2 November 2022

Global Markets Research

Daily Market Highlights

2 Nov: US Stocks under pressure ahead of FOMC meeting

UST yields slipped while the DXY held steady at the 111 handle

RBA hiked 25bps but not as dovish as expected

October PMI point to a weak start to 4Q

- Stocks dipped as traders assessed better-than-expected economic data and prepared for another likely rate hike from the Federal Reserve. The Dow Jones Industrial Average dipped 0.2%, while the S&P 500 slid 0.4% d/d. Nasdaq Composite shed 0.9% d/d. Some losses were mitigated as a better-than-feared earnings season continued with a strong report from Pfizer and Uber. The pan-European Stoxx 600 index closed up 0.6% d/d, while Hang Seng led gains in the Asia-Pacific at +5.2% d/d after unconfirmed reports of reopening talks taking place in China.

- Benchmark 10-year Treasury yields also slipped on speculation that the Fed might signal a slower pace of policy tightening this week, even as it is expected to raise interest rates by another 75bps. The benchmark 10-year Treasury note yield dipped about 1bps to 4.04%. The 2-year rate traded more than 6bps to 4.55%.

- The dollar ended mixed but relatively stable against major currencies. The Dollar Index was flat at 111.48, gaining 0.1% d/d against the EUR and AUD but weakening 0.1% against the sterling. The MYR weakened 0.2% against the USD, but remained within recent ranges of 4.70-4.75 ahead of BNM OPR decision tomorrow where we are expecting a 25bps hike.

- Gold settled the day 0.6% d/d higher as the U.S. dollar and bond yields slipped from session highs, with the focus turning to a key Federal Reserve announcement for cues on whether it would scale back or retain its aggressive stance on interest rates hikes. Oil prices recouped losses from the previous session, on optimism that China, the world's second-largest oil consumer, could reopen from strict COVID curbs. The West Texas Intermediate rose 2.1% d/d but the Brent was marginally lower at 0.2% d/d.

RBA raised rates by 25bps to 2.85%

- As expected, the Reserve Bank of Australia (RBA) increased the cash rate target by 25bps to 2.85%. In its statement, the Board expects to increase interest rates further over the period ahead. It is closely monitoring the global economy, household spending and wage and price-setting behaviour. The size and timing of future interest rate increases will continue to be determined by the incoming data and the Board's assessment of the outlook for inflation and the labour market. Specifically, the Board highlighted that the 7.3% inflation in September is too high and that medium-term inflation expectations remain well anchored. The Bank's central forecast is for CPI

Key Market Metrics

	Level	d/d (%)
Equities		
Dow Jones	32,653.20	-0.24
S&P 500	3,856.10	-0.41
NASDAQ	10,890.85	-0.89
Stoxx Eur 600	414.61	0.58
FTSE 100	7,186.16	1.29
Nikkei 225	27,678.92	0.33
Hang Seng	15,455.27	5.23
Straits Times	3,130.50	1.21
KLCI 30	1,445.92	-0.99
FX		
Dollar Index	111.48	-0.04
EUR/USD	0.9877	-0.05
GBP/USD	1.1484	0.13
USD/JPY	148.27	-0.30
AUD/USD	0.6395	-0.06
USD/CNH	7.3084	-0.38
USD/MYR	4.7362	0.20
USD/SGD	1.4153	-0.08
Commodities		
WTI ($/bbl)	88.37	2.13
Brent ($/bbl)	94.65	-0.19
Gold ($/oz)	1,649.70	0.55
Copper ($$/MT)	7,450.00	-1.32
Aluminum($/MT)	2,220.00	0.38
CPO (RM/tonne)	3,963.00	0.18

Source: Bloomberg, HLBB Global Markets Research inflation to be around 4.75% over 2023 and a little above 3.0% over 2024. We maintain our view for another 25bps increase in the next policy meeting in December.

- National property prices have fallen for the sixth month in a row as higher interest rates make the cost of borrowing more expensive. CoreLogic says national home prices fell 1.2% m/m and 0.9% y/y in October. The median home price now stood at $721,018.

US Manufacturing weakened, but job openings and construction spending rebounded

- According to the ISM, the October Manufacturing PMI stood at 50.2, down 0.7ppts m/m and the lowest since May 2020 but was slightly above consensus estimate's 50.0. Details showed softening new order rates over the previous five months, showing that companies are preparing for potential future lower demand. As it is, the New Orders Index remained in contraction territory at 49.2.
- On the last business day of September, the number of job openings increased to 10.7m, partially offsetting a sharp decline in August. The total eclipsed August's upwardly revised level by nearly half a million and consensus forecast of 9.8m. The largest increases in job openings were in accommodation and food services, health care and social assistance and transportation, warehousing, and utilities. The number of hires edged down to 6.1m, while total separations decreased to 5.7m. Within separations, quits (4.1m) changed little and layoffs and discharges (1.3m) edged down. September's data indicates that there are 1.9 job openings for every available worker.
- U.S. construction spending unexpectedly rebounded 0.2% m/m in September, amid a surge in investment in nonresidential structures that offset a further decline in outlays on single-family homebuilding. This is compared to August reading as well as consensus estimate's -0.6% m/m. Spending on private construction projects rose 0.4% m/m after dropping 0.7% in August. But investment in residential construction was unchanged.

S&P PMI readings suggest weakening manufacturing sector at the start of 4Q

- The S&P Global US Manufacturing PMI weakened to 50.4 in October (Sept: 52.0), but up from the earlier released 'flash' estimate of 49.9. This PMI data signalled a subdued start to 4Q, as US manufacturers recorded a renewed and solid drop in new orders. Domestic and foreign demand weakened due to greater hesitancy among clients as prices rose further amid dollar strength. As such, efforts to clear backlogs of work, rather than new order inflows, drove the latest upturn in production
- The UK manufacturing sector started the final quarter on a weak footing too. The Manufacturing PMI fell to a 29-month low of 46.2 in October. Specifically, new order intakes decline at the fastest pace since May 2020. The latest contraction was due to the weaker domestic market, already high stock levels at clients, subdued client confidence and inflationary pressures.
- Over in Japan, the Jibun Bank PMI fell to 50.7 in October, down from 50.8 in September signalling some weakening in the health of Japan's manufacturing sector. The latest headline figure was the lowest reading in 21 months. The Japanese manufacturing sector continued to register falling new orders and output in October. The rates of decline, nevertheless, has eased since September and employment continued to rise.

- In China, the Caixin PMI stood at 49.2 in October, up from 48.1 in September and slightly above expectations of 48.5. As it is, the current domestic and international environment remained complicated and tough, and unfavourable factors affecting economic development have increased. In particular, the spread of the coronavirus in many regions significantly restricts both supply and demand.
- Vietnam Manufacturing PMI also dropped to 50.6 in October from 52.5 in September. October PMI data provides us with the first signs that weakness in the global economy is starting to impact on growth at Vietnamese manufacturers, with both new orders and exports increasing at the weakest rates in 13 months. Worries around demand conditions also hit business confidence.
- For Malaysia, PMI slipped from 49.1 in September to 48.7 in October, indicative of a slight moderation in the health of the manufacturing sector and slower growth momentum in 4Q.

New Zealand new dwelling sales rebounded

- The total number of building permits issued in New Zealand rebounded to grow by 3.8% m/m in September following the 1.6% m/m decline in August. On a y/y basis, building permits jumped 7.0% y/y. For 3Q, new dwelling rose 1.7% y/y after slipping 3.8% in the previous three months.

Hong Kong sales nudged up 0.2% as quarantine rules eased

- Hong Kong's retail sales nudged up in September helped by improved tourism from eased pandemic restrictions, but officials warned that tightened financial conditions will pose a challenge for the outlook. Retail sales rose 0.2% y/y, a rebound from -0.2% y/y previously. Just a recap, the city scrapped a hotel quarantine requirement for all incoming visitors in September.

House View and Forecasts

FX	This Week	4Q-22	1Q-23	2Q-23	3Q-23
DXY	108-113	115.00	112.70	110.45	110.00
EUR/USD	0.98-1.03	0.95	0.97	0.98	0.98
GBP/USD	1.13-1.18	1.10	1.10	1.11	1.12
USD/JPY	145-150	147.00	146.00	145.00	144.00
AUD/USD	0.63-0.66	0.62	0.63	0.64	0.64
USD/MYR	4.70-4.75	4.68	4.64	4.62	4.60
USD/SGD	1.40-1.42	1.45	1.44	1.42	1.40

Rates, %	Current	4Q-22	1Q-23	2Q-23	3Q-23
Fed	3.00-3.25	4.25-4.50	4.25-4.50	4.25-4.50	4.25-4.50
ECB	2.00	2.75	2.75	2.75	2.75
BOE	2.25	3.25	3.25	3.25	3.25
BOJ	-0.10	-0.10	-0.10	-0.10	-0.10
RBA	2.60	3.10	3.10	3.10	3.10
BNM	2.50	2.75	3.00	3.00	3.00

Source: HLBB Global Markets Research

Up Next

Date	Events	Prior
2-Nov	NZ CoreLogic House Prices YoY (Oct)	2.80%
	NZ Average Hourly Earnings QoQ (3Q)	2.30%
	NZ Unemployment Rate (3Q)	3.30%
	AU Private Sector Houses MoM (Sep)	4.10%
	AU Home Loans Value MoM (Sep)	-3.40%
	EC S&P Global Eurozone Manufacturing PMI (Oct F)	46.6
	US MBA Mortgage Applications	-1.70%
	US ADP Employment Change (Oct)	208k
	SI Purchasing Managers Index (Oct)	49.9
3-Nov	US FOMC Rate Decision (Lower Bound)	3.00%
	US FOMC Rate Decision (Upper Bound)	3.25%
	AU S&P Global Australia PMI Composite (Oct F)	49.6
	HK S&P Global Hong Kong PMI (Oct)	48
	SI S&P Global Singapore PMI (Oct)	57.5
	AU Exports MoM (Sep)	3%
	CH Caixin China PMI Composite (Oct)	48.5
	MA BNM Overnight Policy Rate	2.50%
	UK S&P Global/CIPS UK Composite PMI (Oct F)	47.2
	EC Unemployment Rate (Sep)	6.60%
	UK Bank of England Bank Rate (37926)	2.25%
	US Trade Balance (Sep)	-$67.4b
	US Nonfarm Productivity (3Q P)	-4.10%
	US Unit Labor Costs (3Q P)	10.20%
	US Initial Jobless Claims	217k
	US Continuing Claims	1438k
	US S&P Global US Services PMI (Oct F)	46.6
	US S&P Global US Composite PMI (Oct F)	47.3
	US Durable Goods Orders (Sep F)	0.40%
	US ISM Services Index (Oct)	56.7

Source: Bloomberg

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