

29 October 2021

## Global Markets Research

### Daily Market Highlights

# 29-Oct: Stocks rallied despite US GDP miss

## S&P 500, NASDAQ hit record highs on Thursday

## Dollar tumbled across the board; long-term yields rebounded

## Lagarde said ECB to end pandemic bond program next March

- US stocks staged a solid rebound on Thursday, sending the S&P 500 (+1.0%) and NASDAQ (+1.4%) to record highs. The turnaround in equities was boosted by a series of positive corporate earnings (Ford Motor & Caterpillar) despite the smaller than expected 3Q GDP growth in the US. The Dow Jones posted a 0.7% gain, just a tad below its all-time-high level set on Tuesday.
- After the market closed, Amazon delivered lower-than-expected revenue and earnings and forward guidance despite the coming holiday season, citing labour shortages, higher employment costs and global supply chain bottlenecks. Apple's revenue missed forecasts, also attributed to supply chain constraints.
- Longer-dated treasury yields rose on Thursday after having plunged sharply in the previous session. This was despite the US GDP growth missing forecasts. The yield on 10Y UST picked up 4bps to 1.58% while the 30s climbed 3bps to 1.98%. Short-term yields were down modestly with the 2Y yield closing 1bps lower at 0.49%. The dollar plummeted on weaker GDP data. The USD weakened against all G10 currencies and the dollar index recorded a sharp 0.5% decline to 93.35.
- USD/MYR closed 0.1% lower at 4.1500 on Thursday. We maintain the view that negative momentum has increased for the pair; after hitting 4.1460 recently, 4.1350 will be the next target although we expect cautious and range-bound trading ahead of today's tabling of the 2022 National Budget.
- Gold futures rose modestly (+0.3%) to \$1802.6/oz as the dollar weakened. Crude oil prices traded on a mixed note with Brent crude extending recent selloff albeit at a softer pace (-0.3%) to \$84.32/barrel. WTI rebounded by 0.2% to \$82.81/barrel.

### US economy expanded 2.0% in third quarter; initial jobless claims slipped to 281k:

- The US economic growth slowed more than expected in the third quarter, reflecting the impact of waning pent-up demand, higher inflation as well as the spread of the Delta variant. The Bureau of Economic Analysis' advance estimate shows that US GDP expanded by 2.0% q/q annualised rate in the third quarter, lower than the expected 2.6% growth. In 2Q, GDP growth was 6.7%. Compared to the same quarter last year, GDP grew by 4.9% y/y (2Q; +12.2%).
- In a separate report, initial jobless claims decreased further to a new pandemic era low of 281k last week (prior: 291k), better than the consensus estimate of 288k. The continuous drop in new unemployment benefit claimants confirmed the robust hiring activity in the US.
- Pending home sales, a leading indicator for existing home sales in the US fell 2.3% m/m in September, following a sharp 8.1% increase in July.
- The Kansas City Fed Manufacturing Index climbed substantially to 31.0 in October (Sep: 22.0), reflecting broad-based expansion in factory activity.

### Key Market Metrics

|                    | Level     | d/d (%) |
|--------------------|-----------|---------|
| <b>Equities</b>    |           |         |
| Dow Jones          | 35,730.48 | 0.68    |
| S&P 500            | 4,596.42  | 0.98    |
| NASDAQ             | 15,448.12 | 1.39    |
| Stoxx 600          | 475.16    | 0.24    |
| FTSE 100           | 7,249.47  | -0.05   |
| Nikkei 225         | 28,820.09 | -0.96   |
| Hang Seng          | 25,555.73 | -0.28   |
| Straits Times      | 3,203.82  | -0.45   |
| KLCI 30            | 1,566.86  | -1.02   |
| <b>FX</b>          |           |         |
| Dollar Index       | 93.35     | -0.49   |
| EUR/USD            | 1.1681    | 0.67    |
| GBP/USD            | 1.3790    | 0.33    |
| USD/JPY            | 113.58    | -0.22   |
| AUD/USD            | 0.7544    | 0.36    |
| USD/CNH            | 6.3892    | -0.07   |
| USD/MYR            | 4.1500    | -0.10   |
| USD/SGD            | 1.3446    | -0.28   |
| <b>Commodities</b> |           |         |
| WTI (\$/bbl)       | 82.81     | 0.18    |
| Brent (\$/bbl)     | 84.32     | -0.31   |
| Gold (\$/oz)       | 1,802.60  | 0.26    |

Source: Bloomberg, HLBB Global Markets Research

**Lagarde said PEPP to end next March:**

- The ECB kept its monetary policy unchanged as widely expected. All key interest rates were left at their present levels where the deposit facility rate (DFR) remains at -0.5%. The pandemic emergency bond buying program is set to run at least through March 2022 with a moderately lower purchasing pace. Importantly, the ECB acknowledged that inflation would run higher this year and longer than originally expected but still maintained that this phenomenon is transitory.
- ECB president Christine Lagarde disclosed that inflation was the major topic dominating this round of Governing Council meeting and officials did a lot of “soul searching” and testing and believed that they were correct in their view. She also repeated multiple times in the Q&A session that she expected the PEPP program to end at the end of March 2022 and said that the market’s expectations of a rate hike next year are not in line with the ECB’s guidance as conditions for such a lift-off are not satisfied.

**Eurozone confidence lifted by services sector:**

- The Eurozone Commission’s economic sentiment index picked up to 118.6 in October, higher than September’s reading (117.8) and the consensus forecast (116.7). The unexpected improvement in confidence came from the services industry as the gauge of the sector’s sentiment increased by 3pts. Industrial sector confidence was virtually unchanged despite the supply chain struggle. Consumer confidence deteriorated slightly.

**BOJ downgraded 2021 growth, inflation forecasts:**

- The Bank of Japan maintained its policy lever as expected. The policy balance rate was left unchanged at -0.1% while the yield curve control measure continues to target the 10Y JGB yields at around 0%. The asset purchase programs (purchases of ETFs, J-REITs, commercial papers and corporate bonds) were unchanged too.
- It continues to see downward pressure from the pandemic on services consumption while exports and production are expected to decelerate temporarily due to supply chain constraints. Median projection of real GDP growth for fiscal year 2021 was revised lower to 3.4% (from 3.8% in July) while CPI-ex fresh food was revised to 0.0% (from 0.6% prior). It turned more optimistic for FY2022, estimating real GDP growth to be at 2.9% (versus 2.7% prior) while the inflation forecast was unrevised at 0.9%.

**Japan reported steady jobless rate, higher job-to-applicant ratio:**

- Japan’s jobless rate was unchanged at 2.8% in September. The job-to-applicant ratio rose to 1.16 in the same month (Aug: 1.14), higher than the consensus forecast that called for a flat reading. New job offers rose for the second month, picking up 1.8% m/m (Aug: +0.9%) even though the State of Emergency measures were still in place in most of Japan during that period. The number of new applicants however, were down by 4.8% (Aug: +1.8%).
- Industrial production fell 5.4% m/m in September (Aug: -3.6%) according to a preliminary reading. This is higher than the estimated decline of 2.7%. Y/y, output was down by 2.3% (Aug: +8.8%).

**New Zealand’s consumer confidence deteriorated in October:**

- New Zealand’s consumer confidence weakened further in October, reflecting “ballistic” inflation expectations. The ANZ Consumer Confidence Index fell by 6.2% m/m to 98.0 in October (Sep: 104.5) as consumers turned less optimistic over family finances in the year ahead while their perception over the year-ahead economic conditions deteriorated to a further negative level.

**Upside surprise in Malaysia’s external trade:**

- Exports growth picked up steam for the 2nd straight month, increasing by 24.7% y/y in September, building on August momentum which saw a 18.4% y/y increase. This far exceeded both ours (+10.9% y/y) as well as consensus estimate (+14.0% y/y).

Similarly, imports also grew at a faster pace of 26.5% y/y during the month in review, doubling from the 12.5% y/y growth registered in August. Imports of intermediate and consumption goods reported bigger gains while capital goods imports saw a more moderate, but still sizeable increase. The strengthening trade positions were further reinforced by the positive month-on-month momentum. Exports and imports rose 16.0% and 14.2% m/m respectively in September, a turnaround from the declines seen in August. As a result, the trade surplus widened 22.2% m/m to RM26.1bn, and was up 19.1% y/y.

## House View and Forecasts

| <b>FX</b> | <b>This Week</b> | <b>4Q-21</b> | <b>1Q-22</b> | <b>2Q-22</b> | <b>3Q-22</b> |
|-----------|------------------|--------------|--------------|--------------|--------------|
| 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> |
|-------------|----------------------------------------------|--------------|
| 29/10       | AU Retail Sales MoM (Sep)                    | -1.7%        |
|             | EZ GDP SA QoQ (3Q A)                         | 2.2%         |
|             | EZ CPI Estimate YoY (Oct)                    | 3.4%         |
|             | US Personal Income (Sep)                     | 0.2%         |
|             | US Personal Spending (Sep)                   | 0.8%         |
|             | US PCE Core Deflator YoY (Sep)               | 3.6%         |
|             | US MNI Chicago PMI (Oct)                     | 64.7         |
|             | US U. of Mich. Sentiment (Oct F)             | 71.4         |
|             | VN Industrial Production YoY (Oct)           | 4.1%         |
|             | VN CPI YoY (Oct)                             | 2.1%         |
| 01/11       | VN Exports YoY (Oct)                         | -0.6%        |
|             | VN Retail Sales YTD YoY (Oct)                | -7.1%        |
|             | VN Markit Vietnam PMI Mfg (Oct)              | 40.2         |
|             | MA Markit Malaysia PMI Mfg (Oct)             | 48.1         |
|             | JP Jibun Bank Japan PMI Mfg (Oct F)          | 53.0         |
|             | AU Home Loans Value MoM (Sep)                | -4.3%        |
|             | CN Caixin China PMI Mfg (Oct)                | 50.0         |
|             | HK GDP YoY (3Q A)                            | 7.6%         |
|             | EZ Markit Eurozone Manufacturing PMI (Oct F) | 58.5         |
|             | UK Markit UK PMI Manufacturing SA (Oct F)    | 57.7         |
|             | US Construction Spending MoM (Sep)           | 0.0%         |
|             | US ISM Manufacturing (Oct)                   | 61.1         |
|             | US Markit US Manufacturing PMI (Oct F)       | 59.2         |

Source: Bloomberg

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