# COMPELLING THE FED TO CUT

## Latest low US non-farm payroll

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## KEY HIGHLIGHTS

- **In October 2024, the U.S. economy added 12,000 jobs. This figure, while positive, represents a slowdown compared to previous months.**
- **The low Non-Farm Payroll (NFP) numbers for October 2024, can be attributed to weather and strikes.**
- **Despite the sharp rise due to the effect of hurricanes, new filings for jobless benefits also trended lower.**
- **Judging by the performances of U.S. markets, it seems that investors were not reacting too much to the job's figures**
- **We believe that the jobs report may likely influence the Fed's decisions on interest rates in the coming FOMC meeting this week. This solidifies our view the Fed will consider a rate cut to support economic growth given the slowing job growth.**
- **We believe that this yet to be the early symptom given that October's NFP was affected by weather and strikes, which are one-off occurrence.**
- **We maintain our FBM KLCI, FBM Hijrah, and FBM70 targets for 2024 at 1,750 points or PER25 of 14.8x, 14,100 points or PER25 of 20.2x, and 18,900 points or PER25 of 16.0x, respectively.**

**Marked decline in the NFP.** In October 2024, the U.S. economy added 12,000 jobs. This figure, while positive, represents a slowdown compared to previous months. The unemployment rate remained steady at 4.1%, indicating that while job creation has decelerated, the overall employment situation has not worsened significantly.

**Weather and strikes were the main culprit.** The low Non-Farm Payroll (NFP) numbers for October 2024, can be attributed to weather and strikes. Hurricanes Helene and Milton caused significant damage in the southeastern U.S., disrupting economic activities and affecting employment in various industries. The Bureau of Labor Statistics noted that while it is challenging to quantify the exact impact, the hurricanes likely influenced the payroll estimates. In addition, ongoing labour strikes, particularly in the manufacturing sector, have led to temporary job losses. For example, the Boeing strike was a notable event that contributed to the lower job numbers. It is also possible that broader economic uncertainties and supply chain issues have made businesses more cautious about hiring.

**Varied performance across different sectors.** Employment continued to trend up in food services and drinking places, health care, government, social assistance, and construction. These sectors have shown resilience and consistent growth, contributing positively to the overall employment numbers. Conversely, some sectors experienced declines such as manufacturing and retail trade reflecting broader economic challenges such as supply chain disruptions and possible changing consumer behaviours.

**Modest wage growth and steady labour force participation.** Average hourly earnings saw a modest increase, rising by 0.1% to an annual rate of 4.0%. This wage growth, although slight, is a positive sign for workers as it suggests that employers are willing to offer higher wages to attract and retain talent in a competitive labour market. Meanwhile, the labour force participation rate held steady at 62.7%, indicating that the proportion of the working-age population that is either employed or actively seeking employment has not changed. This stability suggests that the labour market is maintaining its capacity to engage workers, despite economic uncertainties.

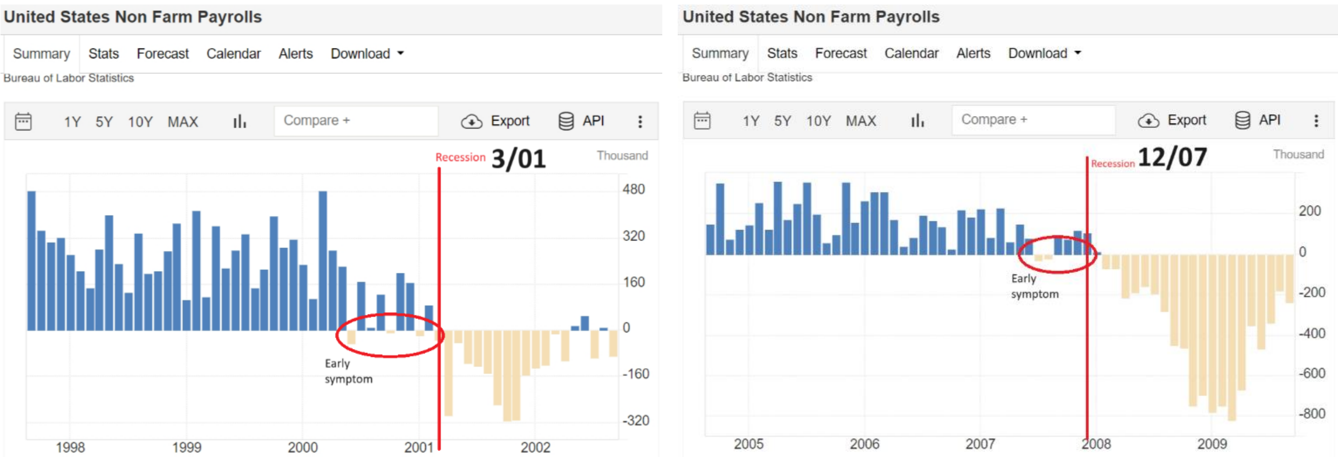
**No significant jump in initial jobless claims.** Despite the sharp rise due to the effect of hurricanes, new filings for jobless benefits also trended lower. Initially, the claims previously surged to 14-month high of 260K for the week ending 5th October 2024 as the hurricanes caused a surge in filings in Florida and South Carolina. However, for the latest week ending 26th October 2024, the weekly filings dropped to 216K (previous week: 228K), the lowest level since May-24. We opine the decline in reliance on unemployment benefits also signals no significant deterioration in the US job market.

**Investors shrugged off the low NFP.** Judging by the performances of U.S. markets, it seems that investors were not reacting too much to the job's figures given the dismal data was affected by hurricanes and a Boeing strike. The Dow Jones, NASDAQ and S&P500 closed +0.69% to 42,052.19, +0.80% to 18,239.92, and +0.41% to 5,728.80 respectively.

**Solidifying view of US rate cut in coming FOMC meeting this week.** We believe that the jobs report may likely influence the Fed's decisions on interest rates in the coming FOMC meeting this week. This solidifies our view the Fed will consider a rate cut to support economic growth given the slowing job growth. Nevertheless, given that the jobs number were influenced by hurricanes and labour strikes, one-off factor, we believe it is unlikely that this weakness is going to cause the Fed to do another round of a jumbo cut. We expect for a 25bps cut at the November meeting.

**An early symptom?** In our strategy report dated 4 August 2024, "The Sky is Not Falling", we opined that despite the early August market selloff in reaction to below expected July NFP, the US economy was not in danger of a recession for as long as NFP remains above 100K. We also highlighted a possible early symptom of a looming US economic recession from the NFP data. A look at previous recessions, most notably in 2001 and 2008, the NFP began to show an early symptom, i.e. intermittently fell well below 100K and into negative territory, several (5 to 9) months prior to the start of a recession.

**US NFP emitted "early symptom" prior to recessions in 2001 and 2008**




*Source: Trading Economics, MIDFR*

**No, but NFP should recover to above 100K in coming month.** However, we believe that this yet to be case given that October's NFP was affected by weather and strikes, which are one-off occurrence. Having said that, the coming November NFP data should rebound back to above 100K level in order to allay fears of an impending recession.

**US demand crucial for Malaysia's exports recovery.** As one of the top export markets for Malaysia, demand from the US remains a key contributor to the continued export recovery. In 9MCY24, Malaysia's exports to the US rebounded by +17.6%yoy, faster than +5.2%yoy growth in Malaysia's overall exports. With the growth in shipments to the US contributing more than one-third of Malaysia's export recovery thus far this year, the share of exports to the US also increased to 12.6% of total exports in 9MCY24 (9MCY23: 11.3%). The US mainly purchased manufactured goods from Malaysia, which accounted 94.3% of Malaysia's exports to the US. Increases recorded this year were mainly from machinery, equipment & parts (+35.3%yoy) and other manufactures (+60.2%yoy).

**US GDP growth moderated but remained resilient.** Despite the lower-than-expected US GDP growth in 3QCY24 which grew by annualised +2.8%qoq (2QCY24: +3.0%qoq; market forecast: +3.0%qoq), private consumption expenditures (PCE) surged by +3.7%qoq, marking the fastest growth since 1QCY23. The main reason for slight moderation in the 3Q GDP growth was the decline in residential investment as the housing market has been hit by the high mortgage rates. From the year-on-year perspective, the US GDP grew by +2.7%yoy (2QCY24: +3.0%yoy), translating into average growth of +2.9%yoy in the first 3 quarters of 2024. This indicates continued resilience in the US economy despite concerns keeping the restrictive monetary policy would cause aggregate demand to weaken.

**US economic resilience a downside risk to ringgit outlook.** We foresee a continued appreciation bias for Malaysian ringgit as the US dollar is expected to decline with the Fed shifting to policy easing. In other words, narrowing interest differentials will be in favour of EM currencies, including ringgit, to appreciate. Nevertheless, we have also indicated that the prolonged strength in the dollar in reaction to sticky and persistent inflation as well as more resilient economic activities in the US. This explains the recent changes in market expectations, no longer anticipating for large rate cuts by the Fed, which resulted in the renewed strengthening of the US dollar. As a result, ringgit also reversed some gains in the past few weeks, depreciating back to RM4.381 at end of last week, which was the weakest weekly closing in 11 weeks. Because the softer US job growth is deemed to be temporary, again the continued resilience in the US economy presents a downside risk to our ringgit outlook as we forecast for ringgit to end the year stronger at RM4.03 against the US dollar.

**Maintain our 2024 targets.** Given that we believe that October's NFP was likely a one-off occurrence and the strong likelihood of the US Fed continuing its easing path, we maintain our **FBM KLCI, FBM Hijrah,** and **FBM70** targets for 2024 **at 1,750 points** or PER25 of 14.8x, **14,100 points** or PER25 of 20.2x, **and 18,900 points** or PER25 of 16.0x, respectively.

**Positioning for the US rate cuts.** We opine that there is a good probability that the domestic equities market may rebound on improved sentiment and return of foreign funds with the US Fed likely to continue with its rate cuts. In the month of August and September, we saw a foreign fund net inflow of RM3.06b of Malaysian equities. However, this reversed in October with a net outflow of -RM1.77b following stronger than expected US economic data, concerns over geopolitics and uncertainty from US politics. With this in mind, below are a list of select stocks that in our universe (with a BUY recommendation) that have seen drawdowns recently but may see renewed interest following from the US rate cuts:

| Company | Recomm. | TP (RM) | Price (RM) at | | One-month drawdown |
|---|---|---|---|---|---|
| | | | 30-Sep | 1-Nov | |
| YTL Corp | BUY | 4.19 | 2.51 | 1.99 | -20.7% |
| Datasonic | BUY | 0.58 | 0.45 | 0.39 | -13.3% |
| YTL Power | BUY | 6.20 | 3.66 | 3.20 | -12.6% |
| Malayan Cement | BUY | 6.60 | 5.20 | 4.62 | -11.2% |
| CelcomDigi | BUY | 4.43 | 3.72 | 3.37 | -9.4% |
| Maxis | BUY | 4.47 | 3.95 | 3.61 | -8.6% |
| Hong Leong Bank | BUY | 22.76 | 21.56 | 20.20 | -6.3% |
| Hong Leong Financial | BUY | 23.13 | 19.32 | 18.42 | -4.7% |
| Public Bank | BUY | 5.16 | 4.56 | 4.46 | -2.2% |
| CIMB | BUY | 9.11 | 8.05 | 7.95 | -1.2% |

*Source: Bloomberg, MIDFR*

## DISCLOSURES AND DISCLAIMER



| **MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS** | |
|---|---|
| **STOCK RECOMMENDATIONS** | |
| BUY | Total return is expected to be >10% over the next 12 months. |
| TRADING BUY | Stock price is expected to *rise* by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow. |
| NEUTRAL | Total return is expected to be between -10% and +10% over the next 12 months. |
| SELL | Total return is expected to be <-10% over the next 12 months. |
| TRADING SELL | Stock price is expected to *fall* by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow. |
| **SECTOR RECOMMENDATIONS** | |
| POSITIVE | The sector is expected to outperform the overall market over the next 12 months. |
| NEUTRAL | The sector is to perform in line with the overall market over the next 12 months. |
| NEGATIVE | The sector is expected to underperform the overall market over the next 12 months. |
| **ESG RECOMMENDATIONS* - source Bursa Malaysia and FTSE Russell** | |
| ☆☆☆☆ | Top 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell |
| ☆☆☆ | Top 26-50% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell |
| ☆☆ | Top 51%- 75% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell |
| ☆ | Bottom 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell |

* ESG Ratings of PLCs in FBM EMAS that have been assessed by FTSE Russell in accordance with FTSE Russell ESG Ratings Methodology