

19 August 2021

Global Markets Research

Daily Market Highlights

19-Aug: Fed officials discussed tapering timing

US stocks plunged further after the release of July FOMC meeting minutes

Sell-off in crude oils as US gasoline inventories increased

RBNZ surprised market by holding OCR steady

- US stocks tumbled overnight after the FOMC minutes showed officials' emerging consensus to taper the Fed's \$120mil per month asset purchase program despite officials' different preferences for the most suitable timing for this action. The selling pressure surrounding US equities intensified on Wednesday, pulling down the Dow Jones and S&P 500 by over 1%. NASDAQ registered a 0.9% loss.
- Treasury yields remained flat at the long to medium end of the curve with little changes noted in the 10Y UST yield (1.26%). Yields fell modestly by around 2bps at the long end.
- The dollar recorded mixed performances against its G10 peers with NZD remaining the biggest loser of the day after the RBNZ surprised the market by keeping the OCR unchanged. The dollar index was flat at 93.14. Gold futures ticked lower (-0.2%) to \$1781.6/oz while the spot price was steady.
- USD/MYR saw its third muted session on Wednesday, trading at 4.2370 at closing as markets monitored the local political development. A break of the 4.23 handle has increased bullishness in the pair but momentum indicators look neutral for now. We continue to eye a range of 4.21-4.25, paying attention to the political headlines. Any break of the 4.25 key resistance will pave the way towards 4.28 next.
- Crude oils sold off for the fifth session, losing 1.2% to three-month lows after the increase in US gasoline inventories pointed to weaker future demand amid the pandemic resurgence. Crude benchmarks WTI slid to \$65.46/barrel while Brent was down to \$68.23/barrel.

FOMC minutes showed emerging consensus to taper QE but disagreement over appropriate timing:

- Most participants anticipated the economy would continue to make progress towards their goals and the standards set out with regards to asset purchases could be reached this year. Some officials stressed that a robust labour market supported by accommodative policy would allow further progress to return to conditions as strong as those before the pandemic although there were few who pointed out the long lasting change the pandemic had brought about and pre-pandemic labour market conditions may not be the right benchmark. A few of them thought that monetary policy had limited ability to address the labour supply shortages.
- There was an emerging consensus to begin tapering its \$120mil per month asset purchase program although there was disagreement in terms of the appropriate timing for such a move. Some officials worried about the build-up of financial system risk by maintaining highly accommodative financial conditions. In contrast, some were concerned over the risks associated with the Covid-19 Delta variant and

Key Market Metrics

	Level	d/d (%)
Equities		
Dow Jones	34,960.69	-1.08
S&P 500	4,400.27	-1.07
NASDAQ	14,525.91	-0.89
Stoxx 600	474.42	0.14
FTSE 100	7,169.32	-0.16
Nikkei 225	27,585.91	0.59
Hang Seng	25,867.01	0.47
Straits Times	3,131.44	0.41
KLCI 30	1,525.24	0.11
FX		
Dollar Index	93.14	0.01
EUR/USD	1.1711	0.01
GBP/USD	1.3756	0.11
USD/JPY	109.77	0.16
AUD/USD	0.7232	-0.29
USD/CNH	6.4850	-0.10
USD/MYR	4.2370	-0.01
USD/SGD	1.3607	-0.12
Commodities		
WTI (\$/bbl)	65.46	-1.70
Brent (\$/bbl)	68.23	-1.16
Gold (\$/oz)	1,781.60	-0.19

Source: Bloomberg, HLBB Global Markets Research

suggested to include the possibility that reductions (of asset purchase) might not occur for some time. There were also concerns over the re-emergence of significant downward pressure on inflation and uncertainty surrounding the labour market shortages and supply chain bottlenecks.

- Some officials noted that “tapering of asset purchases did not amount to a tightening of the stance of monetary policy and instead only implied that additional monetary accommodation would be provided at a slower rate”. The “announcement of a reduction in the pace of asset purchases should not be interpreted as the beginning of a predetermined course for raising the federal funds rate from its current level”.

RBNZ held rate steady as New Zealand went into lockdown:

- The RBNZ defied expectations of carrying out its first pandemic rate hike at yesterday’s meeting. The Official Cash Rate (OCR) was left unchanged at 0.25%, as opposed to the consensus projection of a 25-bp hike to 0.5%. The decision came after the New Zealand government announced a nationwide lockdown following the emergence of a locally transmitted Covid-19 case in the country, predicted by many to be a super infectious Delta variant.
- RBNZ said that “the decision was made in the context of the Government’s imposition of Level 4 COVID restrictions on activity across New Zealand”. It will assess the inflation and employment outlook with a view to continue reducing monetary stimulus over time. The lockdown “highlights the serious health and economic risks posed by the virus” and “a stark example of how unpredictable and disruptive the virus is proving to be”.
- In terms of economic assessment, RBNZ said that demand is robust and economic recovery has broadened, despite weakness in international tourism related sectors. Near-term consumer price inflation is expected to rise above its target range before falling back to 2% midpoint around mid-2022. RBNZ is confident of meeting their objectives with less need for the existing level of monetary stimulus, but said that it is alert to the supply chain disruptions that Covid-19 can create.
- It concluded in the statement its “least regrets policy stance” is to further reduce the level of monetary stimulus to meet its goals. The OCR was thus left unchanged “given the heightened uncertainty with the country in a lockdown”.

US homebuilding activity slowed in July:

- Housing starts fell more than expected by 7.0% m/m in July to a three-month low of 1.53mil annualised rate. The number of starts in June were revised sharply downwards to show a 3.5% m/m decline, instead of the initial estimate of +6.3% m/m, highlighting the delay in construction caused by the labour supply constraint. Building permits came in better than expectations, recording a 2.6% m/m increase in July (Jun: -5.3%), thanks to the surge in applications to build multifamily units.

Eurozone inflation accelerated in July:

- The Eurozone’s HICP inflation rose to 2.2% y/y in July, a marked acceleration from the 1.9% rate in June and a reflection of the low base from last year. Prices of food, alcohol & tobacco, energy and services collectively drove the index. Underlying inflation eased to 0.7% y/y (Jun: +0.9%), driven by smaller gain in prices of non-energy industrial goods. On a month-on-month basis, HICP fell marginally by 0.1% m/m in July (Jun: +0.3%) after sustaining six months of consecutive gains.

UK CPI inflation slowed in July:

- The UK consumer price index recorded no change in July when compared to June (+0.5%) while the core CPI was also unchanged (June: +0.5%). The effect of pent-up demand had waned last month when UK residents normalised spending after more than two months into the relaxation of Covid measures.

- Prices of most goods could be seen falling in July while services continued to record positive changes, suggesting that consumers shifted to spending on services. On a year-on-year basis, CPI inflation slowed markedly to 2.0% y/y in July (Jun: +2.5%), more than the consensus estimate of 2.3% y/y. Similarly, the core CPI rate slipped to 1.8% y/y (Jun: +2.3%).

Wage growth slowed in Australia:

- Australia's wage price index rose 0.4% q/q in the second quarter, falling short of the projected gain of 0.6%. The modest increase marked a slowdown from the 0.6% q/q growth in the first quarter. Year-on-year, wages rose 1.7%, more than the 1.5% growth prior but still missed the consensus forecast of 1.9%. The disappointing reading supported the RBA's view of a subdued wage growth and inflation despite recovery in the labour market, although multiple regional lockdowns in recent months had further complicated the matter.
- In a separate note, the Westpac Leading Index's six-month annualised growth rate slowed to 1.3% m/m in July, from 1.4% previously. The index had yet to capture the full effect of the lockdowns in Australia, which is likely to materialise in August's reading.

House View and Forecasts

FX	This Week	3Q-21	4Q-21	1Q-22	2Q-22
DX	91.00-94.00	92.00	91.50	90.00	89.00
EUR/USD	1.16-1.19	1.18	1.19	1.21	1.22
GBP/USD	1.36-1.40	1.40	1.41	1.43	1.45
AUD/USD	0.71-0.74	0.74	0.74	0.76	0.77
USD/JPY	109.00-112.00	109.00	108.00	107.00	105.00
USD/MYR	4.21-4.25	4.23	4.20	4.20	4.15
USD/SGD	1.34-1.37	1.35	1.35	1.34	1.33

Policy Rate %	Current	3Q-21	4Q-21	1Q-22	2Q-22
Fed	0.25-0.50	0.25-0.50	0.25-0.50	0.25-0.50	0.25-0.50
ECB	-0.50	-0.50	-0.50	-0.50	-0.50
BOE	0.10	0.10	0.10	0.10	0.10
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
Fed	0.25-0.50	0.25-0.50	0.25-0.50	0.25-0.50	0.25-0.50

Source: HLBB Global Markets Research

Up Next

Date	Events	Prior
19/08	AU Employment Change (Jul)	29.1k
	AU Unemployment Rate (Jul)	4.9%
	HK CPI Composite YoY (Jul)	0.7%
	US Philadelphia Fed Business Outlook (Aug)	21.9
	US Initial Jobless Claims (14 Aug)	375k
	US Leading Index (Jul)	0.7%
20/08	JP Natl CPI Ex Fresh Food YoY (Jul)	0.2%
	UK Retail Sales Inc Auto Fuel MoM (Jul)	0.5%
	MA Foreign Reserves (13 Aug)	\$111.1b

Source: Bloomberg

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