

4 February 2022

## Global Markets Research

### Daily Market Highlights

## 4-Feb: Broad selloffs in global equities

**Global equities pressured by disappointing corporate earnings from Meta**

**Government bond yields jumped; DXY ended weaker**

**EUR jumped on hawkish shift in ECB; GBP saw modest gains amid expected BOE hike**

- Key US benchmark stock indices halted four days of advances and ended in a sea of red as disappointing 4Q earnings from Meta led to a steep selloff in US equities, while the rally in Amazon in late trading hours did little to revive the selloffs. Meta saw a historic one-day loss of over \$250bn in market value. The NASDAQ plunged 3.7% with the broader S&P and DJIA fell more modestly by 1.5-2.4%. European and Asian stocks also ended lower in earlier trading.
- Safer government bonds were under pressure by and large tracking the selloffs in equities and hawkish shift in ECB highlighting inflationary concern brought forward rate hike expectations. The UST yields rose 5-6bps across the curve with the 10s added 6bps to 1.83%. Meanwhile, yields of 10Y German bunds and UK gilts rose 10bps and 11bps respectively earlier.
- The dollar traded mixed against the G10s and major Asian currencies. The dollar index lost the 96 handle, led lower by a more than 1.0% spike in the EUR by two big figures from 1.12 to 1.14 post ECB's announcement and President Lagarde's press conference which raised bets of an ECB rate hike this year. The GBP went through more volatile moves post the expected BOE rate hike, pulling back from an intraday high of 1.3628 to end the day only 0.2% marginally stronger at 1.3592.
- USD/MYR traded on a muted note in this holiday shortened week, last closed at 4.1840 on Thursday. We expect the pair to continue trading at current levels as the week draw to a close, and remained supported by lingering USD weakness ahead of the weekend.
- In the commodity market, gold prices retreated in line with a weaker USD, to close at \$1805.30/oz (-0.3%). Crude oil prices advanced further over the supply concerns stemming from the Russia-Ukraine tensions and as extreme cold weather in the US curtailed output. Brent crude climbed 1.9% to \$91.13/barrel. The US WTI also added 2.3% to \$90.26/barrel, above \$90 for the first time since 2014.

**ECB reiterated its stance of a gradual stimulus exit; but shifted to a slightly hawkish tilt as PPI hit record high:**

- ECB kept all three key rates unchanged at yesterday's policy meeting as widely expected, at levels unchanged since Sept-2019. Although the central bank maintained its rhetoric that any policy withdrawal and stimulus unwinding will be gradual, seemingly diverged from the Fed and the BOE's hawkish shift, ECB President Lagarde appeared to be less affirmative / committal in disregarding the case of a rate hike in 2022. The ECB reiterated that it will slow the pace of bond buying across 2022 and end asset purchases entirely before lifting rates. All eyes will be on March's assessment on growth and inflation outlook to get a clue on

#### Key Market Metrics

|                    | Level     | d/d (%) |
|--------------------|-----------|---------|
| <b>Equities</b>    |           |         |
| Dow Jones          | 35,111.16 | -1.45   |
| S&P 500            | 4,477.44  | -2.44   |
| NASDAQ             | 13,878.82 | -3.74   |
| Stoxx 600          | 468.63    | -1.76   |
| FTSE 100           | 7,528.84  | -0.71   |
| Nikkei 225         | 27,241.31 | -1.06   |
| Hang Seng          | 23,802.26 | 1.07    |
| Straits Times      | 3,315.99  | 2.04    |
| KLCI 30            | 1,525.73  | 0.89    |
| <b>FX</b>          |           |         |
| Dollar Index       | 95.35     | -0.62   |
| EUR/USD            | 1.1439    | 1.19    |
| GBP/USD            | 1.3599    | 0.16    |
| USD/JPY            | 114.99    | 0.46    |
| AUD/USD            | 0.7140    | 0.04    |
| USD/CNH            | 6.3529    | -0.08   |
| USD/MYR            | 4.1840    | -0.02   |
| USD/SGD            | 1.3439    | -0.24   |
| <b>Commodities</b> |           |         |
| WTI (\$/bbl)       | 90.26     | 2.27    |
| Brent (\$/bbl)     | 91.13     | 1.86    |
| Gold (\$/oz)       | 1,805.30  | -0.28   |

Source: Bloomberg, HLBB Global Markets Research

Note: Hang Seng Index close as at 31 Jan

the ECB's normalization timeline, as the central bank commented that the policy path will be data dependent, and that inflation will stay elevated longer than expected. The EUR jumped higher above 1.14 on prospects of a 2022 rate lift-off.

- Eurozone PPI accelerated more than expected, rising by 2.9% m/m and 26.2% y/y in December (Nov: +1.8% m/m and +23.7% y/y), entirely boosted by a jump in energy prices (+7.0% vs +3.6% m/m). PPI ex-energy almost halved to 0.5% m/m (Nov: +0.9%) as prices of intermediate goods, capital goods, durable and non-durable goods all registered milder increases. Although producer prices increased at record pace on an annual basis, the energy-driven price pressure will likely see some reversals soon as the lower base effect in early 2021 dissipates.

#### **BOE's relatively dovish guidance vis-à-vis ECB capped gains in the sterling:**

- BOE raised its key benchmark interest rate by 25bps to 0.50% as expected and halted its corporate bond buying of £20bn in a surprised move. This came on the back of a revision in BOE's inflation projection to 7.25% in April, up from 6.0% previously and more than 3x BOE's inflation target of 2.0%. The higher than expected inflation outlook aside, BOE was also wary of labour market tightness, prompting 4/9 policy makers to vote for a bigger 50bps rate hike. Despite the vote by four BOE officials for bigger rate hikes, cautious tone on economic outlook from Governor Bailey dampened the sterling performance.

#### **Mixed US data points to patchy recovery in the US economy:**

- US initial jobless claims rose less than expected by 238k for the week ended 29 Jan, smaller than the prior 261k, indicating the US labour market is recovering in a stable manner. Continuous claims also inched lower to 1628k, from prior 1672k.
- US factory orders fell 0.4% m/m as expected for the month of December (Nov: +1.8% m/m revised) while orders ex-transport also saw easier gains of 0.1% m/m (Nov: +0.8%). The first decline in orders since Apr-21 was dragged by broad-based declines seen across the board from capital goods to durable and non-durable goods, foretelling a weak manufacturing sector curtailed by Omicron wave and ongoing supply tightness in the global supply chain. Meanwhile, durable goods orders fell at a smaller than initially estimated pace, by 0.7% m/m in December (Nov: +3.2%), its first decline in three months, indicating lower capital investment.

#### **PMI services final reading confirmed weaker momentum in the US, Eurozone, and Japan but stronger in the UK**

- US ISM services pulled back to an 11-month low of 59.9 in January (Dec: 62.3 revised) as Omicron variants raged. Business activity, new orders, new export orders and employment all weakened. US Markit PMI services also retreated but less than initially estimated to 51.2 in January (Dec: 57.6 and flash estimate 50.9), its lowest since Jul-20 following a fall in outstanding business gauge
- EU PMI services eased more than initially estimated to 51.1 in January (Dec: 53.1), its lowest in nine months dragged by slower expansion in pipeline new businesses as the region continues to grapple with new virus wave and weaker economic sentiments.
- UK PMI services staged a surprised pick-up to 54.1 in January (Dec: 53.3), contrary to the initial estimate for a flat reading. Output and new business growth gained traction as earlier Omicron-related control measures eased, offering a lift to the UK services sector as demand returns,
- Japan Jibun Bank PMI services moderated less than initially estimated to 47.6 in January (Dec: 52.1), snapping three consecutive months of expansion, dragged by declines in employment and business expectations.
- Australia's PMI services also tapered off less than initially estimated to 46.6 in January (Dec: 45.0) but mirroring the trend in Japan, it slipped into contractionary mode for the first time in four months, and was its worst since Sept-21. The employment index fell to 50.9 from 52.9 in December, overshadowing the increase in prices to a record high.

#### Singapore and Malaysia PMI showed slower expansion:

- Malaysia PMI pulled back to 50.5 in January (Dec: 52.8), dampened by renewed contraction in output (48.7 vs 52.2) but nevertheless managed to stay afloat above the 50-threshold for the 4<sup>th</sup> straight month. As highlighted before, this PMI has little correlation with IPI which is a closer barometer in estimating growth trajectory.
- Singapore PMI unexpected eased to 50.6 in January (Dec: 50.7) following slower expansion in electronics sector PMI. All segments saw easier gains except for the slight uptick in input prices suggesting supply-driven inflation will continue to rule.

#### Decent Australian data:

- Australia's exports grew at a slower pace of 1.0% m/m in December (Nov: +4.0% m/m revised), while imports growth also eased to 5.0% m/m (Nov: +8.0% revised), narrowing the trade surplus to its lowest since Mar-21 at A\$8.36bn (Nov: A\$9.76bn). Exports of iron ore surged 28.7% m/m, but was negated by the 16.5% m/m decline in coal exports. Exports to China and Japan increased but those to the EU posted a sharp decline of 30.0% m/m.
- In a separate release, building approvals spiked 8.2% m/m in December (Nov: +2.6% m/m revised), bucking expectations for a 1.0% decline, thanks to an increase in approvals for private sector dwellings excluding houses.
- NAB business confidence staged a sharp turnaround and normalized to 18 in 4Q, suggesting the plunge to -2 in 3Q was just a blip. The rebound was broad-based spanning from trading to profitably, employment, and exports outlook even as the Omicron outbreak has led to some restrictions in certain localities.

### House View and Forecasts

| FX      | This Week     | 1Q-22 | 2Q-22 | 3Q-22 | 4Q-22 |
|---------|---------------|-------|-------|-------|-------|
| DXY     | 96-97         | 96.15 | 96.40 | 96.30 | 96.30 |
| EUR/USD | 1.11-1.13     | 1.13  | 1.12  | 1.12  | 1.13  |
| GBP/USD | 1.33-1.35     | 1.34  | 1.33  | 1.35  | 1.36  |
| AUD/USD | 0.70-0.72     | 0.72  | 0.72  | 0.74  | 0.75  |
| USD/JPY | 113-115       | 115   | 116   | 115   | 114   |
| USD/MYR | 4.17-4.21     | 4.17  | 4.15  | 4.15  | 4.10  |
| USD/SGD | 1.3450-1.3550 | 1.35  | 1.34  | 1.34  | 1.33  |

| Policy Rate % | Current | 1Q-22  | 2Q-22     | 3Q-22     | 4Q-22     |
|---------------|---------|--------|-----------|-----------|-----------|
| Fed           | 0-0.25% | 0-0.25 | 0.25-0.50 | 0.50-0.75 | 0.75-1.00 |
| ECB           | -0.50   | -0.50  | -0.50     | -0.50     | -0.50     |
| BOE           | 0.25    | 0.25   | 0.50      | 0.50      | 0.75      |
| RBA           | 0.10    | 0.10   | 0.10      | 0.10      | 0.25      |
| BOJ           | -0.10   | -0.10  | -0.10     | -0.10     | -0.10     |
| BNM           | 1.75    | 1.75   | 1.75      | 1.75      | 2.00      |

Source: HLBB Global Markets Research

### Up Next

| Date  | Events                                  | Prior |
|-------|-----------------------------------------|-------|
| 04/02 | SG retail sales (Dec)                   | 1.9%  |
|       | US Change in Nonfarm Payrolls (Jan)     | 199k  |
|       | US Unemployment Rate (Jan)              | 3.9%  |
|       | US Average Hourly Earnings YoY (Jan)    | 4.7%  |
|       | US Labor Force Participation Rate (Jan) | 61.9% |
| 07/02 | SI Markit Singapore PMI (Jan)           | 55.1  |
|       | CH Caixin China PMI Services (Jan)      | 53.1  |
|       | EZ Sentix Investor Confidence (Feb)     | 0     |

Source: Bloomberg

#### Hong Leong Bank Berhad

Fixed Income & Economic Research,  
Global Markets  
Level 8, Hong Leong Tower  
6, Jalan Damansara  
Bukit Damansara  
50490 Kuala Lumpur  
Tel: 603-2081 1221  
Fax: 603-2081 8936

[HLMarkets@hlbb.hongleong.com.my](mailto:HLMarkets@hlbb.hongleong.com.my)

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