14 October 2021

Global Markets Research
Daily Market Highlights

14-Oct: Fed's tapering plan weighed on USD, yields

Fed could start scaling back QE in mid-November or December
Pace of reduction likely at $15b per month
MAS unexpectedly tighten policy, citing better growth outlook & inflation

- US stock benchmarks closed out Wednesday's session on a mixed note as investors digested the Fed's tapering plan in the FOMC minutes, higher US CPI and corporate earnings. The Dow Jones recorded extended losses (-0.5%), the S&P 500 picked up modestly by 0.3% as the fall in financials and energy shares offset the gains in the rest of the sectors. Banks shares were down despite JP Morgan's better-than-expected 3Q earnings as it freed up more loan loss reserves. Meanwhile, tech-heavy NASDAQ outperformed with 0.7% gain.

- The highly anticipated minutes showed that officials are prepared to scale back its asset purchase program or QE as soon as mid-November at a pace reduction of $15b per month. Short-term yields rose while longer-term yields continued to fall in response to the hot US inflation and the minutes, leaving the curve to bull-flatten. The 10Y UST yield was down by 4bps to 1.54%.

- The US dollar weakened as yields ticked lower, which in turn boosted gold prices. All G10 currencies strengthened against the USD while the dollar index slumped 0.5% to 94.08, marking its largest single-day decline since late August.

- Earlier in the Asian session, USD/MYR slipped further lower (-0.1%) to close at 4.1600, in line with our neutral to bullish outlook for MYR in the short term. The reopening optimism and recent rallies in crude oil and CPO prices have continued to offer support to the local currency, and the further decline in broad USD overnight may reinforce bullish MYR sentiment, paving way to target 4.1535 next, before breaching 4.1500.

- Gold prices rallied by around 2% with futures advancing to $1793.7/oz, its best day since March this year. Crude oil prices consolidated after recent rallies as both WTI and Brent crude shed 0.3% to $80.44/barrel and $83.18/barrel respectively.

FOMC minutes showed details on Fed's tapering plan, divided views on rate hikes:

- The FOMC minutes for 21-22 September meeting revealed that the Fed could start to reduce the pace of asset purchases by $10b for treasuries and $5b for mortgage-backed securities per month "later this year" and end the purchases "around middle of next year". The process could start in either mid-November or mid-December. In last month's meeting, the Fed has signalled that it would start to taper its monthly $120b QE program as soon as next month while the dot plot showed a hawkish shift in rate expectations with more members (9 out of 18) foreseeing at least a 25bp-hike by the end 2022.
- Officials discussed upside and downside risks to the economic outlook. Upside risks include additional fiscal expansion, higher consumer spending (from the high savings) and longer-than-expected elevated inflations. Downside risks such as potential tightening of financial conditions, higher Covid-19 cases and receding effect of previous fiscal supports.

Key Market Metrics

	Level	d/d (%)
Equities		
Dow Jones	34,377.81	0.00
S&P 500	4,363.80	0.30
NASDAQ	14,571.63	0.73
Stoxx 600	460.39	0.70
FTSE 100	7,141.82	0.16
Nikkei 225	28,140.28	-0.32
Hang Seng	24,962.59	-1.43
Straits Times	3,156.42	1.43
KLCI 30	1,600.38	1.04
FX		
Dollar Index	94.08	-0.46
EUR/USD	1.1594	0.56
GBP/USD	1.3659	0.52
USD/JPY	113.25	-0.32
AUD/USD	0.7379	0.39
USD/CNH	6.4281	-0.43
USD/MYR	4.1600	-0.11
USD/SGD	1.3517	-0.41
Commodities		
WTI ($/bbl)	80.44	-0.25
Brent ($/bbl)	83.18	-0.29
Gold ($/oz)	1,793.70	2.01

Source: Bloomberg, HLBB Global Markets Research

- Some officials argued that a policy shift toward a moderation of asset purchases provided no direct signal about its interest rate policy. The discussion showed divided views as some officials are in favour of keeping a policy stance sufficiently accommodative i.e., "keeping the rate at or near its lower bound over the next couple of years" due to their concerns over sustained downward pressure on inflation in the years ahead and economy being below maximum employment.
- A number of officials, in contrast, raised the possibility of raising rates by the end of next year because they expected the labour market and inflation goals might be achieved by that time and saw inflation as likely to remain elevated in 2022 with risks to the upside.

US inflation running hot as firms passed costs to consumers;

- Inflation accelerated last month in the US as firms passed higher labour and raw material costs to consumers amid the ongoing economic recovery. Consumer prices rose 0.4% m/m in September, higher than previous month's rate and the consensus forecast of 0.3%, driven by the higher costs of services, housing, food & beverages and transportations. The monthly core CPI rate rose to 0.2% m/m (Aug: +0.1%). The annual CPI rate picked up to 5.4% y/y (Aug: +5.3%), also beating consensus estimates while the core reading was steady at 4.0% y/y (Aug: +4.0%).
- In a separate note, mortgage applications rose 0.2% w/w last week after the prior 6.9% decline. The higher purchases applications were offset by the fall in refinancing applications as mortgage rates crept up last week alongside recently higher treasury yields. Borrowing costs climbed across the board last week; for instance, a 30Y fixed-rate mortgage contract was priced at 3.18% on average (prior: 3.14%).

Eurozone's industrial production down in August:

- Industrial production fell 1.6% m/m in August, roughly matching expectations (-1.7% m/m). This followed an upwardly revised 1.4% growth in July. The decline in output reflects lower production of intermediate goods, capital goods, consumer durables as well as non-durables. The broad-based moderation in factory output showed the impact of supply chain constraints which disrupted the acquiring of raw materials such as electronic components.

UK output rose in August as economy recovered further:

- The UK economy extended recovery into August as the monthly nominal GDP picked up by 0.4% m/m (Jul: -0.1%) but remained 0.8% below its pre-pandemic February 2020 level. The acceleration in growth reflects stronger industrial production growth (+0.8% vs +0.3% prior), a smaller decline in construction output (-0.2% vs -1.0% prior) and more robust services activity (+0.3% vs -0.1%).
- The higher industrial output is attributed to the "continued increase in the extraction of crude petroleum and natural gas following the recent temporary closure of oil field production sites for planned maintenance" according to the UK Statistic Office.
- A separate report showed that the UK's goods trade deficit widened to £14.9b in August (Jul: £14.1b) as imports recorded a smaller decline (-1.0% m/m) relative to exports (-4.6% m/m).

China's September exports beat forecast to hit record high:

- China's exports rose 28.1% y/y in September (Aug: +25.6%) to a record high of $305.7b, more than the expected gain of 21.5%. The strong print again reflects the resilience of China's external trade sector as well as the robust global demand despite the electricity crunch faced by factories last month.
- Import growth came in weaker at 17.6% y/y, lower than the consensus forecast (+20.9%) as well as August's reading (+33.1%), leaving the trade surplus at $66.8b. The softer imports add to mounting evidence that domestic demand is in fact slowing alongside a weakening property sector.

MAS tightened policy on stronger GDP outlook and higher inflation:

- Singapore's GDP growth came in at 0.8% q/q in the third quarter, according to an advance estimate, this is lower than the consensus forecast of 1.1% but represents a turnaround from the upwardly revised contraction (-1.4% q/q) in the second quarter when the government had imposed tighter restrictions. The rebound was driven mainly by growth in the services sector (+0.5% q/q), as manufacturing output was unchanged. On a year-on-year basis, GDP growth slowed from the revised 15.2% y/y in 2Q to 6.5% y/y in 3Q, slightly below consensus estimate of 6.6% in the absence of a lower corresponding base from last year.
- The Monetary Authority of Singapore decided to move to a currency appreciation policy, after sticking to a zero-appreciation policy since March 2020. MAS slightly increased the slope of the SGD NEER policy band. This was not expected by markets, although we flagged a 25% chance they will do so. MAS expects accumulating" domestic and external cost pressures in the medium term, which probably led to the tightening decision today. The MAS expects core inflation to rise to 1-2% next year, and close to 2% in the medium term.

House View and Forecasts

FX	This Week	4Q-21	1Q-22	2Q-22	3Q-22
DXY	93-96	94.50	95.00	95.50	96.50
EUR/USD	1.14-1.17	1.15	1.14	1.14	1.13
GBP/USD	1.35-1.38	1.35	1.35	1.34	1.33
AUD/USD	0.72-0.74	0.72	0.71	0.71	0.70
USD/JPY	110-113	112	113	114	115
USD/MYR	4.16-4.20	4.15	4.15	4.15	4.15
USD/SGD	1.34-1.37	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
14/10	UK RICS House Price Balance (Sep)	73%
	AU Employment Change (Sep)	-146.3k
	AU Unemployment Rate (Sep)	4.5%
	CN CPI YoY (Sep)	0.8%
	CN PPI YoY (Sep)	9.5%
	JP Industrial Production MoM (Aug F)	-3.2%
	US Initial Jobless Claims (09 Oct)	326k
	US PPI Final Demand YoY (Sep)	8.3%
15/10	NZ BusinessNZ Manufacturing PMI (Sep)	40.1
	EZ Trade Balance SA (Aug)	13.4b
	US Empire Manufacturing (Oct)	34.3
	US Retail Sales Advance MoM (Sep)	0.7%
	US Import Price Index MoM (Sep)	-0.3%
	US Retail Sales Ex Auto and Gas (Sep)	2.0%
	US Import Price Index YoY (Sep)	9.0%
	US U. of Mich. Sentiment (Oct P)	72.8

Source: Bloomberg

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