BLOG

Fed not in a rush to cut; markets rally

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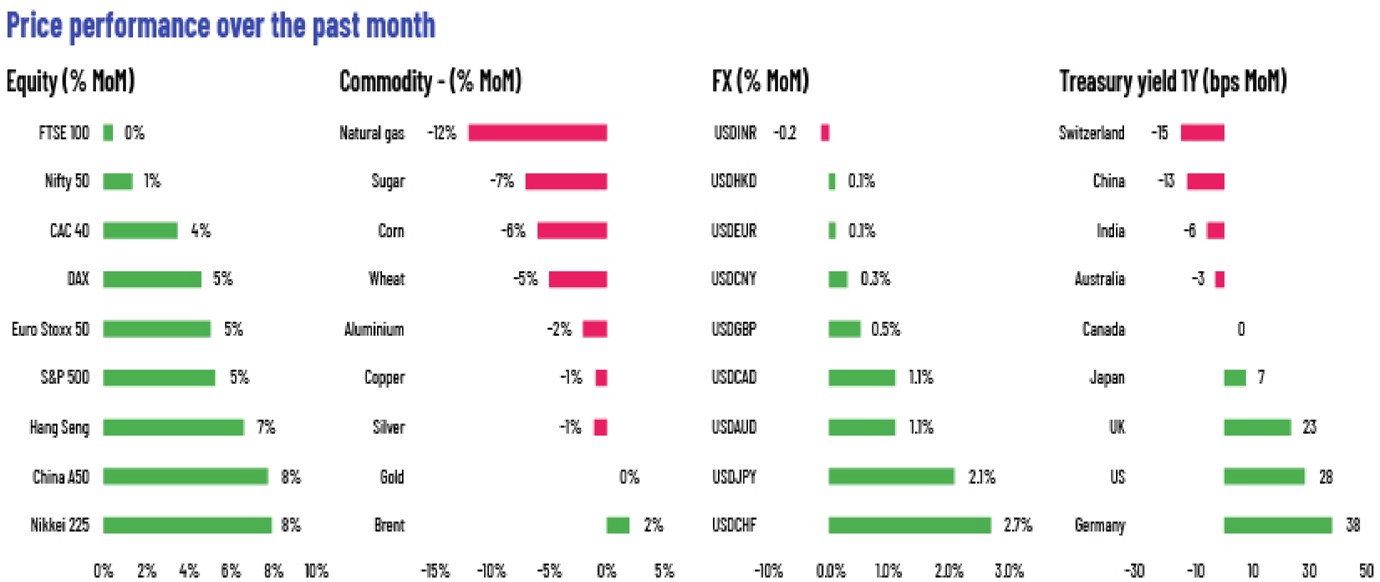
Introducing Market Roundup, a monthly report with key takeaways on macro asset categories



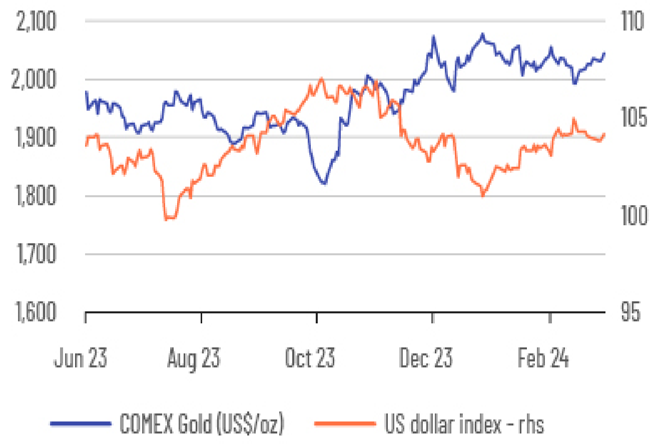
Global market overview

In February, the equity market performed strongly on the back of improved macroeconomic sentiment, with Asia outperforming. The commodities market was under pressure, mainly due to a stronger USD against other major currencies and demand concerns in China. Treasury yields moved higher as expectations of rate cuts in the near future eased following stronger economic data and higher inflation.

The CME's FedWatch[i] shows a low probability of a rate cut at the March or May meeting; this should keep rates steady this month. The equity market could also take a breather as it waits for the first quarter's earnings reports. Crude oil may enjoy support around the current levels as OPEC+ extends output cuts[ii] although demand remains soft and would likely cap any gains.

Charts of the month

Gold vs USD



Nikkei 225

Source: Investing.com

Equity market

- **Review:** The global equity market had an impressive bull run, with the Nikkei leading the pack. The Nikkei gained 8% last month, reaching an all-time high of 39,426. The year-to-date performance is equally noteworthy, standing at an impressive 17%. Several factors contributed to these moves, including a shift in investor interest from China to Japan, dovish sentiment around the NIRP and regulatory initiatives pushing companies to implement enhanced corporate governance and improve financial ratios. In China, Beijing's rollout of measures supportive of the economy and equity market boosted sentiment. Meanwhile, in the US, the technology sector experienced an upward surge, driven by positive earnings and guidance from companies such as Nvidia and Meta.

- **Outlook:** The earnings season will start next month; first-quarter earnings in the US are likely to be subdued in the short term before picking up again over the second half of 2024[iii]. Market participants are also likely to watch closely for further developments on China's stimulus measures and assess whether the Nikkei can sustain its strong rally.

Commodities market

- **Review:** Most commodity prices remained under pressure in February following the uncertainty surrounding the US Federal Reserve's (Fed's) plan to cut interest rates, higher exchange inventories and disappointing China demand after the New Year holiday. The energy sector traded mixed, with ICE Brent oil prices closing positive last month, primarily on expectations that OPEC+ members will extend their oil supply cuts until the end of June. In contrast, US natural gas fell sharply as rising exchange inventories and a warmer winter keep demand subdued. In metals, gold remained largely flat as the market awaited fresh buying signals, while industrial metals traded under pressure mainly due to swelling exchange stockpiles and weak China demand.

- **Outlook:** Commodity prices are expected to perform better in March on rising hopes of stimulus support from China. At the latest meeting, China kept the GDP growth target unchanged at 5% for 2024 while hinting at stimulus support to achieve planned economic growth. With regard to oil, OPEC+ members agreed to extend supply cuts until 2Q24 as expected, primarily to avoid a major supply glut in the oil market and to create a floor at around USD80/bbl. Meanwhile, gold made a strong start in March, with prices breaking above USD2,100/oz to reach near-record levels as the release of mixed economic data from the US raised market expectations of a Fed rate cut in June.

FX market

- **Review:** The USD fell in the first two weeks of February and recovered in the next two weeks but closed lower than the January levels as an upside surprise in CPI and a pushback in the Fed's easing cycle failed to support the currency materially. The EUR continued its bearish trend as the macro backdrop remains challenging in the Eurozone and in China. The GBP weakened as the GDP release confirmed a "technical recession" and a downside surprise in CPI but strengthened on the back of better (than Eurozone) PMI prints. The JPY was back at the 150 handle, driven mainly by developments in the US and caution by representatives from the Bank of Japan (BoJ) that rate hikes will not be rapid.

- **Outlook:** Demand for the USD is likely to return even as markets look for cues from the FOMC meeting, the inflation print and the labour-market report. In the UK, spring budget announcements on 6 March will likely trigger movement in the GBP. Soft data prints should keep the EUR and AUD range-bound. While it would be difficult to gauge the direction of the JPY, focus will likely be on the outcome of the *shunto*, or spring wage negotiations.

Debt market

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Review: US 10y Treasury yields remained elevated in February as markets repriced easing expectations. Eurozone government bond yields ended higher, with markets pushing back expectations for European Central Bank (ECB) rate cuts. The UK 10y gilt yield was up slightly. In Japan, bond yields rose on hawkish comments from BoJ Board Member Takata.

- **Outlook:** In March, the focus will be on the ECB policy meeting, the UK spring budget, the BoJ policy meeting, US employment data and the FOMC meeting. The Fed and the ECB are expected to keep policy rates on hold, indicating no significant movement in yields. The UK gilt market will likely play close attention to the publication of the new OBR fiscal forecast. JGB yields are expected to face upward pressure, driven by BoJ rate hikes.

Key data releases

Indicator	Country	Release date	Consensus (actual)	Previous
CPI (% y/y, February)	US	12-Mar-24	-	3.1%
	EA	18-Mar-24	2.6%	2.8%
	UK	20-Mar-24	-	4.0%
	China	9-Mar-24	0.4%	-0.8%
	Japan	22-Mar-24	-	2.2%
Manufacturing PMI (index, February, final)	US	1-Mar-24	47.8 (A)	49.1
	EA	1-Mar-24	46.5 (A)	46.6
	UK	1-Mar-24	47.5 (A)	47.0
	China	1-Mar-24	49.1 (A)	49.2
	Japan	1-Mar-24	47.2 (A)	48.0
Retail sales (% m/m, January)	US	14-Mar-24	-	-0.8%
	EA	6-Mar-24	0.1%	-0.6%
	UK	21-Mar-24	-	3.4%
	China	18-Mar-24	6.0%	7.4%
	Japan	28-Mar-24	-	0.8%
GDP (% q/q, 4Q, final)	US	28-Mar-24	3.2%	4.9%
	EA	8-Mar-24	-	-0.1%
	UK	28-Mar-24	-	-0.1%
	China	17-Jan-24	0.8% (A)	1.4%
	Japan	11-Mar-24	-	-0.8%
Policy rate decisions (%, March)	US	20-Mar-24	-	5.50%
	EA	7-Mar-24	4.50%	4.50%
	UK	21-Mar-24	-	5.25%
	China*	20-Mar-24	-	3.45%
	Japan	19-Mar-24	-	-0.10%

Note: *1y LPR; dates are reported in local time; Source: National Statistical Offices, https://tradingeconomics.com/calendar.

How Acuity Knowledge Partners can help

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We also provide tech-enabled data management solutions, and modelling and analytics services covering macroeconomics, FX and commodities forecasts [Macro Economic Research, FX, and Commodities Analysis | Acuity Knowledge Partners (acuitykp.com)].

Sources

- [i] CME FedWatch Tool – CME Group
- [ii] OPEC : Several OPEC+ countries announce extension of additional voluntary cuts of 2.2 million barrels per day for the second quarter of 2024
- [iii] Investors Focus Attention on Corporate Earnings | U.S. Bank (usbank.com)

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