

15 December 2021

Global Markets Research

Daily Market Highlights

15-Dec: All eyes on FOMC

Selloffs in stocks and government bonds amid pre-FOMC jitters and inflation concerns

USD strength stayed extended; GBP gained on BOE rate hike bets

All eyes on FOMC announcement and the Fed dot plot

- Blood bath in global equities as higher inflation risks continue to bite and as markets turn risk averse heading into major central bank meets. US stocks extended its decline for a 2nd straight day, as the unexpected quickening in US PPI reaffirmed expectations the Fed would take on a more hawkish stance at its upcoming FOMC meeting (announcement at 3am Malaysian time tomorrow). The Dow shed 0.3% d/d while the S&P500 and NASDAQ slumped 0.8% and 1.1% respectively. European and Asian stocks also ended in the red earlier.
- Investors also dumped safer government bonds, repositioning ahead of major policy announcement kickstarting with the Fed, followed by the BOE, ECB and BOJ. Yields of 10Y UST rose 3bps to 1.44%, UK gilts also added 3bps to 0.72%, while German bunds inched 1bp up to -0.37%.
- The dollar strengthened for a 2nd straight day, advancing against all G10s except the small losses against the sterling. The GBP rallied at the start of European trading session as a bout of positive UK job data heightened expectations that the BOE would hike rates soon. The Dollar Index rose further by 0.25% d/d to 96.56 as at Tuesday's close, its highest in a week. We expect sustained USD strength today heading towards FOMC announcement followed by Fed Chair Powell's press conference.
- USD/MYR extended its slow upward trajectory through the day but ticked lower in late Asian session to close only 0.1% d/d higher at 4.2330 on Tuesday, in line with broad weakness seen in regional peers amid continued build-up in USD strength. We remain *Neutral-to-Slightly Bullish* on USD/MYR but upcoming FOMC announcement could keep investors at bay. 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 for the week at this juncture.
- Gold futures consolidated from recent gains, registering a pullback of 0.9% to \$1772.30/oz. Oil prices extended its decline on demand concern. Brent crude plunged 1.6% to \$73.18/barrel while WTI slipped 0.8% to \$70.73/barrel.
- While focus is on FOMC, the barrage of first tier China data this morning which is expected to reaffirm slowdown concerns and prompt policy support from the PBoC and the government, could potentially weigh on markets. Talks of future policy easing have gained traction recently but the PBoC is still expected to keep its 1-year medium lending facility rate steady at 2.95% today.

US PPI staged a surprised jump; small business confidence marginally improved:

- US PPI reported a surprised pick-up to +0.8% m/m in November (Oct: +0.6% m/m), against consensus estimate for a moderation to +0.5% m/m, driven by higher

Key Market Metrics

	Level	d/d (%)
Equities		
Dow Jones	35,544.18	-0.30
S&P 500	4,634.09	-0.75
NASDAQ	15,237.64	-1.14
Stoxx 600	469.56	-0.84
FTSE 100	7,218.64	-0.18
Nikkei 225	28,432.64	-0.73
Hang Seng	23,635.95	-1.33
Straits Times	3,121.09	0.04
KLCI 30	1,480.92	-0.93
FX		
Dollar Index	96.56	0.25
EUR/USD	1.1259	-0.22
GBP/USD	1.3231	0.11
USD/JPY	113.70	0.14
AUD/USD	0.7104	-0.38
USD/CNH	6.3742	-0.02
USD/MYR	4.2330	0.10
USD/SGD	1.3701	0.17
Commodities		
WTI (\$/bbl)	70.73	-0.79
Brent (\$/bbl)	73.18	-1.63
Gold (\$/oz)	1,772.30	-0.89

Source: Bloomberg, HLBB Global Markets Research

prices across the board. On a year-on-year basis, PPI quickened more than expected to a record high of 9.6% y/y (Oct: +8.8% y/y), vs expectations for an uptick to +9.2% y/y. Core PPI ex-food and energy also came in higher than expected, at +0.7% m/m and 7.7% y/y (Oct: +0.4% m/m and +7.0% y/y). Details showed broad-based inflation from goods to services, raising concerns of a widening depth and breadth of the current inflation debacle, supporting the case for policy tightening.

- NFIB small business confidence inched marginally higher to 98.4 in November (Oct: 98.2), but remained below the 100 threshold for the 3rd straight month. Plan to hire retreated somewhat while less small businesses were expecting a better economy and has plans to increase capital spending. On the contrary, more setups were expecting higher selling prices as inflation continues to bite, dampening business optimism.

Eurozone industrial production rebounded as expected:

- Industrial production rebounded by 1.1% m/m in October (Sept: -0.2% m/m), largely within expectation for a 1.2% m/m increase, thanks to continuous recovery in Germany's auto sector. On an annual comparison basis, production growth registered a smaller than expected moderation to 3.3% y/y (Sept: +5.1% y/y). Growth was broad-based supported by intermediate goods, capital goods, durable and non-durable goods, as well as energy, a sign the Eurozone economy was recovering favourably before the onset of the fourth wave and Omicron variant.

Good set of UK job data but Omicron uncertainties will hold back BOE:

- ILO unemployment rate improved to 4.2% in October (Sept: 4.3%) as expected, its lowest since Jun-20. In line with the improving job market, jobless claims fell 49.8k in November (Oct: -58.5k revised) as claimant count rate fell to 4.9% (Oct: 5.0% revised). Average weekly earnings growth eased for the 4th straight month to 4.9% y/y in the three months to October (Sept: +5.9%), distorted by base effect. Employment continued to increase albeit at a slower pace of 149k in October, compared to 247k a month ago, extending its 8th straight month of gains signalling continuous recovery in the labour market.
- The set of job data today suggests little impact from the end of the government furlough programme, and that the labour market remains tight, likely giving rise to further wage growth and inflationary pressure which would prompt the BOE to hike rates as soon as the Covid variant uncertainties wane.

Japan industrial production rebounded more than initially estimated:

- Final print of Industrial production rebounded at a faster than initially estimated pace in October, growing 1.8% m/m (Sept: -5.4% m/m), leading to a smaller 4.1% y/y contraction. The monthly gain was spurred by quicker gains in shipment (+2.4% vs +2.0%) despite slower growth in inventories (+0.6% vs +0.8% m/m). This offers tentative signs production is picking up again after the slump during the lockdown period.

Softer Australia consumer and business confidence:

- Business confidence deteriorated sharply in November (12 vs 20) while business conditions inched up from 10 to 12. The decrease in confidence was dented by exports and exports sales, although trading and employment saw increases.
- Westpac consumer confidence fell 1.0% m/m to a 4-month low of 104.3 in December (Nov: 105.3), as consumers became downbeat over economic outlook and have significantly trimmed plans to buy major household items (-5.3% vs +1.8%). Consumer confidence over current conditions fell 2.6% m/m, marking its 5th straight month of pullback and the biggest fall in four months, offering signs of a weak recovery in the consumer sector in 4Q, potentially spilling over to 1Q next year.

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
15/12	AU Westpac Consumer Conf Index (Dec)	105.3
	CN Retail Sales YoY (Nov)	4.9%
	CN Industrial Production YoY (Nov)	3.5%
	CN Fixed Assets Ex Rural YTD YoY (Nov)	6.1%
	UK CPI YoY (Nov)	4.2%
	US MBA Mortgage Applications (10 Dec)	2.0%
	US Empire Manufacturing (Dec)	30.9
	US Retail Sales Advance MoM (Nov)	1.7%
	US Import Price Index YoY (Nov)	10.7%
	US NAHB Housing Market Index (Dec)	83.0
16/12	US FOMC Rate Decision (15 Dec)	0-0.25%
	NZ GDP SA QoQ (3Q)	2.8%
	JP Exports YoY (Nov)	9.4%
	AU Employment Change (Nov)	-46.3k
	JP Jibun Bank Japan PMI Services (Dec P)	53.0
	JP Jibun Bank Japan PMI Mfg (Dec P)	54.5
	AU Unemployment Rate (Nov)	5.2%
	EZ Markit Eurozone Manufacturing PMI (Dec P)	58.4
	EZ Markit Eurozone Services PMI (Dec P)	55.9
	UK Markit UK PMI Manufacturing SA (Dec P)	58.1
	UK Markit/CIPS UK Services PMI (Dec P)	58.5
	EZ Trade Balance SA (Oct)	6.1b
	EZ Labour Costs YoY (3Q)	-0.1%
	UK Bank of England Bank Rate (16 Dec)	0.1%
	EZ ECB Deposit Facility Rate (16 Dec)	-0.5%
	US Initial Jobless Claims (11 Dec)	--
	US Housing Starts MoM (Nov)	-0.7%
	US Building Permits MoM (Nov)	4.2%
	US Philadelphia Fed Business Outlook (Dec)	39.0
	US Industrial Production MoM (Nov)	1.6%
	US Markit US Manufacturing PMI (Dec P)	58.3
	US Markit US Composite PMI (Dec P)	57.2
	US Markit US Services PMI (Dec)	58.0
	US Kansas City Fed Manf. Activity (Dec)	24.0

Source: Bloomberg

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