

**Global Markets Research**
**Daily Market Highlights**

## 22-Sep: Markets brace for FOMC

### Global equity selloff eased on Tuesday despite lingering concerns over Evergrande

### Treasury yields stabilised ahead of FOMC decision

### RBA said tapering was appropriate in latest minutes

- US stock benchmarks ended on a mixed note overnight as the global equity selloff eased on Tuesday following a volatile start to the week prompted by deepening concerns for China's Evergrande and its broader property sector. The Dow Jones (-0.2%) was down moderately while the S&P 500 (-0.08%) was little changed; NASDAQ (+0.2%) rebounded. Elsewhere, European equities bounced back while Asian markets saw mixed performances. China's markets remained shut for public holidays.
- Treasury yields stabilised on Tuesday as investors braced for the FOMC meeting. Yields had fallen sharply in the previous session as the equity rout boosted demand for safe assets. The yield on the benchmark 10Y UST rose 1.2bps to 1.32% on Tuesday.
- The dollar had a mixed session. USD continued to weaken against the CHF and JPY (both are perceived as safer currencies) and strengthened against AUD and NZD. EUR and GBP were flattish. The dollar index remained relatively steady, registering little change for the second consecutive session at 93.2. On the local front, the ringgit rebounded from the recent selloff, leading USD/MYR to close 0.2% lower at 4.1840 on Tuesday. We are neutral on the pair today, anticipating the pre-FOMC caution to limit the pair's movement to circa 4.18-4.19 levels.
- In the commodity sector, gold prices continued to trend up with futures advancing 0.8% to \$1776.1/oz. Crude oil prices recovered from recent selloff as Brent crude ticked up to \$74.36/barrel (+0.6%) while WTI registered a more modest gain (+0.4%) to \$70.56/oz.
- Bank Indonesia held its benchmark policy rate steady at 3.5% in a bid to support economic recovery. The BOJ is not expected to deliver any surprise. It is likely to reassure the market of its commitment to accommodative policy given that consumer spending and inflation remain weak. Investors' main focus is the FOMC meeting and the Fed's newly updated economic projections and dot plot.

#### US housing starts rose in August, driven by construction of multi-family units:

- US homebuilding activity appeared to have sprung back to life last month after a drag in the previous month. Housing starts rose 3.9% m/m in August to a seasonally adjusted annual pace of 1.62mil units, beating the expectation for a 1.0% increase. July's starts were also revised higher to represent a smaller decline of 6.2% m/m. However, it is worth noting that August's gain was mainly driven by the surge in new construction of multi-family units (+20.6%) as new construction of single-family homes (-2.8%) fell for the second month in a row. This suggests that developers continued to face challenges of labour shortages and generally higher cost of inputs even as the prices of lumber had fallen in recent months.

#### Key Market Metrics

	Level	d/d (%)
<b>Equities</b>		
Dow Jones	33,919.84	-0.15
S&P 500	4,354.19	-0.08
NASDAQ	14,746.40	0.22
Stoxx 600	458.68	1.00
FTSE 100	6,980.98	1.12
Nikkei 225	29,839.71	-2.17
Hang Seng	24,221.54	0.51
Straits Times	3,063.20	0.71
KLCI 30	1,530.44	0.17
<b>FX</b>		
Dollar Index	93.20	-0.08
EUR/USD	1.1726	0.00
GBP/USD	1.3659	0.01
USD/JPY	109.23	-0.19
AUD/USD	0.7231	-0.29
USD/CNH	6.4816	-0.02
USD/MYR	4.1840	-0.21
USD/SGD	1.3527	0.07
<b>Commodities</b>		
WTI (\$/bbl)	70.56	0.38
Brent (\$/bbl)	74.36	0.60
Gold (\$/oz)	1,776.10	0.81

Source: Bloomberg, HLBB Global Markets Research

- Building permits defied expectations to rise 6.0% m/m in August (Jul: +2.3%) to 1.73mil units, indicating that developers continued to see solid housing demand this year. Analysts had expected permits to fall last month.

#### Japan machine tool decline in August:

- Japan's machine tools orders fell 6.7% m/m in August (Jul: +2.2%), marking its first monthly decline in four months. The decline reflects lower domestic and foreign orders. Year-on-year comparison shows total orders jumped by 85.2% y/y (+93.4%) due to distortion from last year's low base.

#### RBA said recent tapering was appropriate:

- At its 08 September policy meeting, the RBA had announced a decision to reduce its weekly Australian government bond purchase from \$5b to \$4b and said that it would maintain this new pace at least until mid-February 2022. Essentially the central bank had removed the uncertainties of adjusting the bond buying pace for the remainder of the year amid the pandemic resurgence in Australia.
- Officials agreed that fiscal policy was the more appropriate instrument to deal with the temporary reduction in private sector income. Officials "recognised that the outbreak of the Delta variant was delaying the recovery and had added to the uncertainty about the future. As a result, progress towards the Bank's goals was likely to take longer and was less assured". Tapering remained appropriate as the economy was expected to return to its pre-Delta path by mid-2022 and a number of other central banks are tapering their bond purchases as well. It reaffirmed its commitment to maintaining highly supportive monetary conditions to achieve its goals of returning Australia to full employment and inflation consistent with the target of 2-3%.

#### House View and Forecasts

FX	This Week	3Q-21	4Q-21	1Q-22	2Q-22
DXY	92-94	92.00	91.50	90.00	89.00
EUR/USD	1.17-1.20	1.18	1.19	1.21	1.22
GBP/USD	1.36-1.39	1.40	1.41	1.43	1.45
AUD/USD	0.71-0.75	0.74	0.74	0.76	0.77
USD/JPY	109-111	109.00	108.00	107.00	105.00
USD/MYR	4.17-4.22	4.23	4.20	4.20	4.15
USD/SGD	1.33-1.35	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
22/09	JP BOJ Policy Balance Rate (22 Sep)	-0.1%
	AU Westpac Leading Index MoM (Aug)	-0.11%
	CN 1-Year Loan Prime Rate (22 Sep)	3.85%
	US MBA Mortgage Applications (17 Sep)	0.3%
	US Existing Home Sales MoM (Aug)	2.0%
23/09	EZ Consumer Confidence (Sep A)	-5.3
	US FOMC Rate Decision (22 Sep)	0-0.25%
	SG CPI YoY (Aug)	2.5%
	MA Foreign Reserves (15 Sep)	\$116.3b
	EZ Markit Eurozone Composite PMI (Sep P)	59.0
	UK Markit/CIPS UK Composite PMI (Sep P)	54.8

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UK Bank of England Bank Rate (21 Sep)	0.1%
US Chicago Fed Nat Activity Index (Aug)	0.53
US Initial Jobless Claims (18 Sep)	332k
US Markit US Composite PMI (Sep P)	55.4
US Leading Index (Aug)	0.9%
US Kansas City Fed Manf. Activity (Sep)	29

Source: Bloomberg

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