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Global Markets Research

Daily Market Highlights

16-Dec: Hawkish shift in the Fed

Broad market rally as the Fed turned hawkish as expected

The Fed doubled its asset tapering pace; signalled steeper rate hike path

BOE and ECB in focus next

- US equities halted two straight days of selloffs, as the expected hawkish shift by the Fed encompassing the doubling in asset tapering to $30bn a month ($15bn currently) and guidance for three interest rate hikes each in 2022 and 2023 (prior one and three hikes) spurred risk rally. The three major stock benchmark indices increased 1.1-2.2% d/d. Earlier, stocks ended mixed in European and Asian trading amid cautiousness ahead of the FOMC announcement.

- Investors continued to dump safer government bonds albeit at a more moderate pace. Yields of 10Y UST rose 2bps to 1.46%, UK gilts also added 1bps to 0.73%, while German bunds inched up less than 1bp to -0.37%.

- The dollar was hammered down for the first time in three days, weakening against all G10s except for the JPY and CHF amid paring of haven demand. The Dollar Index fell 0.25% to 96.33 as at Wednesday's close. The NOK and AUD led the pack with close to 1.0% gain while the sterling went through some volatility following some knee-jerk gains triggered by quicker than expected jump in inflation readings and Omicron fear. Major Asian currencies were mixed against the greenback.

- USD/MYR reversed course again, closing 0.08% lower d/d at 4.2285 after hitting intraday high of 4.2382 and low of 4.2280 respectively. We are neutral to slightly bearish on USD/MYR today following overnight USD weakness and amid expectation for a relief rally in risk assets in Asia markets this morning. Market will next focus on the BOE and ECB policy announcement for cues. No change to our weekly USD/MYR range of 4.20-4.25.

- Gold futures continued to pullback for a 2nd straight day, falling 0.4% to $1764.60/oz. Oil prices rebounded but still shy of recent highs, as US EIA reported a hefty drop in crude inventories. Brent crude increased 0.9% to $74.34/barrel while WTI rose 0.2% to $70.87/barrel.

- Other than the Fed decision, PBoC maintained its 1-year medium term lending rate unchanged at 2.95%. BOE and ECB policy announcement will be up next. As we have highlighted in our weekly publication earlier, the ECB will likely announce plans to unwind its PEPP program while the BOE will likely stay the course and maintain a cautious guidance in the wake of Omicron uncertainties even as quicker than expected acceleration in inflation could pose greater policy challenges.

Hawkish shift in the Fed as expected:

- The Fed shifted to a more hawkish stance at its latest FOMC meeting in attempts to combat stubbornly high inflation. The Fed decided to increase its monthly asset tapering pace from $15bn to $30bn starting January. The Fed also outlined a steeper rate hike path. The latest dot plot projects three rate hikes each in 2022 and 2023, compared to September's one (for 2022) and three (for 2023) while for

Key Market Metrics

	Level	d/d (%)
Equities		
Dow Jones	35,927.43	1.08
S&P 500	4,709.85	1.63
NASDAQ	15,565.58	2.15
Stoxx 600	470.76	0.26
FTSE 100	7,170.75	-0.66
Nikkei 225	28,459.72	0.10
Hang Seng	23,420.76	-0.91
Straits Times	3,114.88	-0.20
KLCI 30	1,482.81	0.13
FX		
Dollar Index	96.33	-0.25
EUR/USD	1.1289	0.27
GBP/USD	1.3262	0.23
USD/JPY	114.04	0.30
AUD/USD	0.7169	0.91
USD/CNH	6.3742	0.00
USD/MYR	4.2285	-0.08
USD/SGD	1.3653	-0.35
Commodities		
WTI ($/bbl)	70.87	0.20
Brent ($/bbl)	74.34	0.87
Gold ($/oz)	1,764.50	-0.44

Source: Bloomberg, HLBB Global Markets Research

2024, the number of hikes was trimmed from three to two. Majority 10 out of 18 Fed officials were projecting three rate hikes in 2022, with 5 calling for two hikes and 2 calling for four hikes. The median longer run rates were maintained at 2.50% with a range of 2.0-3.0%.

- Somewhat contrary to its more aggressive rate hike guidance, the Fed has downgraded its growth forecasts from 5.9% to 5.5% for this year, but 2022's forecast was tweaked slightly higher to 4.0% (from 3.8%) stemming from the downward revision to 2021 forecast. 2023 growth outlook was revised lower to 2.2% (from 2.5%) while 2024's and long run growth forecast was kept unchanged at 2.0% and 1.8% respectively. On a positive note, unemployment rate was revised 0.3-0.5ppt lower to 4.3% and 3.5% for 2021 and 2022 (prior 4.8% and 3.8%), in line with recent improvement seen in the labour market. On inflation, both PCE and core PCE forecasts were revised higher by 0.7-1.1ppt. The Fed projects higher PCE of 5.3% and 2.6% for 2021 and 2022 (prior 4.2% and 2.2%) while core PCE is expected to print higher at 4.4% and 2.7% for 2021 and 2022 (prior 3.7% and 2.3%).

Disappointing US retail sales; decent manufacturing and housing data:

- Retail sales pulled back more than expected to increase only 0.3% m/m in November (Oct: +1.8%) while sales ex-auto also saw a similar fate, reinforcing believes that persistently high inflation has started to bite and dampen consumer real purchasing power. Sales at department stores (-5.4% vs +2.5%) and electronics (-4.6% vs +3.1%) dampened overall sales, negating the quicker gain in food & beverages (+1.0% vs +0.3%).
- Import and export prices reported slower increases of +0.7% and +1.0% m/m respectively in November (Oct: +1.5% and +1.6% m/m upwardly revised). Price gains in food, autos and petroleum eased. We also observed the increase in prices of consumer goods ticked higher but that of industrial supplies eased, indicating likelihood of further pick-up in consumer prices.
- Empire manufacturing unexpectedly improved to 31.9 in December (Nov: 30.9) amid an easing in supply tightness that has eased both input and output prices. Orders, shipment and employment however all softened, pointing to a softer outlook ahead.
- On the housing front, NAHB housing market index ticked slightly up to 84 as expected in December (Nov: 83) and MBA mortgage applications fell 4.0% w/w for the week ended 10-Dec (prior: +2.0%)

Upside surprises in UK inflation readings:

- All price gauges showed inflation is still accelerating in the UK, potentially pushing BOE to tighten sooner than later. CPI jumped more than expected to a decade-high of 5.1% y/y in November (Oct: +4.2% and consensus +4.8%) driven by fuel, clothing & footwear, and food. This came despite the moderation in monthly gain to 0.7% m/m (Oct: +1.1% and consensus +0.4% m/m). Core CPI also picked up more than expected to 4.0% y/y, besting consensus estimate of +3.7% and October's +3.4% y/y. Retail price index also spiked to 7.1% y/y in November, up from +6.0% y/y in October.

Weak first tier data reaffirmed a slowing China economy:

- The latest slew of first tier data from China disappointed by and large, adding to signs recovery in the China economy is losing steam. Retail sales slowed more than expected, growing a mere 3.9% y/y in November, missing the consensus estimate of +4.7% and down from October's +4.9% increase. Jobless rate inched higher to 5.0% in November, against expectation for a steady jobless rate at 4.9%. A weaker labour market may continue to undermine consumer spending and retail sales going forward, including the year end and Lunar New Year spending, not to mention continued border closure and travel restrictions.
- Fixed asset investment ex-rural trended down to +5.2% y/y in year-to-date November (YTD Oct: +6.1%), suggesting a sharp slowdown during the month.

Similarly, property investment also posted a lower growth of 6.0% y/y year-to-date November (YTD Oct: +7.2% y/y), reaffirming widening weaknesses and risks in the broad property markets.

- Industrial production was the only positive, increasing at a faster than pace by 3.8% y/y in November (Oct: +3.5% and consensus +3.7% y/y). The improvement was driven by manufacturing (+2.9% vs +2.5% y/y), mining (+6.2% vs +6.0% y/y), and steady increase in utilities (+11.1% y/y). Pharmaceutical, food, machinery, telco & computer, power & heat were among the sectors which outshone the rest.

Pick-up in Japan services industry will help sustain growth in 4Q:

- Tertiary industry index reported a bigger than expected pick-up to 1.5% y/y in October, besting consensus estimate for a 1.2% gain and tripled from September's +0.5% y/y. This marked its first back-to-back expansion since October last year, benefitting from economic reopening that spurred growth from retail trade (+1.5% m/m), services (+1.3%), business-related services (+0.7%), utilities (+3.7%), information & communication (+4.5%), among others.

Smaller than expected contraction in New Zealand 3Q GDP:

- The New Zealand economy contracted, albeit at a smaller than expected pace of 3.7% q/q and 0.3% y/y in 3Q GDP, reversing the 2.4% q/q and 17.9% y/y gain in 2Q as the Delta variant triggered nationwide lockdown adversely impacted economic activities. All the three major industries fell – primary (-3.1% vs +2.7%), goods-producing (-7.3% vs +1.0%), and services (-2.7% vs +2.8%). It is generally believed that the negative reading today will unlikely deter the RBNZ rate hike path. The RBNZ has earlier projected a bigger contraction of 7.0% q/q vs market consensus estimates of -4.1% q/q. Today's smaller negative print should have alleviated concerns of a bigger hit to the New Zealand economy although the recovery outlook ahead is expected to remain bumpy compounded by the emergence of Omicron.

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
16./12	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
17/12	US Kansas City Fed Manf. Activity (Dec)	24.0
	NZ ANZ Consumer Confidence Index (Dec)	96.6
	NZ ANZ Business Confidence (Dec)	-16.4
	UK GfK Consumer Confidence (Dec)	-14.0
	SG Non-oil Domestic Exports YoY (Nov)	17.9%
	UK Retail Sales Inc Auto Fuel MoM (Nov)	0.8%
	EZ CPI YoY (Nov F)	4.9%
	JP BOJ Policy Balance Rate (17 Dec)	-0.1%

Source: Bloomberg

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