

4 November 2022

Global Markets Research

Daily Market Highlights

4 Nov: Continued broad market selloffs

Extended broad market rout on spillover from Powell's hawkish rhetoric

2Y-UST yield broke above 4.71% marking a fresh 15-year high

DXY continued rallying closer to the 113-handle

- Stocks fell for a fourth consecutive session the day after Federal Reserve delivered another 75bps interest rate hike and signalled that a pivot or rate cut won't come anytime soon. The Dow Jones Industrial Average slid 0.5%, the S&P 500 lost 1.1% while the Nasdaq Composite shed 1.7% d/d. Investors' attention also shifted to October nonfarm payrolls slated for today. Before the Fed rate rise, retail investor pessimism had plunged to lowest since March. The latest AAI Sentiment Survey's bull-bear spread (bullish minus bearish sentiment) is -2.3%. It was last higher on March 31 at 4.3%.
- European stocks also pulled back. The pan-European Stoxx 600 closed down 0.9% d/d, while the UK's FTSE was the outlier among major bourses, closing up 0.6% d/d after the Bank of England's (BOE) latest interest rate decision. Hong Kong's Hang Seng index fell 3.1%, leading losses in Asia.
- Yields spiked as traders digested the latest rate decision. The yield on the 2-year Treasury note hit fresh 15-year high, breaking above 4.71% or was up 9bps as traders priced in a 27% chance of rates could go between 5.25% and 5.5% by March and 5.50% and 5.75% by May next year. For the first time, traders also saw a very slim (less than 1%) chance that fed funds rate may drift higher to 5.75% and 6.00% by June. The benchmark 10-year Treasury yield, meanwhile, popped up 5bps to 4.15%.
- The dollar also rallied, buoyed by a sharp rise in Treasury yields. The dollar index rose 1.4% d/d to 112.93. On the other hand, the GBP depreciated 2.0% d/d against the dollar amid what was seen as a dovish hike as BOE Governor Bailey guided that the peak rate will be lower than what market had priced in. The JPY eased 0.2% d/d as traders continue to watch for any further official intervention to shore up the battered currency.
- Oil prices slid about 2.0% on Thursday as China stood by its zero-COVID policy and an increase in U.S. interest rates pushed up the dollar, raising fear of a global recession that would crimp fuel demand. Losses, however, were limited by concern over tight supply. Brent was down 1.6% d/d while the U.S. West Texas Intermediate (WTI) crude fell 2.0% d/d. Gold prices also declined 1.2% d/d as the dollar and U.S. Treasury yields jumped after hawkish remarks from Federal Reserve Chair Jerome Powell, denting the non-yielding metal's appeal.

Key Market Metrics

	Level	d/d (%)
Equities		
Dow Jones	32,001.25	-0.46
S&P 500	3,719.89	-1.06
NASDAQ	10,342.94	-1.73
Stoxx Eur 600	409.55	-0.93
FTSE 100	7,188.63	0.62
Nikkei 225	27,663.39	-0.06
Hang Seng	15,339.49	-3.08
Straits Times	3,102.51	-1.23
KLCI 30	1,420.38	-2.15
FX		
Dollar Index	112.93	1.42
EUR/USD	0.9749	-0.70
GBP/USD	1.1160	-2.04
USD/JPY	148.26	0.24
AUD/USD	0.6289	-0.98
USD/CNH	7.3317	-0.15
USD/MYR	4.7435	0.12
USD/SGD	1.4219	0.33
Commodities		
WTI (\$/bbl)	88.17	-2.03
Brent (\$/bbl)	94.67	-1.55
Gold (\$/oz)	1,630.90	-1.16
Copper (\$\$/MT)	7,652.50	0.01
Aluminum(\$/MT)	2,251.00	0.38
CPO (RM/tonne)	4,207.00	3.93

Source: Bloomberg, HLBB Global Markets Research

BOE raised rates by 75bps to 3.00% but guided for lower terminal rate

- The Bank of England increased the Bank Rate by 75ppts to 3.00% in a move aimed to bring inflation back to its 2.0% target and to help sustain growth and employment. In its statement, the Bank's central projection for growth and inflation was based on the assumption of elevated path of interest rates.
- GDP is projected to continue to fall throughout 2023 and 1H of 2024, but picks up to around 0.75% by the end of the projection. The unemployment rate is expected to rise to just under 6.5% by the end of the forecast period. CPI inflation is projected to fall sharply to some way below the 2% target in two years' time, and further below the target in three years' time.
- In the press conference, BOE Governor Andrew Bailey, nevertheless told investors to rein in expectations for rate hikes saying that the peak will be lower than priced in the market.

BNM raised OPR by 25bps to 2.75% as expected

- BNM decided to raise the OPR by a further 25bps to 2.75% as widely expected, marking its fourth straight quarter-point increase since the normalization cycle began in May. We feel that the focus is on continuous policy tightening, increased volatility and potential fallout in the financial and foreign exchange markets, and to a certain extent, China development. In view of this and given still positive growth in the Malaysian economy, we believe BNM could deliver another 25bps hike at its next meeting in January, bringing the OPR to 3.00%.
- MIER's business conditions survey showed some signs of improvement in 3Q, supported by improving domestic demand and buoyant exports. The overall business confidence index rose steadily in 3Q with a confidence indicator of 99.8 points (2Q: 96.0). More importantly, despite the BCI Expected Index (EI) declining by 6.3 points to at 105.4 most industries anticipate a rebound.
- The Consumer Sentiments Index (CSI), meanwhile, picked up 12.4 points to 98.4 for the same quarter. Nevertheless, the Index has remained below the 100-point optimism threshold for the second consecutive quarter, an indication that consumer sentiments are only improving for now, and not optimistic yet.

Mixed labour indicators in the US offered tentative softening signs

- In the week ending Oct 29, initial jobless claims decreased slightly by 1k w/w to 217k (consensus: 220k). Continuing claims, meanwhile, was 1.485k (consensus: 1.45k), an increase of 47k w/w for the week ended Oct 22.
- Nonfarm business sector labor productivity, rebounded less than expected to grow by 0.3% q/q in 3Q, as the output increase of 2.8% outpaced the hours worked at +2.4% q/q. Consensus was expecting productivity to increase by 0.5% q/q after 2Q's 4.1% q/q decline. Unit labor costs, meanwhile, increased at a 3.5% rate, moderating from +8.9% previously and is below street estimate's +4.0% q/q.
- Trade gap widened in September after five straight months of decline, on cooling food and energy exports while imports of products like semiconductors and consumer goods picked up. Specifically, goods and services trade deficit reflected an increase in the goods deficit of \$6.6bn to \$92.7bn as well as a decrease in the services surplus of \$1.0bn to \$19.5bn. Exports shrank 1.1% m/m, outpaced by the 1.5% m/m increase in imports.

Mixed bag of services PMIs suggests patchy outlook ahead

- In the US, PMI services dipped to 47.8 in October, down from 49.3 in September but higher than the earlier released flash estimate of 46.6. The latest data signalled a modest contraction in business activity across the service sector. The decrease in output was commonly linked to lower new orders, attributed to weak client demand, impact of inflation and interest rates on increased client hesitancy and more frequent order postponements.
- The UK Services PMI dipped to 48.8 in October, down from 50.0 in September and the lowest reading since January 2021. A number of firms noted that political uncertainty since the mini-Budget had adversely impacted business investment and encouraged a wait-and-see approach to new projects.
- In China, the Caixin PMI services index dropped 0.9 points m/m to 48.4 in October. With Covid prevention and containment measures tightened in the face of sporadic outbreaks in many areas, optimism remained limited in the services sector. Meanwhile, the gauge for expectations for future activities rebounded from September's 6-month low.
- The headline S&P Global Singapore PMI rose from 57.5 in September to 57.7 in October. With the PMI printing above the 50.0 neutral threshold for 23 months running, the latest headline reading was consistent with another improvement in Singapore's private sector economy. Moreover, the rate of sector expansion was among the strongest on record.
- The headline S&P Global Hong Kong PMI stood at 49.3 in October, up from 48.0 in September. With this, Hong Kong's private sector continued to contract at the start of 4Q amidst lingering COVID-19 impacts and a softening of economic conditions. As a result, purchasing and hiring activities shrank, which led to a decline in inventory levels. Constraints including the lengthening of lead times and intensifying of price pressures were observed. Overall sentiment also remained in negative territory for a third straight month.

Eurozone unemployment rate eased to 6.6%

- Eurostat said that the Eurozone jobless rate fell to 6.6% in September, from an upwardly revised 6.7% in August but matching consensus estimate. In absolute numbers 10.99m people were without jobs in the 19 countries sharing the euro in September, compared to 11.05m in August.

Australia trade balance surged on bumper fuel exports

- Australia logged a bigger-than-expected trade surplus in September, driven largely by a spike in fuel exports as tighter commodity markets attached a higher value to the country's shipments. The country's trade balance was A\$12.4bn, higher than the prior month's reading of A\$8.7bn. The bigger-than-expected jump was driven chiefly by a nearly 20% jump in fuel exports. Overall exports accelerated to +7% m/m from +1% m/m previously. Australia imports, on the other hand, slowed to 0.4% m/m (Aug: +4% m/m).

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
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
	UK S&P Global/CIPS UK Construction PMI (Oct)	52.3
	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%
7-Nov	MA Foreign Reserves	\$104.5b
	EC Sentix Investor Confidence (Nov)	-38.3
	CH Exports YoY (Oct)	5.70%

Source: Bloomberg

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