

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

## 25-Oct: Powell and Yellen signalled higher inflation for longer

**US stocks traded mixed; UST curve continued flattening and USD weakened**

**PMI broadly improved in the majors save for the Eurozone**

**Focus shift to ECB and key US GDP and personal outlay data**

- US stock benchmarks ended last Friday mixed. The Dow closed at a record high while the S&P500 and NASDAQ ended in the red, dragged by a dismal earnings report from Snap. Fed Chair Powell's speech at a BIS Conference, saying that inflation will last longer than expected was seen as a shift away from his previous rhetoric of a transitory inflation. He also commented that the Fed has the tools to combat higher inflation and that the Fed is on track with its tapering plans even though rate hike is still some time away. Markets were however generally relieved on news Evergrande made a last minute bond payment and averted a default. Earlier, stocks ended higher in Europe but mixed in Asia.
- US treasuries traded mixed, with the curve flattening further as the 2s rose 4bps to 0.46% but the 10Y note yields fell 3bps to 1.64% amid lingering inflationary concerns. Echoing Fed Powell's comment on higher inflation for longer, US Treasury Secretary Janet Yellen said inflation is expected to remain high through 1H2022 before easing in 2H2022 as supply disruptions and a tight labour market subside.
- The Dollar Index weakened again even though it managed to pare some losses post Powell's remarks to close off the intraday low, down 0.1% d/d to 93.64. The greenback weakened against all G10s save for the sterling and Aussie.
- USDMYR closed lower for the 3<sup>rd</sup> consecutive trading session, down 0.2% d/d to a 6-week low at 4.1505 last Friday. While the pair still managed to stay above the key 4.15 psychological handle, negative momentum has increased, paving the way for 4.1460 next, after which 4.1350 will be the next target. We are tweaking our weekly range to 4.13-4.17, expecting cautious trading in the days leading up to the tabling of the 2022 National Budget on 29 October.
- Commodities shrugged off Thursday's selloffs and advanced again on Friday. Gold futures rose 0.8% d/d to \$1796.30/oz, on prospects of higher for longer inflation. Crude oil prices increased by more than 1.0% amid expectations of continued supply tightness. Brent crude increased 1.1% to \$85.53/ barrel while WTI added 1.5% to \$83.76/ barrel.
- Focus will be on ECB policy meeting this week to see if there will be any hawkish shift. BOJ is also in the pipeline but unlikely springs any surprises in our view. Other key watches are 3Q GDP from the US and Eurozone, as well as US personal outlay reports, in addition to quarterly earnings reports from other giant US corporates (Facebook, Amazon, Apple, Microsoft).

**Key Market Metrics**

	Level	d/d (%)
<b>Equities</b>		
Dow Jones	35,677.02	0.21
S&P 500	4,544.90	-0.11
NASDAQ	15,090.20	-0.82
Stoxx 600	471.88	0.46
FTSE 100	7,204.55	0.20
Nikkei 225	28,804.85	0.34
Hang Seng	26,126.93	0.42
Straits Times	3,205.14	0.52
KLCI 30	1,588.08	-0.22
<b>FX</b>		
Dollar Index	93.64	-0.14
EUR/USD	1.1643	0.17
GBP/USD	1.3755	-0.28
USD/JPY	113.50	-0.43
AUD/USD	0.7466	-0.01
USD/CNH	6.3837	-0.16
USD/MYR	4.1505	-0.18
USD/SGD	1.3482	0.06
<b>Commodities</b>		
WTI (\$/bbl)	83.76	1.53
Brent (\$/bbl)	85.53	1.09
Gold (\$/oz)	1,796.30	0.81

Source: Bloomberg, HLBB Global Markets Research

#### October PMIs broadly improved in the majors except Eurozone:

- US Markit Composite PMI ticked up to a 3-month high at 57.3 in October (Sept: 55.0) as a sharper than expected improvement in services outweighed the bigger than expected pullback in manufacturing. PMI manufacturing retreated 1.5points to a 7-month low at 59.2 in October, from a September reading of 60.7 and below consensus's 60.5, dragged by slower expansion in output (15-month low) amid supply tightness. Meanwhile, services PMI jumped more than expected to 58.2 (Sept: 54.9 and consensus 55.2) as easing Covid cases helped spur services activities.
- Eurozone Composite PMI eased more than expected to 54.3 in October in a preliminary reading (Sept: 56.2), as a result of softer growth momentum in both manufacturing (better than expected at 58.5 vs Sept's 58.6) and more so in services (worse than expected at 54.7 vs Sept's 56.4). A closer look at PMI manufacturing reveals drag from new orders which pulled back to a 9-month low at 54.9 in October (Sept: 56.7) even though this marked is 16<sup>th</sup> consecutive month of expansion.
- UK Composite PMI staged a surprised pick-up to 56.8 in October (Sept: 54.9), thanks to upticks in both manufacturing and services underpinned by improvement in new orders/ businesses. The PMI manufacturing index unexpectedly climbed higher to 57.7 (Sept: 57.1) while the services PMI also defied expectations for a decline and jumped close to 2.0ppt to 56.8 in October (Sept: 54.9).
- Japan Jibun Bank PMI composite bounced back to expansion territory, at 50.7 in October (Sept: 47.9), underpinned by improvement in both the manufacturing (53.0 vs 51.7) and services sector (50.7 vs 47.8).

#### UK retail sales unexpectedly declined:

- Retail sales staged a surprised 0.2% m/m decline in September (Aug: -0.6% m/m revised), deepening the y/y contraction to 1.3% (Aug: -0.2% y/y). Sales ex-auto also extended its decline to -0.6% m/m during the month, leaving sales to contract 2.6% y/y (Aug: -1.1%). The five straight months of decline signalled underlying weaknesses among UK consumers and softening consumer confidence will only spell greater headwinds going forward.

#### Hong Kong CPI surprisingly softened in September:

- CPI unexpectedly eased to a 3-month low of 1.4% y/y in September (Aug: +1.6% y/y), against consensus estimate for a sharp spike to +3.0% y/y. Underlying CPI which excludes distortions from government subsidies also moderated to 1.0% y/y, from +1.2% the preceding month, offering clear signals of well-contained price pressure in the Hong Kong economy. Major categories like food and housing saw easier price gains while utilities and clothing & footwear prices registered bigger increases.

#### Malaysia September CPI picked up to 2.2% y/y:

- Headline CPI saw a renewed uptick in September, after moderating in the last four consecutive months. CPI quickened to 2.2% y/y in September as expected, from a 5-month low of 2.0% y/y in August, a result of slightly quicker inflation in food prices reflecting spill over effects from disruption in the supply chain. The higher reading offers no cause for concern as core CPI and services CPI all showed very benign underlying price pressure. Core CPI held steady at 0.6% y/y while services CPI moderated for the 4th straight month to 0.4% y/y, a record low since at least 2006. Month-on-month, CPI rose 0.2% (Aug: unchanged).

### House View and Forecasts

FX	This Week	4Q-21	1Q-22	2Q-22	3Q-22
DXY	92-95	94.50	95.00	95.50	96.50
EUR/USD	1.15-1.17	1.15	1.14	1.14	1.13
GBP/USD	1.37-1.40	1.35	1.35	1.34	1.33
AUD/USD	0.74-0.76	0.72	0.71	0.71	0.70

USD/JPY	113-116	112	113	114	115
USD/MYR	4.13-4.17	4.15	4.15	4.15	4.15
USD/SGD	1.33-1.36	1.35	1.34	1.33	1.34

<b>Policy Rate %</b>	<b>Current</b>	<b>4Q-21</b>	<b>1Q-22</b>	<b>2Q-22</b>	<b>3Q-22</b>
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

<b>Date</b>	<b>Events</b>	<b>Prior</b>
25/10	SG CPI YoY (Sep)	2.4%
	MA Foreign Reserves (15 Oct)	\$115.2b
	US Chicago Fed Nat Activity Index (Sep)	0.29
	US Dallas Fed Manf. Activity (Oct)	4.6
26/10	SG Industrial Production YoY (Sep)	11.2%
	HK Exports YoY (Sep)	25.9%
	US FHFA House Price Index MoM (Aug)	1.4%
	US S&P CoreLogic CS US HPI YoY NSA (Aug)	19.7%
	US New Home Sales MoM (Sep)	1.5%
	US Conf. Board Consumer Confidence (Oct)	109.3
	US Richmond Fed Manufact. Index (Oct)	-3.0

Source: Bloomberg

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