PMI (Feb F) | 49.7 |
| | US Factory Orders (Jan) | -0.90% |
| | US ISM Services Index (Feb) | 52.8 |

*Source: Bloomberg*

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