13 December 2021

Global Markets Research

Daily Market Highlights

13-Dec: Expected rise in US CPI

The expected increase in CPI to 6.8% y/y eased fear of more aggressive Fed tightening

US stocks rose and USD weakened

Major central bank meets in focus this week

- US stocks advanced between 0.6-1.0% on last Friday's trading, as the expected rise in US inflation soothed concerns of more aggressive policy normalization/ tightening by the Fed. Stocks fell in Europe and Asia earlier amid cautiousness ahead of the CPI release.
- Treasury yields were little changed as a result, as the latest CPI reading dampened expectations of an earlier rate hike in 2Q22. While the Fed is still expected to announce a quicker tapering pace at this week's FOMC meeting, we expect the rate hike trajectory, to be detailed in the dot plot, to remain largely unchanged from the September's update. The yield on the benchmark 10Y UST fell 1.5bps to 1.485%.
- The dollar underperformed most G10 currencies including the EUR, GBP, JPY and AUD. The dollar index softened 0.2% to 96.10 on Friday, reversing the gain seen on Thursday but still above the 96.0 handle.
- On the local front, USD/MYR continued to nudge lower, by 0.1% d/d to 4.2115 as at Friday's close despite a firm USD, possibly amid optimism that recovery in the Malaysian economy is on track for a positive growth in 4Q21. We maintain a *Neutral-to-Slightly Bullish* outlook on USD/MYR in the week ahead as markets will shift their attention on major central banks' policy decision, including the Fed, ECB, BOE and BOJ. A more hawkish Fed potentially detailing quicker asset tapering pace will likely be positive USD, hence capping downside in the pair. We continue to eye a range of 4.20-4.25 for USD/MYR in the week ahead.
- Gold futures climbed 0.5% to $1784.80/oz, as the higher inflation print lifted its inflation hedge appeal. Oil prices also extended their winning streak rising around 1.0%; Brent crude last settled at $75.15/barrel while WTI rose to $71.67/barrel.
- This week, major central bank meets will take center stage. The Fed will kickstart on 16-December, with focus on its announcement for quicker pace of tapering. While we expect little changes to its economic projection, there could be a hawkish tilt to the Fed dot plot. The ECB will likely announce plans to unwind its PEPP program while the BOE will likely stay the course and maintain a cautious guidance. No policy shift is expected from the BOJ as well.

US inflation rose as expected; consumer sentiments improved

- Headline CPI accelerated to 6.8% y/y in November (Oct: +6.2% y/y) as expected, its highest in nearly four decades since 1982. Americans are seeing higher inflation across most products and services from food (+6.1% y/y) to energy (+33.3%) and housing (+3.8%). Despite the quicker y/y increases, the easing momentum in the m/m readings offered some tell-tale signs inflation is stabilizing albeit at high levels and is well poised to begin tapering off in the next few months. Headline inflation rose 0.8% m/m (Oct: +0.9%) while the core CPI increased more modestly by 0.5% m/m (Oct: +0.6%), resulting in an 4.9% y/y increase (Oct: +4.6% y/y), its highest in 30 years.

Key Market Metrics

	Level	d/d (%)
Equities		
Dow Jones	35,970.99	0.60
S&P 500	4,712.02	0.95
NASDAQ	15,630.60	0.73
Stoxx 600	475.56	-0.30
FTSE 100	7,291.78	-0.40
Nikkei 225	28,437.77	-1.00
Hang Seng	23,995.72	-1.07
Straits Times	3,135.61	-0.22
KLCI 30	1,488.88	-0.86
FX		
Dollar Index	96.10	-0.18
EUR/USD	1.1313	0.18
GBP/USD	1.3273	0.39
USD/JPY	113.44	-0.04
AUD/USD	0.7172	0.32
USD/CNH	6.3763	-0.05
USD/MYR	4.2113	-0.12
USD/SGD	1.3649	-0.01
Commodities		
WTI ($/bbl)	71.67	1.03
Brent ($/bbl)	75.15	0.98
Gold ($/oz)	1,784.80	0.46

Source: Bloomberg, HLBB Global Markets Research

- University of Michigan consumer sentiments improved more than expected to 70.4 in December (Nov: 67.4). Consumers turned more upbeat over current as well as future expectations, supported by a solid labour market.

Broadly disappointing UK data heightened growth concerns:

- GDP growth slowed more than expected to a mere +0.1% m/m in October (Sept: +0.6%), its weakest since a contraction in Jan-21. This was weighed down by slower growth in services and stagnant manufacturing production, heightening concerns recovery in the UK economy is faltering. Meanwhile, mining and electricity continued to contract.
- Industrial production failed to turn around, unexpectedly fell 0.6% m/m in October (Sept: -0.4% m/m) amid extended declines in mining and utilities, which overshadowed the stagnant manufacturing production (0.0% vs -0.1%).
- Construction output unexpectedly fell again, by 1.8% m/m in October (Sept: +1.3% m/m) as new housing and infrastructure works all recorded broad-based decline
- Index of services eased to 0.4% m/m in October as expected (Sept: +0.7% m/m), still maintaining an expansion for the 3rd straight month as faster growth in transport/ storage/ communication was neutralized by slower growth in all other services.
- Visible trade deficit narrowed more than expected to £13934m in October (Sept: -£14736m), amid an increase in exports (+1.6%) and contraction in imports (-1.1%). Trade with EU countries fell while those with non-EU countries increased. It remains inconclusive if the current weakness was due to weakening economic prospects or supply chain disruption, but the outlook ahead looks murky regardless.

Commendable October data for Malaysia reaffirmed recovery in 4Q:

- Industrial Production Index (IPI) rose for a 2nd straight month, and at a faster than expected pace of 5.5% y/y in October (Sept: +2.5% y/y), suggesting solid recovery traction as more workers returned to work following continuous relaxation in the movement restrictions covering a bigger geographical area and business sectors. Growth was driven by faster growth in manufacturing (+8.0% y/y), and electricity (+4.1% y/y), offsetting continuous decline in mining (-3.5% y/y).
- Labour market indicators for the manufacturing sector turned out encouraging as well tracking the improvement seen in the broad labour market. The number of employed saw quicker growth for the 3rd straight month, by 2.4% y/y while wages and salary also quickened for the 3rd straight month to 4.4% y/y in October (Sept: +1.6%; +3.6% y/y).
- In a separate release, wholesale and retail trade posted a commendable turnaround in October, increasing 5.4% y/y (Sept: -2.6% y/y). This first positive gain in five months was driven by expansion across the board namely wholesale (+4.4% y/y), retail (+5.1% y/y), and motor vehicles (+10.2% y/y), reflecting the positive effects from economic reopening and gradual resumption in consumer spending. This should augur well with a positive growth outlook for 4Q21, evident in the solid month-on-month momentum where overall sales continued to expand for the 4th consecutive month, albeit at a slightly slower pace of 7.7% m/m (Sept: +8.1%).

House View and Forecasts

FX	This Week	4Q-21	1Q-22	2Q-22	3Q-22
DXY	95-97	94.50	95.00	95.50	96.50
EUR/USD	1.12-1.14	1.15	1.14	1.14	1.13
GBP/USD	1.31-1.33	1.35	1.35	1.34	1.33
AUD/USD	0.70-0.72	0.72	0.71	0.71	0.70
USD/JPY	112-114	112	113	114	115
USD/MYR	4.20-4.25	4.15	4.15	4.15	4.15
USD/SGD	1.36-1.38	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
13/12	NZ Performance Services Index (Nov)	44.6
	JP Tankan Large Mfg Index (4Q)	18.0
	JP Core Machine Orders MoM (Oct)	0.0%
14/12	AU NAB Business Confidence (Nov)	21.0
	JP Industrial Production MoM (Oct F)	1.1%
	UK Average Weekly Earnings 3M/YoY (Oct)	5.8%
	UK ILO Unemployment Rate 3Mths (Oct)	4.3%
	UK Employment Change 3M/3M (Oct)	247k
	EZ Industrial Production SA MoM (Oct)	-0.2%
	US NFIB Small Business Optimism (Nov)	98.2
	US PPI Final Demand YoY (Nov)	8.60%

Source: Bloomberg

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