HongLeong Bank

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Global Markets Research

Daily Market Highlights

3 Nov: US stocks tumbled on Fed's tough talk on inflation

Fed hiked by 75bps; guided for slower pace of increase but higher terminal rate

US stocks and bonds reversed gains; DXY fell marginally

All eyes on BOE and BNM today

- Stocks tumbled after Federal Reserve Chair Jerome Powell said inflation was still too high and indicated that the central bank has more rate hiking ahead, although the pace of the increase will most likely be slower. The Dow Jones Industrial Average slid 1.6%, the S&P 500 dropped 2.5% while the Nasdaq Composite dived 3.4% d/d. Stocks initially rallied following the rate hike when the Fed's accompanying statement hinted at a possible policy change in the future, but traders' hopes were dashed by Powell's still-tough talk on inflation, pushing stocks to settle near the day-low at close.

- Treasury yields swung wildly as traders tried to decipher the Federal Reserve's message on its tightening path after the central bank approved another big rate hike. The yield on the 10-year Treasury rose 6bps d/d to 4.10% after falling below 4.00% earlier. The policy-sensitive 2-year Treasury yield last traded 8bps higher at 4.62%.

- The dollar slid broadly against major currencies but rebounded strongly from a knee-jerk intraday low of 110.43 post FOMC, ending the day at 111.35 after Powell's press conference. Sterling depreciated 0.8% d/d against USD, breaking below the 1.14 key handle, ahead of a policy decision by the Bank of England, which is also expected to announce a 75bps increase. The euro and renminbi also depreciated 0.6% and 0.5% d/d respectively. Ringgit weakened slightly by 0.04% to 4.7380 against the Dollar, while the SGD slipped 0.1% to 1.4172.

- Oil prices also gained ground, but was earlier supported by another decline in U.S. oil inventories as refineries picked up activity ahead of the winter heating season. Brent crude settled up 1.6% d/d while U.S. West Texas Intermediate (WTI) crude settled up 1.8% d/d. According to Federal data, U.S. crude oil stocks fell about 3.1m barrels on the week. Inventories of gasoline fell, while distillate stocks rose only marginally ahead of the key heating season, when demand is expected to pick up. Gold prices, meanwhile, whipsawed, but ultimately settling relatively flat d/d at $1650/oz.

The Fed raised rate by 75bps; signalling slower pace of hike but higher terminal rate

- As expected, the Federal Reserve raised the fed funds rate by 75bps to 3.75% to 4.00%. In its accompanying statement, we noted that the Committee added that the ongoing increases in the target range will be appropriate in order to attain a stance of monetary policy that is sufficiently

Key Market Metrics

	Level	d/d (%)
Equities		
Dow Jones	32,147.76	-1.55
S&P 500	3,759.69	-2.50
NASDAQ	10,524.80	-3.36
Stoxx Eur 600	413.39	-0.29
FTSE 100	7,144.14	-0.58
Nikkei 225	27,663.39	-0.06
Hang Seng	15,827.17	2.41
Straits Times	3,141.13	0.34
KLCI 30	1,451.61	0.39
FX		
Dollar Index	111.35	-0.12
EUR/USD	0.9818	-0.60
GBP/USD	1.1392	-0.80
USD/JPY	147.90	-0.25
AUD/USD	0.6351	-0.69
USD/CNH	7.3430	0.47
USD/MYR	4.7380	0.04
USD/SGD	1.4172	0.13
Commodities		
WTI ($/bbl)	90.00	1.84
Brent ($/bbl)	96.16	1.60
Gold ($/oz)	1,650.00	0.02
Copper ($$/MT)	7,652.00	2.71
Aluminum($/MT)	2,242.50	1.01
CPO (RM/tonne)	4,048.00	2.14

Source: Bloomberg, HLBB Global Markets Research restrictive to return inflation to 2.0%. We also noted a more dovish statement with the Fed noting the cumulative tightening of monetary policy, the lags with which monetary policy affects economic activity and inflation, and economic and financial developments.

- In fact, in a news conference following the meeting, Fed Chairman Jerome Powell acknowledged that the path to a soft landing, had narrowed, but said it is still possible. He, nevertheless, reiterated his commitment to bringing down inflation and his stance that persistent, entrenched inflation will cause greater economic pain than a recession. He also added that the incoming data suggested that ultimate level of interest frates will be higher than previously expected and said that it would be appropriate to slow the pace of increases as soon as the next meeting or the one after that. He added that "we still have some ways" before rates were tight enough that that it is very premature to be thinking about pausing.
- The next FOMC meeting in is scheduled on Dec 13-14. There is no doubt that further rate hikes are still on the cards and we are maintaining our house view for a 50bps hike.

US ADP showed bigger than expected job gains; mortgage applications extended its decline

- Private sector employment increased by 239,000 jobs in October (consensus: 185k and August: 208k) and annual pay was up 7.7% y/y, according to the October ADP National Employment Report. This is a really strong number given the maturity of the economic recovery but the hiring was not broad based. Goods producers, which are sensitive to interest rates, are pulling back, and job changers are commanding smaller pay gains.
- Mortgage applications declined for the sixth consecutive week by 0.5% w/w for the week ending October 28 despite a slight drop in rates. The 30-year fixed rate decreased for the first time in over two months to 7.06%, but remained close to its highest since 2002. These elevated rates continue to put pressure on both purchase and refinance activity and have added to the ongoing affordability challenges impacting the broader housing market, as seen in the deteriorating trends in housing starts and home sales.

Eurozone PMI lowest since May 2020 at 46.4

- The S&P Global Eurozone Manufacturing PMI recorded sub-50.0 reading for a fourth month in a row at 46.4 in October (Sept: 48.4) and the lowest level since May 2020. The PMI surveys are now clearly signalling that the manufacturing economy is in a recession. In October, new orders fell at a rate we've rarely seen during 25 years of data collection, only during the worst months of the pandemic and in the height of the global financial crisis between 2008 and 2009 have decreases been stronger.

Australia housing loans and dwelling approved declined

- The value of new loan commitments for housing fell 8.2% m/m in September after a fall of 3.4% m/m previously. Although housing lending has fallen for four consecutive months, the value of loan commitments in September remained well above pre-pandemic levels. Owner-occupier loans in September were 23% higher than in February 2020, while investor loans were 60% higher.
- The total number of dwellings approved fell 5.8% m/m following a 23.1% m/m increase in August. The fall in approvals was driven by private sector houses, which declined 7.8% m/m.

New Zealand unemployment rate unchanged at 3.3%

- Unemployment rate was 3.3% in 3Q, unchanged from last quarter. The labour force participation rate, meanwhile, rose to 71.7% and the employment rate rose to 69.3%, both are the highest rates recorded since the Household Labour Force Survey (HLFS) began in 1986. Wages also increased at a faster rate of 3.7% y/y compared with 3.4% y/y in 2Q.

Singapore PMI dipped marginally to 49.7

- The October reading of the Singapore Purchasing Managers Index (PMI) dipped 0.2 points m/m to 49.7 (consensus: 49.8), while the Electronics Sector PMI recorded a decline of 0.3 points to 49.1. The latest sector reading was attributed to a faster contraction in the key indexes of new orders, new exports, factory output, inventory and employment.

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
3-Nov	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%
	MA BNM Overnight Policy Rate	2.50%
	UK S&P Global/CIPS UK Services PMI (Oct F)	48.2
	EC Unemployment Rate (Sep)	6.60%
	UK Bank of England Bank Rate	2.25%
	US Trade Balance (Sep)	-$67.4b
	US Initial Jobless Claims	217k
	US S&P Global US Services PMI (Oct F)	46.6
	US Durable Goods Orders (Sep F)	0.40%
	US ISM Services Index (Oct)	56.7
4-Nov	JN Jibun Bank Japan PMI Services (Oct F)	53
	AU RBA-Statement on Monetary Policy ()	
	AU Retail Sales Ex Inflation QoQ (3Q)	1.40%
	SI Retail Sales YoY (Sep)	13.00%
	EC S&P Global Eurozone Services PMI (Oct F)	48.2
	EC PPI YoY (Sep)	43.30%
	US Change in Nonfarm Payrolls (Oct)	263k
	US Unemployment Rate (Oct)	3.50%
	US Average Hourly Earnings MoM (Oct)	0.30%

Source: Bloomberg

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