

17 December 2021

Global Markets Research

Daily Market Highlights

17-Dec: US equities fell amid growth concerns

BOE surprised with a 15bps rate hike to combat inflation

ECB stayed pat and signalled no hike in 2022; PEPP to end in March as expected

US equities and USD weakened on fear higher rates will derail recovery; BOJ up next

- US equities ended in the red again, led by selloffs in tech stocks and consumer discretionary. The NASDAQ plunged the most since September, down by 2.5% d/d to a two-week low. Amazon, Apple, Google, Tesla all ended in the red. Meanwhile, the S&P500 and the Dow registered more modest decline of 0.9% and 0.1% respectively, underpinned by gains in financials (+1.7%), materials (+1.0%) and energy (+0.9%). European and Asian stock indices ended higher earlier fused by Fed optimism despite ECB and BOE event risks.
- US treasuries advanced again spurred by safety demand as markets began to ponder the risk of higher interest rates on economic recovery prospects. Yields of 10Y UST fell 3bps to 1.43%. On the contrary, government bonds remained under pressure in Europe amid continuous gains in equities. UK gilts added 2bps to 0.75%, while German bunds inched up 1bp to -0.36%.
- The dollar weakened for the 2nd straight day as growth concerns resurfaced. The greenback weakened against all G10s, pushing the Dollar Index lower by 0.5% to 95.99 as at Thursday's close, after two evident gap-downs at the start of the European and American trading sessions.
- The EUR and GBP rallied post respective ECB and BOE policy announcements. The EUR/USD hit a 1.1360 high before paring gains to close at 1.1329 (+0.35% d/d) while the sterling jumped more than 100pips to an intraday high of 1.3374 before pulling back somewhat to settle 0.45% higher at 1.3322.
- USD/MYR gapped down three big figures from 4.23 to 4.20 following the plunge in the greenback at the start of European trading session ahead of ECB and BOE policy announcements. The pair fell 0.5% d/d to a 4.2075 close on Thursday. Technical correction and pre-weekend selling pressure would likely cap further bearishness in the pair today although we noticed the negative momentum has increased following yesterday's sharp move lower. We continue to see 4.20 as a key support with upside capped at 4.25. A break of 4.20 will pave the way towards 4.18, and 4.15 next.
- Gold futures rallied for the first time in three days, rising 2.0% to \$1799.60/oz, as the USD retreated and treasury yields fell amid hawkish central banks. Oil prices saw extended gains with the Brent crude increasing 1.0% to \$74.61/barrel while WTI jumped 1.5% to \$71.94/barrel.

Key Market Metrics

	Level	d/d (%)
Equities		
Dow Jones	35,897.64	-0.08
S&P 500	4,668.67	-0.87
NASDAQ	15,180.43	-2.47
Stoxx 600	476.56	1.23
FTSE 100	7,260.61	1.25
Nikkei 225	29,066.32	2.13
Hang Seng	23,475.50	0.23
Straits Times	3,128.80	0.45
KLCI 30	1,484.64	0.12
FX		
Dollar Index	95.99	-0.54
EUR/USD	1.1329	0.35
GBP/USD	1.3322	0.45
USD/JPY	113.71	-0.29
AUD/USD	0.7181	0.17
USD/CNH	6.3801	0.09
USD/MYR	4.2073	-0.53
USD/SGD	1.3635	-0.13
Commodities		
WTI (\$/bbl)	71.94	1.51
Brent (\$/bbl)	74.61	0.99
Gold (\$/oz)	1,799.60	1.99

Source: Bloomberg, HLBB Global Markets Research

ECB kept rates unchanged and confirmed an end to PEPP by March as expected:

- The ECB decided unanimously to keep its Deposit Facility Rate unchanged at -0.50%, as widely expected. The bank decided that the €1.85bn Pandemic Emergency Purchase Programme (PEPP) would end in Mar-22, within market expectations, and that asset purchases will be doubled to cushion what ECB

President Christine Lagarde regarded as “a brutal transition”, effectively smoothening out the unwinding of the PEPP stimulus. ECB will double the asset purchase programme to €40bn a month after PEPP ends in Mar-22, tapering to €30bn and will return to €20bn eventually in Oct-22. ECB however pledged that it will keep the door open to reactivate pandemic tool if necessary to tackle any outbreak and/or crisis.

- The central bank projects slower growth outlook of 4.2% for 2022 (2021e: +5.1%), 2.9% for 2023 and 1.6% for 2024; but stronger inflation outlook of 3.2% for 2022 (2021e: 2.6%) before normalizing to 1.8% in 2023 and 2024. ECB emphasized that monetary accommodation is still needed for inflation to stabilize at the 2.0% target over the medium term, echoing Lagarde’s comment that it is very unlikely that ECB will raise rates in 2022.

Surprised 15bps BOE rate hike as inflationary concerns outweighed growth risks:

- The BOE defied expectations and voted 8-1 to raise rates by 15bps to 0.25%, its first rate hike in this pandemic era and the first among major central banks. The BOE cited looming inflationary concerns, which the central bank judged to be far outweighing Covid-related risks to growth outlook.
- The central bank projects CPI to hit 6.0% next April, three times higher than its official 2.0% target rate. CPI and core CPI stood at a decade high of 5.1% and 4.0% y/y in November. The decision to maintain its QE at £895bn was unanimous.
- Yesterday’s rate hike heightened concerns such move could be detrimental to the already weak growth prospects, as the 4th Covid wave aggravated by the Omicron variant has already prompted the UK government to reimpose movement restrictions as infections and hospitalisation surged.

Broad-based pullback in PMIs amid Omicron fear spells risks to growth outlook:

- Overall PMI manufacturing and services lost steam in December amid Omicron fear on top of prevailing supply chain tightness and higher energy costs. The weaker bag of data highlighting the setback from Omicron could potentially pose risks to growth and inflation, hence central banks’ policy outlook.
- US Markit PMI manufacturing unexpectedly pulled back to 57.8 in December (Nov: 58.3) Eurozone Markit PMI manufacturing softened less than expected to 58.0 in December (Nov: 58.4). UK Markit PMI manufacturing ticked lower to 57.6 as expected in December (Nov: 58.1) dragged by lower new orders. In Australia, the manufacturing index eased to 57.4 in December (Nov: 59.2) while Jibun Bank PMI manufacturing slipped 0.3ppt to 54.2 in December.
- On the services side, tracking the surprised pullback in PMI manufacturing, US Markit PMI services also defied expectations and weakened to 57.5 in December (Nov: 58.0) Eurozone Markit PMI services tapered off more than expected to 53.4 in December (Nov: 55.9) as consumers turned more cautious. Germany, seeing one of the biggest increase in infections in the euro region, took the biggest hit as its PMI reading dropped into contractionary territory at 48.4. UK Markit PMI services deteriorated sharply to a 1-month low of 53.2 in December (Nov: 58.5), as reimposition of movement restrictions spoke consumers. In Australia, the Markit PMI services index eased to 55.1 in December (Nov: 55.7) while Jibun Bank PMI services retreated close to 2.0ppt to 51.1 in December (Nov: 53.0).

Generally positive US data soothed slowdown concerns:

- Initial jobless claims increased slightly more than expected to 206k for the week ended 11-Dec (prior 188k revised). Continuing claims also eased to 1845k for the week ended 4-Dec (prior 1999k), almost back to pre-pandemic levels of circa 1700k, adding to signs of a solid job market.
- Housing starts rebounded more than expected and increased 11.8% m/m in November (Oct: -3.1% m/m downwardly revised), its best gain since March, spurred by double-digit rebounds in both single family and multifamily sales. Meanwhile, forward-looking building permits continued to increase, albeit at a slower pace of 3.6% m/m in November (Oct: +4.2% m/m), still pointing to positive expansion in the housing market going forward.

- Industrial production tapered off slightly more than expected to 0.5% m/m in November (Oct: +1.7% m/m revised) amid slower expansion in manufacturing and mining while utilities declined. Production of motor vehicles slowed sharply to +2.2% m/m (Oct: +10.1%) while machinery output declined 0.7% m/m (Oct: +0.6%), offsetting the rebound in production of computers and electronics (+0.8% vs -0.3% m/m). Production capacity improved to 76.8% in November (Oct: 76.5%) amid easing supply chain disruption, if continues, will augur well with growth outlook going forward.
- Philly Fed business outlook softened more than expected to a one-year low at 15.4 in December (Nov: 39.0), dragged by sharp pullback across the board from new orders to shipment, and prices paid. Employment stood out with a better reading of 33.9 (prior 27.2) but average workweek was slightly lower at 30.4 (prior 30.6).
- Kansas City Fed manufacturing outlook sustained a 24 reading in December (Nov: 24). Jumps in new orders (27 vs -4) and shipment (20 vs 2) were offset by production (10 vs 17) and employment (18 vs 27).

Wider trade deficit in Japan distorted by higher commodity prices:

- Trade deficit widened way above expectations at ¥954.9bn in November (Oct: -¥68.5bn), no thanks to a much faster increase in imports vis-à-vis the increase in exports. Exports growth picked up to 5.3% m/m in November (Oct: +2.9%) benefitting from the reopening of the economy and some easing in supply tightness while imports growth accelerated at an even faster pace of 5.9% m/m (Oct: +0.2%) skewed by higher commodity prices.
- Deficit with China widened substantially to ¥402bn in November (Oct: -¥118bn) while deficit with Australia increased to ¥466bn (Oct: -¥447bn). Trade deficit with Saudi Arabia, UAE, and EU also increased, wiping off the smaller surpluses with the US, Hong Kong and South Korea. On a year-on-year basis, exports picked up to 20.5% y/y (Oct: +9.4%) while imports jumped more than expected by 43.8% y/y in November (Oct: +26.7%). Exports outlook shall remain favourable going forward underpinned by continuous demand from the US and China, which collectively accounts for close to 40% of Japan's total exports.

Positive job data down under to underpin growth ahead:

- Australia added a record 366.1k jobs in November, way above expectations for a 200k gain and surely a good turnaround from the 56k job losses in October. Both full time and part time employment jumped reflecting a return to work after the lockdown. An improving job market shall underpin recovery in the 4Q and hopefully border reopening will further ease labour market tightness going forward.
- Unemployment rate dropped more than expected to 4.6% (Oct: 5.2%) even though participation rate increased to 66.1% (Oct: 64.6%), back to its May/June's high prior to the lockdown but remained below pre-pandemic levels of 65-66%.

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	0.25-0.50	0.50-0.75
ECB	-0.50	-0.50	-0.50	-0.50	-0.50
BOE	0.25	0.25	0.50	0.50	0.50
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
17/12	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%
20/12	NZ Exports NZD (Nov)	5.35b
	UK Rightmove House Prices YoY (Dec)	6.3%
	CN 1-Year Loan Prime Rate (Dec)	3.9%

Source: Bloomberg

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