23 September 2021

Global Markets Research
Daily Market Highlights

23-Sep: Fed signalled possible tapering in November

Half of Fed policy makers expect rate hike next year
US stocks rallied, long-term rates fell post-FOMC
Existing home sales fell in the US

- US stocks rallied overnight after the Federal Reserve's tapering signals in its latest statement. Main US benchmarks rallied around 1.0%, spurred by the broad-based increase in most sectors. Energy shares jumped the most as crude oil prices surged on US inventory withdrawal.

- Long-term yields moved lower with the yield on the benchmark 10Y US treasury note falling by 2.2bps to 1.3%. Short-term rates meanwhile, were pushed higher in response to the Fed's hawkish statement.

- The dollar saw mixed performances against the G10 currencies as the rally in oil prices helped propelled CAD, NOK and AUD. Nonetheless, the dollar index picked up 0.3% to 93.46, reflecting strength against EUR, JPY, GBP and CHF. Earlier, USD/MYR had closed 0.2% higher at 4.1930 in Wednesday's session. We are neutral to bullish on the pair today as the post-FOMC USD strength may push the pair to test 4.20 key level.

- In the commodity market, spot gold slipped 0.4% to $1768.16/oz while futures traded little changed at $1776.70/oz. The EIA reported that US crude stockpiles were down by 3.5mil barrels last week, leading WTI to surge 2.4% to $72.23/barrel and Brent to trade 2.5% higher at $76.19/barrel.

- China maintained its one-year loan prime rate unchanged at 3.85% but injected the market with CNY120b as the Chinese market reopened yesterday following two days of public holidays.

Fed signalled bond tapering announcement in November:

- The Federal Reserve signalled in its latest statement that it could start to taper its $120b per month asset purchase program in November this year and raise rates next year. It said that the "Committee judges that a moderation in the pace of asset purchases may soon be warranted".
- Officials raised their rates forecast for next year with the median projection for Fed Fund Rates rising to 0.3% in 2022 (revised from 0.1% in June projection) and 1.0% in 2023 (June projection: 0.6%). The new dot plot showed that half of 18 officials expect to raise rates at least by 25bps by the end of 2022, compared to just seven in June.
- However, officials downgraded their economic projections for this year, expecting the rise in Covid-19 cases to slow the recovery but expected growth to pick up in 2022 onwards. GDP growth was revised lower to 5.9% in 2021 (June projection: 7.0%) but upgraded to 3.8% in 2022 (June projection: 3.3%). Similarly, the unemployment rate was revised to 4.8% in 2021 (June projection: 4.5%) but unchanged at 3.8% in 2022.
- On the price front, Fed officials now expect a further sharp increase in the core PCE inflation rate to 3.7% in 2021 (June projection: 3.0%) and 2.3% in 2022 (June projection: 2.1%). Fed Chair Jerome Powell attributed the higher prices to supply-chain bottlenecks. He said in the post-meeting press conference that officials now

Key Market Metrics

	Level	d/d (%)
Equities		
Dow Jones	34,258.32	1.00
S&P 500	4,395.64	0.95
NASDAQ	14,896.85	1.02
Stoxx 600	463.20	0.99
FTSE 100	7,083.37	1.47
Nikkei 225	29,639.40	-0.67
Hang Seng	24,221.54	0.51
Straits Times	3,048.05	-0.49
KLCI 30	1,529.02	-0.09
FX		
Dollar Index	93.46	0.28
EUR/USD	1.1687	-0.33
GBP/USD	1.3622	-0.27
USD/JPY	109.78	0.50
AUD/USD	0.7247	0.22
USD/CNH	6.4662	-0.24
USD/MYR	4.1930	0.21
USD/SGD	1.3534	0.05
Commodities		
WTI ($/bbl)	72.23	2.37
Brent ($/bbl)	76.19	2.46
Gold ($/oz)	1,776.70	0.03

Source: Bloomberg, HLBB Global Markets Research

think inflation would run higher than previously expected, but maintained that the surging prices would moderate in 2022 as the pandemic situation improves.
- According to Powell, a formal decision to begin slowing the bond buying pace could come as early as the next FOMC meeting in November and the process could be completed by mid-2022. He also added there was no need for a very strong job report for them to go ahead with tapering as many on the committee think that the employment bar for tapering has been met. It can also speed up or slow down taper if it is appropriate.

BOJ maintained policy and flagged supply-side issues:
- The Bank of Japan kept its monetary policy unchanged as expected. The policy balance rate was left steady at -0.1% while its asset purchases targets also remained the same. It has also released more details about its Climate Response Financing Operations and said that it would begin offering loans under the program.
- It said that the Japanese economy has picked up as a trend but remained in a "severe situation" due to Covid impact, both domestic and abroad. It pointed out the negative effect of supply chain constraints on exports and industrial production and said that employment and income situations have remained weak. Private consumption was stagnant as spending on services weakened.
- The higher energy prices have resulted in the CPI-ex fresh food (the BOJ's main inflation gauge) staying at around 0% (Note that inflation has turned less negative for the past few months). It expects inflation to turn slightly positive, mainly reflecting the rise in energy prices. The risks to the outlook were still highly uncertain mainly because of Covid. It reaffirmed its commitment to accommodative policy to support the economy. BOJ governor Haruhiko Kuroda said in a press conference that the employment situation was quite solid but the small wage growth was not the main reason weighing on consumption but the public's cautious behaviour was likely the main factor. He did not see an immediately large take-up of the green financing program but said that it is a long-term necessity.

US existing home sales fell in August:
- The US housing market cooled in August as existing home sales fell more than expected by 2.0% m/m to a seasonally adjusted annualised rate of 5.88mil units; July's sales were revised higher to 6.0mil to represent a 2.2% m/m increase. Markets had expected sales to fall 1.7% m/m according to a Bloomberg survey. Home prices fell last month with the median price being pressured to $356,700 per unit (Jul: $359,500); this translates to a smaller increase of 14.9% y/y compared to the previous year (Jul: +17.6%). The market continued to observe tight inventory as the number of available homes for sales fell to 1.29mil units in August, down by 13.4% y/y compared to last year. The lack of supply might have turned potential buyers away.
- In a separate note, mortgage applications rose 4.9% w/w last week, after registering a tiny increase of 0.3% in the previous week. Refinancing applications (+6.5%) drove the gains as interest rates fell. Applications to purchase homes rose moderately (+2.2%).

Eurozone consumer confidence improved this month:
- Consumer sentiment in the euro area turned less negative in September according to a flash report. The European Commission Consumer Confidence Index improved to -4.0 in September, from -5.3 in August. The reading turned out to be better than consensus estimation of -5.9. This came as restrictions were eased in the region as the spread of the Delta variant came under control.

Australia's Westpac leading index declined in August:
- The Westpac Leading Index declined by 0.3% m/m in August (Jul: -0.07%) and its six-month annualised growth rate softened substantially to 0.5% (Jul: 1.4%), as the positive contributions from foreign indicators were offset by the negative impacts from domestic components. The slowdown in domestic activity was shown in the

reductions in hours worked and dwelling approvals as authorities extended lockdowns following the pandemic resurgence.

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
23/09	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
	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
24/09	NZ Trade Balance 12 Mth YTD NZD (Aug)	-1104m
	UK GfK Consumer Confidence (Sep)	-8.0
	JP Natl CPI Ex Fresh Food YoY (Aug)	-0.2%
	JP Jibun Bank Japan PMI Composite (Sep P)	45.5
	MA CPI YoY (Aug)	2.2%
	SG Industrial Production YoY (Aug)	16.3%
	US New Home Sales MoM (Aug)	1.0%

Source: Bloomberg

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