

5 November 2021

Global Markets Research

Daily Market Highlights

05-Nov: BOE surprised markets with no hike

Bank of England kept the Bank Rate at 0.1%

Global bond yields tumbled; markets reassessed monetary policy outlook

Sterling suffered steep selloff; dollar rose alongside gold

- Wall Street benchmarks ended on a mixed note on Thursday as markets digested the Federal Reserve's recent decision to scale back its asset purchase program. The Dow Jones broke a five-day winning streak to close marginally lower (-0.1%). The S&P 500 (+0.4%) and NASDAQ (+0.8%) soared to new highs in their sixth consecutive record-setting session.
- Global bond yields plunged in response to the BOE's surprise move to leave its benchmark rate unchanged (markets had expected a rate hike prior to the announcement). US treasury yields tumbled 4- 8bps with the yield on 10Y UST down by 7.7bps to 1.53%.
- Short-term yields on the UK Gilts tanked around 16 to 20bps in a single session as traders readjusted their monetary policy outlook. The futures market showed that traders sharply trimmed their bets on the next BOE rate hike. Markets now priced in one rate hike by 1Q22, compared to the at least two expected hikes prior to the BOE decision.
- The dollar strengthened across the board overnight, except against the JPY which was boosted by safe haven demand. The GBP was sold off, closing 1.4% lower at 1.35 against the USD and was the biggest loser among the G10 currencies. The dollar index gained 0.5% to 94.35.
- USD/MYR closed 0.1% higher at 4.1540 on Wednesday before Thursday's public holiday, paying little heed to BNM's neutral policy tone. We are neutral to slightly bullish on the pair today, taking into account the broad-based USD strength overnight although cautiousness ahead of the US job report and bullish expectations for Malaysia's economic recovery may limit the pair's upsides.
- In the commodity market, gold prices rallied as investors flocked to safe assets; futures jumped 1.7% to \$1793.50/oz. OPEC+ decided to increase oil production by 400k barrels per day for December, in line with its plan to gradually raise output despite surging oil demand that had boosted oil prices in recent months. The international benchmark Brent crude, however, sold off for the second session (-1.8%) to \$80.5/barrel on remarks by Saudi Energy minister that oil stocks will experience tremendous builds at end-2021 and early 2022 on slowing consumption. US WTI plummeted 2.5% to \$78.81/barrel on the same day.

Key Market Metrics

	Level	d/d (%)
Equities		
Dow Jones	36,124.23	-0.09
S&P 500	4,680.06	0.42
NASDAQ	15,940.31	0.81
Stoxx 600	483.21	0.41
FTSE 100	7,279.91	0.43
Nikkei 225	29,794.37	0.93
Hang Seng	25,225.19	0.80
Straits Times *	3,219.69	-0.39
KLCI 30*	1,531.33	-0.41
FX		
Dollar Index	94.35	0.51
EUR/USD	1.1554	-0.50
GBP/USD	1.3500	-1.37
USD/JPY	113.76	-0.22
AUD/USD	0.7401	-0.63
USD/CNH	6.3974	0.04
USD/MYR*	4.1540	0.13
USD/SGD	1.3511	0.24
Commodities		
WTI (\$/bbl)	78.81	-2.54
Brent (\$/bbl)	80.54	-1.77
Gold (\$/oz)	1,793.50	1.68

*Closing for 03 Nov

Source: Bloomberg, HLBB Global Markets Research

BOE left Bank Rate unchanged, defying market expectations:

- The Bank of England's MPC on Thursday voted 7-2 to leave its benchmark rate unchanged at 0.1% and 6-3 to keep its bond buying program. This was against the widespread market expectations for a rate hike this week. The minutes showed that policy makers remain concerned over the near-term uncertainties, especially around the labour market as well as how long domestic cost and price pressures would

persist in the medium term. It said that more workers were on furlough at the end of September than expected, during which the program had been ended by the government as planned.

- BOE pointed out signs of weaker UK consumption demand and expects the supply chain bottlenecks to continue restraining growth “somewhat” in the near term. The BOE downgraded its 2021 growth forecast to 7.0% (from 7.25% prior) and the 2022 forecast to 5.0% (from 6.0% prior). It expects the UK GDP to return to its pre-pandemic level in the first quarter of 2022.
- It expects inflation to increase through 4Q this year and peak at around 5.0% in April 2022, before dissipating over time as supply chain disruption eased. Inflation for 2021 was revised to 4.5% (from 4.0%) and to 3.5% in 2022 (from 2.5%).
- BOE reiterated the previous message that some modest tightening was imminent. “It will be necessary over coming months to increase Bank Rate in order to return CPI inflation sustainably to the 2.0% target”, provided that the incoming data were broadly in line with projections in the November Monetary Policy Report. The policy stance was judged to remain appropriate.

US initial jobless claims at 269k; trade gap at record high:

- Initial jobless claims fell to 269k for the week ended 30 October, from the revised 283k prior. The falling trend in new claimants for unemployment benefits had continued as the hiring activity outpaced layoff in the US economy amid the ongoing growth.
- In a separate report, the US trade deficit widened to the record high of \$80.9b in September (Aug: -\$72.8b) as imports rose 0.6% m/m to \$288.5b while exports fell 3.0% to \$207.6b. The fully reopened economy continues to support demand for overseas goods while exports were weighed down by supply chain bottlenecks that see manufacturers/exporters having trouble sourcing inputs and facing elevated costs.

Japan’s household spending rose in September:

- Household spending picked up 5.0% m/m in September (Aug: -3.9%), marking its first m/m growth in five months as public sentiment rose amid the falling Covid-19 cases during that period, allowing the return of consumers to the retail sector. The lifting of the State of Emergency measures in October should continue to bode well for household spending in the short term. On a y/y basis, spending recorded a smaller 1.9% decline (Aug: -3.0%) when compared to the consensus forecast of -3.5%.

Australia’s exports fell in September, weighed by lower shipments to China:

- Australia’s exports fell 6.0% m/m in September (Aug: +4.0%), more than the expected decline of 3.0%. Imports meanwhile were down by 2.0% (Aug: +2.0%), also missing the consensus forecast of 1.0% growth. This left the trade surplus lower at AUD12.2b (Aug: AUD12.7b). The decline in exports reflected lower shipment of iron ores (-22.4% m/m), coal (-4.1% m/m), gold (-42.2% m/m) as well as other commodities, among others, petroleum oils, copper and wheat. Merchandise exports to China were down by 24.4% m/m to AUD12.7b after holding above AUD18b for the previous three months. This came as the Chinese manufacturing sector struggled with electric shortages during that period while having to adhere to strict Covid policy.

House View and Forecasts

FX	This Week	4Q-21	1Q-22	2Q-22	3Q-22
DX	92-94	94.50	95.00	95.50	96.50
EUR/USD	1.15-1.18	1.15	1.14	1.14	1.13
GBP/USD	1.36-1.39	1.35	1.35	1.34	1.33
AUD/USD	0.74-0.77	0.72	0.71	0.71	0.70
USD/JPY	112-115	112	113	114	115
USD/MYR	4.13-4.17	4.15	4.15	4.15	4.15
USD/SGD	1.33-1.36	1.35	1.34	1.33	1.34

Policy Rate %	Current	4Q-21	1Q-22	2Q-22	3Q-22
Fed	0-0.25%	0-0.25%	0-0.25%	0-0.25%	0-0.25%
ECB	-0.50	-0.50	-0.50	-0.50	-0.50
BOE	0.10	0.10	0.10	0.10	0.25
RBA	0.10	0.10	0.10	0.10	0.10
BOJ	-0.10	-0.10	-0.10	-0.10	-0.10
BNM	1.75	1.75	1.75	1.75	1.75

Source: HLBB Global Markets Research

Up Next

Date	Events	Prior
05/11	SG Retail Sales YoY (Sep)	-2.8%
	EZ Retail Sales MoM (Sep)	0.3%
	US Change in Nonfarm Payrolls (Oct)	194k
	US Unemployment Rate (Oct)	4.8%
	US Average Hourly Earnings YoY (Oct)	4.6%
08/11	MA Foreign Reserves (29 Oct)	\$115.6b
	EZ Sentix Investor Confidence (Nov)	16.9

Source: Bloomberg

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