

Global Markets Research
Daily Market Highlights

21-Oct: Fed Beige Book acknowledged elevated prices

Stocks mixed; steepening in UST curve and USD weakness persisted

Fed speaks echoed FOMC rhetoric on tapering and rate hike timeline

Attention on US jobless claims data today

- US stock indices ended the day mixed as markets were torn between earnings optimism and the resurface of inflationary concerns and China property market woes as Evergrande failed to ink a deal to sell its assets to raise cash, hence significantly increases default risk as this weekend's deadline approaches. This could have adverse repercussions on the already slowing China economy and may call for some form of policy support. Earlier yesterday, China's PBoC maintained its one-year loan prime rate at 3.85% as widely expected. Stocks were generally higher in European trading but mixed in Asia markets.
- US treasuries remained under pressure, especially at the back end of the curve, driven in part by weak demand for a 20-year bond auction. The debt sale attracted a soft bid-cover of 2.25x (prior 2.36x) at a high yield of 2.10% (prior 1.80%). The yield curve continued to steepen as the 2-year note yields fell 1bp while the 10s and 30s added 2bps to 1.66% and 5bps to 2.13% respectively.
- USD weakness persisted, as the greenback weakened against all G10s. The Dollar Index fell 0.2% d/d to 93.56, its lowest in three weeks. The Dollar Index failed to hold on to gains in Asian and early European trading sessions and headed lower, before making some slight rebound after the release of Fed Beige Book and Fed speaks that merely echoed the FOMC rhetoric on tapering and rate hike timeline.
- The Fed Beige Book reiterated that economic activity grew at a "modest to moderate rate" although some districts said supply constraint and the Delta variants have slowed growth. Labour shortages also weighed on growth. Most districts reported significantly higher prices, fuelled by rising demand as well as supply bottlenecks.
- USDMYR closed 0.2% d/d lower at 4.1595 on Wednesday, supported by lingering USD weakness. USDMYR outlook remains neutral to slightly bearish in our view, in the absence of any MYR-detrimental drivers and an increasing negative momentum in the USD. We continue to eye a range of 4.14-4.17 in this holiday shortened week. Downside likely capped by cautiousness ahead of 2022 Budget tabling on 29 October.
- On the commodity front, gold continued to increase 0.8% to \$1784.90/oz as Fed Waller reiterated that rate hike would probably be some time off even though tapering may begin next month. Crude oil prices also extended gains after EIA reported a surprised decline in US crude inventories for the first time in four weeks, and gasoline stocks fell to its lowest in almost two years. Brent crude rose 0.9% to a 7-year high of \$85.82/ barrel while WTI added 1.1% to \$83.87/ barrel, its highest since Jun-15.
- Today, futures pointed to mixed opening in Asian markets. Focus will shift to US initial jobless claims, leading index and housing data.

Key Market Metrics

	Level	d/d (%)
Equities		
Dow Jones	35,609.34	0.43
S&P 500	4,536.19	0.37
NASDAQ	15,121.68	-0.05
Stoxx 600	470.07	0.32
FTSE 100	7,223.10	0.08
Nikkei 225	29,255.55	0.14
Hang Seng	26,136.02	1.35
Straits Times	3,198.08	-0.03
KLCI 30	1,606.32	0.02
FX		
Dollar Index	93.56	-0.19
EUR/USD	1.1651	0.15
GBP/USD	1.3824	0.20
USD/JPY	114.31	-0.06
AUD/USD	0.7516	0.56
USD/CNH	6.3946	0.29
USD/MYR	4.1595	-0.24
USD/SGD	1.3436	-0.10
Commodities		
WTI (\$/bbl)	83.87	1.10
Brent (\$/bbl)	85.82	0.87
Gold (\$/oz)	1,784.90	0.81

Source: Bloomberg, HLBB Global Markets Research

US MBA mortgage applications fell again:

- Weekly mortgage applications for the week ended 15-Oct fell 6.3% w/w (prior +0.2%), as an increase in long term interest rates deterred mortgage applications for both new purchases (-4.9%) and refinancing (-7.1%). This added to recent signs of a slowing housing market in the US, plagued by rising rates, raw material and labour shortages.

Eurozone CPI quickened to 3.4% y/y in September:

- CPI in the Eurozone quickened to 3.4% y/y and rose 0.5% m/m in September (Aug: +3.0% y/y and +0.4% m/m), in line with the flash estimate released earlier and consensus estimate. Core CPI rose 1.9% y/y and 0.5% m/m, also within expectations. Inflation picked up in 25 member states, fell in one and stabilized in one member country, a sign of broad-based inflationary pressure in the region. Sectors that saw the biggest increases were energy (+1.63ppt), services (+0.72ppt), non-energy industrial goods (+0.57ppt), and food alcohol & tobacco (+0.44ppt).

UK CPI stayed elevated at 3.1% y/y in September:

- CPI increased at a slightly slower rate of 3.1% y/y in September (Aug: +3.2% y/y), distorted by the decline in restaurant meal prices which was boosted by the expiry of an Eat Out to Help Out Scheme last September. This cushioned increases in all other categories mainly Food & beverages, housing, furniture and transport, confirming that inflation remained at elevated levels. Recall that inflation jumped from 2.0% in July to 3.2% in August, way above the BOE's 2.0% target, and is projected to quicken to 4.0% by early next year. This has probably supported BOE's hawkishness and market pricing for aggressive rate hike this year.

House View and Forecasts

FX	This Week	4Q-21	1Q-22	2Q-22	3Q-22
DXY	93-95	94.50	95.00	95.50	96.50
EUR/USD	1.15-1.17	1.15	1.14	1.14	1.13
GBP/USD	1.35-1.38	1.35	1.35	1.34	1.33
AUD/USD	0.73-0.75	0.72	0.71	0.71	0.70
USD/JPY	112-115	112	113	114	115
USD/MYR	4.14-4.17	4.15	4.15	4.15	4.15
USD/SGD	1.34-1.36	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
21/10	JP Machine Tool Orders YoY (Sep F)	71.9%
	US Initial Jobless Claims (16 Oct)	293k
	US Philadelphia Fed Business Outlook (Oct)	30.7
	US Leading Index (Sep)	0.9%
	US Existing Home Sales MoM (Sep)	-2.0%
22/10	EZ Consumer Confidence (Oct A)	-4.0
	UK GfK Consumer Confidence (Oct)	-13.0
	JP Natl CPI Ex Fresh Food YoY (Sep)	0.0%
	JP Jibun Bank Japan PMI Composite (Oct P)	47.9
	MA CPI YoY (Sep)	2.0%
	UK Retail Sales Inc Auto Fuel MoM (Sep)	-0.9%

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EZ Markit Eurozone Composite PMI (Oct P)	56.2
UK Markit/CIPS UK Composite PMI (Oct P)	54.9
HK CPI Composite YoY (Sep)	1.6%
US Markit US Composite PMI (Oct P)	55.0

Source: Bloomberg

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