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Global Markets Research

Daily Market Highlights

2 May: FOMC shrugged off near term cut amid persistent inflation

Powell: Unlikely Fed's next move will be a rate hike; rate cuts remain on the cards
Short-lived spike in US stock markets; UST yields, DXY fell after Powell downplayed hikes
Eurozone exited recession in 1Q; slower PMI manufacturing in the US and China

- It was a volatile day for the US equities markets, with stocks briefly rallying spurred by Fed Chair Jerome Powell's less than hawkish comment that it is unlikely that the Fed's next move will be a rate hike. The three US major averages nonetheless, pared their gains later, with the FOMC out of the way amidst a "higher for longer" stance and attention shifted back to earnings. On the positive side of the ledger were Pfizer and Amazon, while Starbucks, AMD and Super Micro Computer were laggards. Consequently, the three majors closed mixed, with Dow up 0.2% d/d but the S&P 500 and Nasdaq slid in tune of 0.3% d/d each. Elsewhere, FTSE 100 and Nikkei 225 ended their sessions slightly lower with most European and Asian markets closed for Labour Day, as investors awaited the FOMC's rate decision. Today, Asian markets are primed for a downbeat open following futures and the last-minute retreat in US stock markets.
- Treasury yields fell in tune to 4-8bps, with the 2Y tumbling sharply below 5% after Powell said that the current policy stance is sufficiently restrictive and downplayed further rate hikes. The 2Y yield fell 8bps to 4.96%, while the 10Y dropped 5bps to 4.63%. Yields to the UK gilts, on the other hand, rose a modest 0-2bps across the curve.
- The Dollar (DXY: -0.4% d/d to 105.76) lost ground against all its G10 peers after Fed flagged inflation concerns but highlighted that a rate hike remains unlikely. JPY (+2.1% d/d), SEK (+0.9% d/d) and AUD (0.8% d/d) were leading gainers against the greenback, with AUD and SEK benefitting from an improved risk sentiment. On the regional front, SGD and CNH also appreciated slightly between 0.3-0.4% d/d against the Dollar.
- Oil prices tumbled more than 3.0% d/d, after the Energy Information Administration reported that US crude oil stockpiles surged by 7.3m barrels last week, its biggest jump since February. Also dragging on prices were potential ceasefire in the Middle East and uncertainty over demand and US monetary policy after the FOMC statement flagged concerns over inflation.

FOMC maintained rates at 5.25-5.50%; unlikely Fed's next move will be a rate hike, rate cuts remain on the cards

- As widely expected, the FOMC unanimously decided to maintain the Fed funds rate at 5.25-5.50%. Key highlights from the statement and press conference includes: 1) The US economy has continued to expand at a solid pace and the risks to achieving its employment and inflation goals have moved toward better balance. 2) Two notable changes were made in the statement – Fed will slow the pace of decline of its securities holdings by reducing the monthly redemption cap on Treasury securities to $25bn (Previous: $60bn) starting in June and that there was a lack of further

Key Market Metrics

	Level	d/d (%)
Equities		
Dow Jones	37,903.29	0.23
S&P 500	5,018.39	-0.34
NASDAQ	15,605.48	-0.33
Stoxx Eur 600	504.31	-0.11
FTSE 100	8,121.24	-0.28
Nikkei 225	38,274.05	-0.34
CSI 300	3,604.39	-0.54
Hang Seng	17,763.03	0.09
Straits Times	3,292.69	0.32
KLCI 30	1,575.97	-0.42
FX		
Dollar Index	105.76	-0.44
EUR/USD	1.0712	0.43
GBP/USD	1.2527	0.28
USD/JPY	154.57	-2.05
AUD/USD	0.6523	0.77
USD/CNH	7.2341	-0.29
USD/MYR	4.7725	0.10
USD/SGD	1.3608	-0.34
Commodities		
WTI ($/bbl)	79.00	-3.58
Brent ($/bbl)	83.44	-5.03
Gold ($/oz)	2,311.00	0.35
Copper ($$/MT)	9,895.50	-0.96
Aluminum($/MT)	2,577.50	-0.54
CPO (RM/tonne)	3,957.00	0.04

Source: Bloomberg, HLBB Global Markets Research
** Dated as of 29 April for CPO, 30 April for Stoxx Eur 600; CSI 300, Hang Seng, KLCI, Straits Times, USD/MYR*

progress towards the 2% inflation objective in recent months. 4) In the press conference, Fed Chair Jerome Powell nonetheless, said that favourable supply factors can keep inflation on the right track. He also added that the current stance is “sufficiently restrictive”, thus it is unlikely that the central bank’s next move will be a rate hike, and rate cuts remain on the cards.

- The Conference Board Consumer Confidence Index deteriorated for the third consecutive month, more than expected and to its lowest level since July 2022 to 97.0 in April (Mar: 103.1). Despite the past three months of weaknesses, the gauge has largely held steady for more than 2 years as optimism about the present situation continues to more than offset concerns over future business conditions, job availability, and income.
- Economic activity in the manufacturing sector contracted in April after one month of expansion, but ISM reiterated that demand appears to be at the early stages of recovery. The ISM Manufacturing Index retreated more than expected to 49.2 in April (Mar: 50.3) and although demand improvement slowed (New orders: 49.1 vs 51.4), output remained positive and inputs stayed accommodative. The Prices Index moved further upward into strong expansion territory (60.9 vs 55.8), as commodity driven costs continue to climb. The Employment Index also improved 1.2ppts to 48.6.
- A mixed set of labour data but one that points to a less tight employment market that could potentially keep a lid on wage pressures going forward. According to the JOLTS report, the number of job openings eased more than expected to 8.49m in March (Feb: 8.81m), while the ratio of job openings to unemployed workers, a gauge of market tightness, fell to 1.32 (Feb: 1.36). Vacancies declined the most in construction, financial activities and retail trade industries. Meanwhile, the ADP Employment Change report that the average pace of hiring has accelerated over the last three months (Apr: 192k vs Mar: 208k vs Jan: 111k) and was broad based, with only the information sector showing weakness. Pay growth for job-stayers was little changed at +5.0% y/y, but slowed for game changers from +10.1% y/y to 9.3% y/y. The latter, nonetheless, remains higher than it was at the beginning of the year suggesting still persistent wage pressure. Echoing this, was the Employment Cost Index which accelerated to +1.2% in 1Q from +0.9% previously, with the increase in costs broad-based.
- House price indices suggest that upward trend persists in 2024 but further gains going forward could be limited given headwinds from affordability pressures, from elevated inflation rates to mortgage rates. The FHFA House Price Index rebounded more than expected to +1.2% m/m in February (Jan: -0.1% m/m) while the S&P CoreLogic CS National Home Price index matched expectations to register its fastest annual gain at +6.4% y/y (Jan: +6.0% y/y). Meanwhile, the 30Y fixed mortgage rate increased to 7.29%, its highest level since November 2023, tempering affordability and sending application volume declining by 2.3% w/w for the week ended April 26 (Apr 19: -2.7% w/w) and well below last year’s pace. Construction spending, meanwhile, unexpectedly fell 0.2% m/m in March (Feb: 0).

S&P Manufacturing PMIs for majors mostly contractionary; stagnant growth for the US; official China PMI manufacturing and services eased in April

- The final US Manufacturing PMI was revised 0.1ppts up to 50.0 in April (Mar: 51.9), pointing to stagnant business conditions and an end to its 3-months of improvement. However, there were some encouraging signs with the drop in orders largely driven by factories adjusting their inventory levels, while consumer goods producers reported a further strengthening of demand.

- The final UK Manufacturing PMI was revised upwards by 0.4ppts to 49.1 in April but is still down from March's 20-month high at 50.3. The renewed weakness was due to the short-lived rebound in output and new orders previously, weighed down by uncertain market conditions, client destocking and supply-chain disruption.
- The final Judo Bank Australia Manufacturing PMI was revised downwards by 0.3ppts to 49.6 in April (Mar: 47.3), a third successive month of contraction, but at the slowest pace for this cycle. As it is, it is too early to call an end to the cyclical slowdown given that the key activity indicators are still below neutral.
- The final Jibun Bank Japan Manufacturing PMI was revised downwards by 0.3ppts to 49.6 in April. Although still below the crucial 50.0 neutral mark, this is the highest in 8 months and was noticeably higher than March's 48.2. The latest PMI data continued to paint a fairly subdued picture, but heading towards stabilisation. Manufacturers were hopeful that output will return to growth soon while prices data provided further evidence of inflation picking up.
- For China, both the Caixin and official manufacturing PMIs held up above the expansionary level for at least 2 months, suggesting that the sector has regained its recovery momentum although cost pressures have increased. While the Caixin Manufacturing PMI unexpectedly improved to 51.4 in April (Mar: 51.1) as new orders rose to its 14-month high, the official manufacturing PMI slowed to 50.4 (Mar: 50.8). The official non-manufacturing PMI worsened more than expected to 51.2 (Mar: 53.0), weighed down by the cooler services sector (50.3 vs 52.4) while construction PMI stayed robust at 56.3. All in, April PMIs continue to point to mixed signals for the Chinese economy as the construction and manufacturing sectors maintained positive momentum, but private demand is weak, as reflected by the slower services sector.

Eurozone exited recession in 1Q and grew at the fastest pace in 1.5 years

- Eurozone GDP grew by 0.3% q/q in 1Q (4Q: -0.1% q/q), and that's the strongest growth since 3Q of 2022 when the energy crisis started. This comes after its four biggest economies expanded at a much speedier pace than expected, suggesting that the economy has exited a recession and may have turned the corner, particularly in Germany. Recovery, albeit still slow, will be supported by expectations of lower interest rates, strong household incomes, stronger external demand and receding inflationary pressures.
- For the latter, while inflation held steady at 2.4% in April, core eased, albeit less than expected to 2.7% (Mar: +2.9% y/y), with services inflation moderating the most (-3.7% y/y and -4.0% y/y). The headline number was flat because food inflation accelerated to 2.8% y/y, and energy prices dropped less quickly to -0.6% y/y (Mar: +2.6% and -1.8% y/y). Barring a shocker in wages and commodity prices, the moderation in core and services price inflation raises confidence that ECB will reach its goal for price growth, and ECB Governing Council Francois Villeroy de Galhau reaffirmed his expectations for a June rate cut, although his counter parts have recently flagged caution against back-to-back cuts subsequent to that.

UK mortgage approvals hit 18-month high

- Latest data points to some pent-up demand in the housing market but affordability pressures will continue to temper demand. Despite lower than expected and below the long-term average of 65k, mortgage approvals continued with its upwards trend and rose to 61.3k in March (Feb: 60.5k), its highest since September 2022 but gains in home prices, according to the Nationwide House Price Index, slowed more than expected to +0.6% in April (Mar: +1.6% y/y). House prices are now around 4% below the all-time highs recorded in the summer of 2022, and likely reflects ongoing affordability pressures which could hold back would-be first-time buyers. Additionally, the housing market could also face additional headwinds from a sharp rise in repayments for 1m households as the fixed-rate mortgage deals lapse.

Slower data from Australia will likely dampen odds of further RBA rate hike despite the stronger than expected inflation prints

- A slew of weaker numbers from Australia. Private sector credit growth slowed more than expected to +0.3% m/m in March (Apr: +0.5% m/m), largely on account of slower lending to businesses, while lending for housing and households remained steady. Retail sales, meanwhile, unexpectedly contracted 0.4% m/m in March (Feb: +0.2% m/m) as consumers pulled back on spending on the back of elevated cost-of-living and a reversal from Taylor Swift-inspired boost in turnover for fashion and accessory retailers last month. As it is, underlying retail turnover has been flat for the past six months, the weakest growth outside of the pandemic period and introduction of the GST and reaffirmed expectations that the policy rates have plateaued at this juncture.

House View and Forecasts

FX	This Week	2Q-24	3Q-24	4Q-24	1Q-25
DXY	104-107	103.44	102.41	101.38	100.37
EUR/USD	1.06-1.09	1.09	1.10	1.08	1.07
GBP/USD	1.24-1.27	1.27	1.28	1.27	1.25
USD/JPY	152-160	148	145	142	140
AUD/USD	0.64-0.67	0.66	0.67	0.67	0.68
USD/MYR	4.74-4.80	4.68	4.63	4.56	4.49
USD/SGD	1.34-1.37	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
2-May	MA S&P Global Malaysia PMI Mfg (Apr)	48.4
	VN S&P Global Vietnam PMI Mfg (Apr)	49.9
	AU Private Sector Houses MoM (Mar)	10.70%
	AU Exports MoM (Mar)	-2.20%
	JN Consumer Confidence Index (Apr)	39.5
	EC HCOB Eurozone Manufacturing PMI (Apr F)	45.6
	HK GDP YoY (1Q A)	4.30%
	US Challenger Job Cuts YoY (Apr)	0.70%

	US Trade Balance (Mar)	-$68.9b
	US Unit Labor Costs (1Q P)	0.40%
	US Initial Jobless Claims	207k
	SI Purchasing Managers Index (Apr)	50.7
	US Factory Orders (Mar)	1.40%
3-May	AU Judo Bank Australia PMI Services (Apr F)	54.2
	AU Home Loans Value MoM (Mar)	1.50%
	AU Household Spending YoY (Mar)	54.2
	SI Retail Sales SA MoM (Mar)	3.00%
	HK Retail Sales Value YoY (Mar)	1.90%
	UK S&P Global UK Services PMI (Apr F)	54.9
	EC Unemployment Rate (Mar)	6.50%
	US Change in Nonfarm Payrolls (Apr)	303k
	US Unemployment Rate (Apr)	3.80%
	US Average Hourly Earnings MoM (Apr)	0.30%
	US Average Weekly Hours All Employees (Apr)	34.4
	US S&P Global US Services PMI (Apr F)	50.9
	US ISM Services Index (Apr)	51.4

Source: Bloomberg

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