HongLeong Bank

20 December 2021

Global Markets Research

Daily Market Highlights

20-Dec: Dollar rebounded on risk aversion

Hawkish central banks, Omicron variant gave rise to risk aversion
Dollar rebounded against major currencies; US stocks closed lower
BOJ to scale back on pandemic stimulus next year

- US equity market closed lower on Friday, ending the week on a negative note as key central banks sent hawkish messages while concerns over the spread of Omicron cases in the US and Europe intensified. The Dow Jones shed 1.5% on Friday and lost 1.7% w/w. The S&P 500 fell 1.0% and declined 1.9% for the week. The tech-focus NASDAQ was little changed (-0.07%) on Friday but was the worst weekly performer among the major indexes as it registered a nearly 3% loss.

- Treasuries traded on a mixed note on Friday; short term yields rose while long term yields edged lower. The yield on 10Y UST was little changed (-0.8bps) at 1.40%. The dollar rebounded as risk aversion dominated market. USD posted solid gains against all G10 currencies except the virtually unchanged JPY. The dollar index rose 0.5% to 96.57.

- USD/MYR rose 0.3% to 4.2205 on Friday, recouping some losses of previous session. On a week-on-week basis, the pair snapped a two-week losing streak to register a 0.2% gain. General risk aversion and hawkish central bank policies may support the USD at the start of the week; after closing above 4.22, the pair may target 4.23 next on the back of stronger USD. A failure to breach the level may leave the pair hovering near recent levels of 4.21-4.22. Malaysia will release November CPI on 24 December, where we are expecting an elevated reading in the 3.0% handle before tapering off in 1Q of next year.

- In the commodity market, gold futures rose 0.4% to $1803.8/oz and closed out the week 1.2% higher. Crude oil was sold off on Friday as the spread of the Omicron variant gave rise to renewed concerns over global oil demand. Brent crude plunged 2.0% to $73.52/barrel while WTI ticked lower by 2.1% to $70.86/barrel.

Bank of Japan maintained ultraloose policy but to scale back pandemic stimulus:

- The Bank of Japan kept its ultraloose policy unchanged but said that it would start to pull back its pandemic driven stimulus program. The policy balance rate was kept unchanged at -0.1% and the 10Y yield target at around 0%. It will continue to purchase ETF and J-REITs as well as and commercial papers (CP) and corporate bonds (CB) at unrevised paces.
- However, the additional purchase of commercial papers (CP) and corporate bonds (CB) introduced at the start of pandemic will conclude in the end of March 2022 as scheduled. From April 2022 onwards, it will purchase about the same amount of CP and CB "as prior to the COVID-19 pandemic, so that the amounts outstanding of these assets will decrease gradually to the pre-pandemic levels". The BOJ also extended its loan support for small and medium enterprises by six months, to September 2022.
- The BOJ said that the Japanese economy "is likely to recover as downward pressure stemming from COVID-19 on services consumption and the effects of supply-side constraints wane, while being supported by an increase in external

Key Market Metrics

	Level	d/d (%)
Equities		
Dow Jones	35,365.44	-1.48
S&P 500	4,620.64	-1.03
NASDAQ	15,169.68	-0.07
Stoxx 600	473.90	-0.56
FTSE 100	7,269.92	0.13
Nikkei 225	28,545.68	-1.79
Hang Seng	23,192.63	-1.20
Straits Times	3,111.63	-0.55
KLCI 30	1,502.01	1.17
FX		
Dollar Index	96.57	0.54
EUR/USD	1.1240	-0.79
GBP/USD	1.3245	-0.59
USD/JPY	113.63	-0.04
AUD/USD	0.7125	-0.82
USD/CNH	6.3872	0.10
USD/MYR	4.2205	0.31
USD/SGD	1.3677	0.25
Commodities		
WTI ($/bbl)	70.86	-2.10
Brent ($/bbl)	73.52	-2.00
Gold ($/oz)	1,803.80	0.40

Source: Bloomberg, HLBB Global Markets Research demand, accommodative financial conditions, and the government's economic measures. It continued to stress the uncertain nature of the global pandemic and said it will not hesitate to take additional easing measures if need be.

UK retail sales rose as households spent in advance for holidays:

- The UK retail sales rose 1.4% m/m in November, beating the expectations for a 0.8% increase. Notably, retail sales in previous month were also revised higher to show a 1.1% m/m increase (from the 0.8% growth initially estimated). The strong spending result last month was a result of UK households bringing forward holidays shopping in anticipation of higher Covid-19 cases towards the year end. The UK reported a record 92k new cases last Friday as the Omicron variant spreads across the country. In November, sales of fuels, non-food, clothing & footwear as well as household goods picked up alongside online sales.
- In a separate note, the UK GfK consumer confidence index slipped to -15 in December, from -14 prior. The reading was better than consensus forecast (-17), but nonetheless reflecting weaker consumer sentiment towards the year end.

Eurozone CPI inflation at record high in November:

- The final reading of the Eurozone's November HICP inflation was unrevised at 4.9% y/y, marking its highest rate in the bloc's inflation history. This followed a 4.1% y/y increase in the index in October. The core reading was also unchanged at 2.6% y/y (Oct: +2.0%), also a record rate. A low comparing base from last year thanks to Germany's temporary sales tax cut (1 July- 31 Dec 2020) had resulted in the all-time high inflation and this effect should fade in January next year.

Singapore's NODX posted 24.2% y/y growth:

- Singapore's non-oil domestic exports picked up 1.1% m/m in November (Oct: +4.1%), translating to a 24.2% y/y growth (Oct: +17.8%). The better-than-expected reading reflects the 20.5% y/y increase in pharmaceuticals shipments as well as the 66% y/y increase in petrochemicals exports.

New Zealand posted solid export growth:

- New Zealand's trade deficit narrowed to NZD 864m in November, from 1.3b prior, thanks to the 9.3% m/m surge in exports that was supported by strong demand for New Zealand fruits. Exports posted another solid month following the 22.1% m/m surge in shipments in October. In comparison, imports picked up modestly by 0.9% m/m.
- On a separate note, the ANZ Business Confidence Index fell to -23.2 in December, from -16.4 previously; the deteriorating business sentiment was caused by higher inflation expectations and freight disruption that affected the supply chain.

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	1.32-1.34	1.35	1.35	1.34	1.33
AUD/USD	0.70- 0.73	0.72	0.71	0.71	0.70
USD/JPY	113-115	112	113	114	115
USD/MYR	4.18-4.23	4.15	4.15	4.15	4.15
USD/SGD	1.35-1.37	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	0.25-0.50	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

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Date	Events	Prior
20/12	UK Rightmove House Prices YoY (Dec)	6.3%
	CN 1-Year Loan Prime Rate (44166)	3.9%
	US Leading Index (Nov)	0.9%
21/12	AU RBA Minutes of Dec. Policy Meeting ()	
	HK CPI Composite YoY (Nov)	1.7%
	EZ Consumer Confidence (Dec A)	-6.8

Source: Bloomberg