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Global Markets Research

Daily Market Highlights

1 Dec: Powell's speech sent cheers to markets

Fed chair signalled downshift in pace of rate increases as soon as this month

Risk-on mood sent equities higher; USD retreated below 106s

Weak bag of US data; EU and Australia CPI surprised on the downside

- Stocks rallied overnight as Federal Reserve Chair Jerome Powell confirmed that the central bank will slow the pace of its aggressive rate-hiking campaign that has weighed on markets. The Dow Jones Industrial Average was up 2.2% d/d, the tech-heavy Nasdaq Composite jumped a whopping 4.4% d/d while S&P 500 added 3.1% d/d. European markets also closed higher as investors reacted to the latest inflation data from the Eurozone. Stoxx 600 closed up 0.6% d/d. Asia-Pacific shares also rose despite the weak Chinese PMI. Hang Seng index rose 2.2% d/d. CSI 300 edged up by 0.1% d/d while Nikkei 225 shed 0.2% d/d.

- The 10-year Treasury yield eased on the news as well as on upward revision in 3Q GDP, led by front-end of the curve. The 2-year note yield fell 16bps to 4.31% while the benchmark 10-year yield fell 14bps to 3.61%.

- The dollar slipped on Wednesday after a highly anticipated speech by Jerome Powell. The dollar index traded 0.8% down d/d, breaking below the 106-threshold at 105.95. Against the EUR, the dollar depreciated 0.7% d/d. The greenback also weakened 0.9% d/d against the sterling, 0.4% d/d against yen, 1.5% d/d against AUD, 1.3% d/d against yuan and 1.5% d/d against Ringgit, breaking below the 4.45 support.

- Oil prices rose by around 3.0% d/d on signs of tighter supply, a weaker dollar and optimism over a Chinese demand recovery. According to the Energy Information Administration, US crude oil stocks plunged by a whopping 12.6m barrels, the most since 2019, in the week ended Nov 25. Brent rose 2.9% d/d, West Texas Intermediate (WTI) climbed by 3.0% d/d. Gold prices were flat, dipping 0.1% d/d.

Fed Chair signals downshift in Dec; 3Q GDP revised upwards; ADP showed slower hiring; worsening housing market

- Fed Chair Jerome Powell signalled that the Fed will slow the pace of rate increases as soon as in December, but reiterated that borrowing costs will keep rising and remain restrictive to beat inflation. This is in line with our house view for a 50bps rate hike in the next FOMC meeting this month. In its speech to Brookings Institute, he said that "The time for moderating the pace of rate increases may come as soon as the December meeting" and added "Given our progress in tightening policy, the timing of that moderation is far less significant than the questions of how much further we will need to raise rates to control inflation, and the length of time it will be necessary to hold policy at a restrictive level."
- As it is, according to the latest Beige Book, economic activity was about flat or up slightly since the previous report, down from the modest average pace of growth previously. Nonauto consumer spending was mixed but, on

Key Market Metrics

	Level	d/d (%)
Equities		
Dow Jones	34,589.77	2.18
S&P 500	4,080.11	3.09
NASDAQ	11,468.00	4.41
Stoxx Eur 600	440.04	0.63
FTSE 100	7,573.05	0.81
Nikkei 225	27,968.99	-0.21
Hang Seng	18,597.23	2.16
Straits Times	3,290.49	0.43
KLCI 30	1,488.80	0.80
FX		
Dollar Index	105.95	-0.82
EUR/USD	1.0406	0.74
GBP/USD	1.2058	0.89
USD/JPY	138.07	-0.40
AUD/USD	0.6788	1.50
USD/CNH	7.0457	-1.33
USD/MYR	4.4445	-1.47
USD/SGD	1.3614	-0.89
Commodities		
WTI ($/bbl)	80.55	3.01
Brent ($/bbl)	85.43	2.89
Gold ($/oz)	1,746.00	-0.14
Copper ($$/MT)	8,239.00	2.51
Aluminum($/MT)	2,477.50	4.12
CPO (RM/tonne)	4,158.00	3.09

Source: Bloomberg, HLBB Global Markets Research balance, eked out slight gains. Manufacturing activity was mixed across Districts but up slightly on average. Higher interest rates further dented home sales, which declined at a moderate pace overall but fell steeply in some Districts. Employment grew modestly in most districts. Consumer prices rose at a moderate or strong pace in most Districts. Still, the pace of price increases slowed on balance, reflecting a combination of improvements in supply chains and weakening demand.

- US 3Q GDP was revised upwards 0.3ppts to an annual rate of 2.9% (2Q: +0.6%). The second estimate primarily reflected upward revisions to consumer spending and nonresidential fixed investment. The PCE price index increased 4.3% y/y, an upward revision of 0.1ppts. Excluding food and energy prices, the PCE price index increased 4.6% y/y, also revised up 0.1ppts, still above Fed's target of 2%.
- The latest ADP National Employment report showed that job creation slowed more than expected and by the most since January 2021 in November at 127k (Oct: 239k), led by construction and other interest rate-sensitive sectors. Consumer-facing segments were bright spots. As it is, companies are no longer in hyper-replacement mode. Fewer people are quitting and the post-pandemic recovery is stabilizing. The slowing trend in the labour market is also seen in the official JOLTS survey which showed the number of job openings edging down to 10.33m in October from 10.7m previously but was a shade higher than consensus estimate's 10.25m.
- As consumers face 20-year high mortgage rates, pending home sales slid for the fifth consecutive month in October, albeit contracting at a less than expected pace of 4.6% m/m and 37.0% y/y (Sept: -8.7% m/m). MBA mortgage loan application decreased 0.8% w/w for the week ended Nov 25 (prior: +2.2% m/m). While new purchase activity increased 4.0% w/w after adjusting for the Thanksgiving holiday, the decline in mortgage rates was still not enough to bring back refinance activity which plunged 13% w/w to the lowest levels since 2000.
- The Chicago Business Barometer tumbled a further 8 points to 37.2 in November. This is the third consecutive month of contraction and excluding the 2020 pandemic shock, this was the lowest reading since the 2008/09 Global Financial Crisis. Specifically, the survey noted that 30% of firm were able to pass on higher costs, whilst the vast majority (60%) were able to do so only partly.
- Trade deficit widened to $99.0bn in October from $91.9bn previously as exports fell 2.6% m/m (Sept: -1.9% m/m) while imports rose 0.9% m/m (Sept: +1.0% m/m). Wholesale inventories, meanwhile, rose at a faster pace of 0.8% m/m (Sept: +0.6% m/m).

Eurozone inflation finally slowed to 10.0%

- Preliminary data showed that Inflation in the euro zone slowed slightly in November, decelerating more than expected from +10.6% y/y to +10.0% y/y. Energy and food continued to contribute to the lofty inflation figures, but with a noticeable drop in the former. Energy is expected to have stood at an annual rate of 34.9% y/y in November (Oct: +41.5% y/y). Food, alcohol & tobacco prices remained high at +13.6% (Oct: +13.1%), while prices for non-energy industrial goods and services were stable at +6.1% y/y. Lower inflation figures could be a reflection of recent increases in interest rates and could mean smaller, or less, rate hikes in the coming months. However, speaking earlier this week, ECB President Lagarde reiterated that she expects ECB to raise rates further to ensure that inflation returns to their 2.0% medium-term target.

Japan's industrial production slipped 2.6%

- Industrial output (IPI) in Japan fell more than expected by 2.6% m/m in October (Sept: -1.7% m/m), missing forecasts for a contraction of 1.8% m/m. On a y/y basis, IPI rose 3.7%. Upon the release of the data, the METI announced its assessment of industrial production, saying that it is picking up slowly but still shows signs of weakness in places. This is compared to prior month's assessment that IPI is showing signs of increase at a moderate pace. Moving forward, output is expected to rise 3.3% m/m in November and +2.4% m/m in December, thanks to increases among production machinery, business-oriented machinery, chemicals and transport equipment.
- In the housing market, Japanese housing starts fell more than expected by 1.8% y/y in October (Sept: +1.1% y/y) after 2 months of expansion.

China PMI prints weakened more than expected in November

- China's services activity contraction deepened in November as already strict COVID-19 restrictions tightened further in some cities due to surging infections and struck a blow to consumption and production. The official services purchasing managers' index (PMI) stood at 46.7, worsening from 48.7 in October and came below consensus estimate's 48. The manufacturing index also fell to 48.0, lowest since April and also worse than consensus's 49.0.

Australia inflation unexpectedly eased to 6.9%

- Australia's inflation unexpectedly decelerated in October, leaving room for RBA to manoeuvre its monetary policy. Annual inflation rate unexpectedly dropped from 7.3% y/y to 6.9% y/y. This is below consensus estimate's +7.6% y/y. Trimmed mean, meanwhile, also softened slightly to +5.3% y/y from +5.4% y/y previously. The most significant contribution to inflation remained in Housing, Food and non-alcoholic beverages and Transport.
- In the housing market, building approvals fell more than economist had expected in October. Approvals fell 6.0% m/m, tripled consensus forecast of -2.0% m/m as private home approvals fell 2.2% m/m. This is the second month of contraction after August's 26.0% m/m surge. Other data corroborate with this slowing trend. CoreLogic says national home prices fell 1.0% m/m in November (Oct: -1/1% m/m, August: -1.6% m/m). While the rate of decline in values had been shrinking, this does not necessarily point to a recovery in the housing market.
- The S&P Manufacturing PMI edged down to 51.3 in November from 52.7 in October. This is the slowest expansion since June 2020. Both sales and output rose at weaker rates, whilst employment growth softened. As it is, business sentiment was also affected by a double whammy of rising costs and supply issues, adding to fears that we may see further slowdowns unless there is a material improvement in demand. On a positive note, price pressures eased.

Business confidence weakened in New Zealand

- Business confidence fell 14 points in November to -57, suggesting that activity measures were generally lower, and are trending down. Specifically, residential construction intentions plummeted to a fresh record low, while inflation pressures remain intense but are easing slowly.

House View and Forecasts

FX	This Week	4Q-22	1Q-23	2Q-23	3Q-23
DXY	103-108	115.00	112.70	110.45	110.00
EUR/USD	1.00-1.06	0.95	0.97	0.98	0.98
GBP/USD	1.16-1.24	1.10	1.10	1.11	1.12
USD/JPY	135-140	147.00	146.00	145.00	144.00
AUD/USD	0.65-0.69	0.62	0.63	0.64	0.64
USD/MYR	4.43-4.50	4.68	4.64	4.62	4.60
USD/SGD	1.35-1.38	1.45	1.44	1.42	1.40

Rates, %	Current	4Q-22	1Q-23	2Q-23	3Q-23
Fed	3.75-4.00	4.25-4.50	5.25-5.50	5.25-5.50	5.25-5.50
ECB	2.00	2.75	2.75	2.75	2.75
BOE	3.00	3.25	3.25	3.25	3.25
BOJ	-0.10	-0.10	-0.10	-0.10	-0.10
RBA	2.85	3.10	3.10	3.10	3.10
BNM	2.75	2.75	3.00	3.00	3.00

Source: HLBB Global Markets Research

Up Next

Date	Events	Prior
1-Dec	JN Capital Spending YoY (3Q)	4.60%
	MA S&P Global Malaysia PMI Mfg (Nov)	48.7
	VN S&P Global Vietnam PMI Mfg (Nov)	50.6
	JN Jibun Bank Japan PMI Mfg (Nov F)	49.4
	AU Private Capital Expenditure (3Q)	-0.30%
	CH Caixin China PMI Mfg (Nov)	49.2
	JN Consumer Confidence Index (Nov)	29.9
	HK Retail Sales Value YoY (Oct)	0.20%
	EC S&P Global Eurozone Manufacturing PMI (Nov F)	47.3
	UK S&P Global/CIPS UK Manufacturing PMI (Nov F)	46.2
	EC Unemployment Rate (Oct)	6.60%
	US Personal Income (Oct)	0.40%
	US Personal Spending (Oct)	0.60%
	US Initial Jobless Claims	240k
	US Continuing Claims	1551k
	US S&P Global US Manufacturing PMI (Nov F)	47.6
	US Construction Spending MoM (Oct)	0.20%
	US ISM Manufacturing (Nov)	50.2
2-Dec	AU Home Loans Value MoM (Oct)	-8.20%
	EC PPI MoM (Oct)	1.60%
	SI Purchasing Managers Index (Nov)	49.7
	US Change in Nonfarm Payrolls (Nov)	261k
	US Average Hourly Earnings MoM (Nov)	0.40%

Source: Bloomberg

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