24 September 2021

Global Markets Research

Daily Market Highlights

24-Sep: Risk-on amid hawkish policy shifts

BOE hints at plan for modest tightening; raising bets of an earlier rate hike in 2022

Risk assets rallied while safe haven government bond yields spiked

Data flow confirmed lingering growth uncertainties and easing inflation

- The rally in global equities in Europe and Asia sessions were extended to the US trading amid a revival in risk sentiments. The Fed's signal that QE tapering could begin as soon as November, as well as the hawkish shift in dot plots were seen as a sign recovery in the US economy is well on track. Given the timeline, the Fed is expected to potentially trim its asset purchases by $15bn a month comprising $10bn of UST and $5bn MBS beginning as early as November till June 2022. Following the Fed's footstep, the BOE also turned a tad more hawkish, hinting at plans for a move towards modest tightening.

- Government bond yields were seen jumping to the tune of 13bps across the major markets. The UST curve bear steepened, with the 10Y note yields spiking 13bps to 1.43% whilst the 2s rose 3bps to 0.26%. 10Y UK gilts rose 11bps to 0.91%, its highest in over two years.

- The US Dollar corrected back to pre-FOMC level, weakening against all majors except for the safe haven JPY. The Dollar Index lost 0.4% to 93.09, its lowest in a week. The GBP rallied back above the 1.37 handle post-BOE announcement, but closed the day off its intraday high of 1.3751 at 1.3720.

- USD/MYR reversed course and closed 0.3% lower at 4.1810 in Thursday's session. We are neutral on the pair today as selling pressure ahead of the weekend will likely be neutralized by overnight USD weakness. 4.20 will continue to serve as a key psychological threshold.

- In the commodity market, gold futures slipped 1.6% to $1747.70/oz as investors dumped haven assets amid a revival in risk sentiments. Oil prices continued to rally by over 1.0% on prospects of increased demand following an energy crunch, leading WTI to $73.30/barrel and Brent at $77.25/barrel, its highest since 2014.

Bank of England unanimously stood pat on rates but split on QE tapering:

- The Bank of England left its benchmark interest rate unchanged at 0.10% as expected. Policy makers also maintained its £875bn asset purchase facility as widely expected. The decision for the rate pause was unanimous while that for QE was with a 7-2 split, reflecting a tentative move towards a slight tightening bias.
- BOE reiterated that uncertainties continued to linger, downgrading 3Q GDP growth to 2.1%, from the 2.9% projected in August, citing "the emergence of some supply constraints on output". Inflation is expected to rise slightly above 4.0% this year due mainly to "deepening energy price shock". We expect the BOE to stay cautious in its policy course awaiting better clarity on recovery outlook and price developments even as markets are now pricing higher odds of a rate hike in 2022.
- In a release this morning, GfK consumer confidence unexpectedly tanked to -13 in September, worsening from the -8 reading a month ago and marking its worst in five

Key Market Metrics

	Level	d/d (%)
Equities		
Dow Jones	34,764.82	1.48
S&P 500	4,448.98	1.21
NASDAQ	15,052.24	1.04
Stoxx 600	467.50	0.93
FTSE 100	7,078.35	-0.07
Nikkei 225	29,639.40	-0.67
Hang Seng	24,510.98	1.19
Straits Times	3,076.44	0.93
KLCI 30	1,539.34	0.67
FX		
Dollar Index	93.09	-0.40
EUR/USD	1.1739	0.44
GBP/USD	1.3720	0.72
USD/JPY	110.33	0.50
AUD/USD	0.7295	0.66
USD/CNH	6.4624	-0.06
USD/MYR	4.1812	-0.28
USD/SGD	1.3486	-0.35
Commodities		
WTI ($/bbl)	73.30	1.48
Brent ($/bbl)	77.25	1.39
Gold ($/oz)	1,747.70	-1.63

Source: Bloomberg, HLBB Global Markets Research months. Consumer's confidence over economic outlook and personal finances outlook all softened.

Softer PMIs across the majors:

- US Markit PMI manufacturing and services both surprised on the downside in September, losing further momentum to 60.5 and 54.4 respectively (Jul: 61.1 and 55.1). This confirmed our concerns that recovery in the US economy was losing momentum, likely complicated by virus concern in addition to supply tightness.
- Preliminary report showed that the Eurozone Markit Manufacturing PMI decreased to 58.7 in September (Aug: 61.4) while the services PMI also retreated to 56.3 (Aug: 59.0), indicating that the post-reopening momentum has softened further heading into the fourth quarter. Markit attributed the reduction in growth to supply chain bottlenecks and pandemic related concerns.
- The UK manufacturing PMI also slumped to 56.3 in September (Aug: 60.3), also reflecting the impact of supply chain constraints. The services PMI slipped slightly lower to 54.6 (Aug: 55.0).

Mixed US data:

- US initial jobless claims unexpectedly rose to 351k for the week ended 18 Sep, up 16k from 335k the preceding week. Continuing claims also rose to 2,845k, from 2,714k prior offering tell-tale signs of some slacks in the US labour market.
- In tandem with the slower expansion seen in PMI readings, US Chicago Fed Nat Activity Index weakened more than expected to 0.29 for the month of August, down considerably from the upwardly revised 0.75 in July. A separate release also showed Kansas City Fed Manufacturing Activity slowed more than expected in September (22 vs 29).
- US leading index however surprised with a 0.9% m/m gain in August, quickening from the revised 0.8% m/m increase in July, offering some reprieve that US economic recovery remains forthcoming in the months ahead.

Japan's CPI eased in August:

- National CPI eased further to -0.4% y/y in August (Jul: -0.3%) while inflation ex food and energy recorded a slightly smaller decline of 0.5% y/y (Jul: -0.6%). This suggests some underlying price pressure in the system although Japan will unlikely shrug off is deflationary state in the foreseeable future.

Singapore's inflation eased in August:

- Singapore's CPI inflation rebounded by 0.5% m/m in August as expected. This followed a 0.2% decline in July. This translates to a 2.4% y/y gain (Jul: +2.5%), also matching the consensus estimate as higher costs of housing & utilities and healthcare were offset by the steeper decline in communication costs as well as that of clothing & footwear. The core CPI rate rose slightly more than expected to 1.1% y/y (Jul: +1.0%)

Malaysia's foreign reserves dipped slightly to $116.2b:

- Malaysia's foreign reserves slipped to $116.2b as at 15 September (prior: $116.3b). The reserves position is sufficient to finance 8.1 months of retained imports and is 1.3 times total short-term external debt.

New Zealand's trade deficit widened to $2.14b on higher imports:

- Trade deficit widened to a record $2.14bn in August (Jul: $0.4bn deficit), as exports fell 24.6% m/m while imports grew 5.2% m/m, driven by vehicle imports. Meanwhile, exports were dragged by lower dairy exports.

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
24/09	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%
27/09	US Durable Goods Orders (Aug P)	-0.1%
	US Dallas Fed Manf. Activity (Sep)	9.0

Source: Bloomberg

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