5 May 2022

Global Markets Research

Daily Market Highlights

5-May: Fed hiked 50bps; hinting similar move ahead

US stocks and bonds rallied; USD weakened

The Fed downplayed the case of a 75bps hike; allaying growth fear

All eyes on BOE tonight

- Markets have been trading in a whipsaw pattern while we were away in the final few days running up to the eventual FOMC decision. Fed rate hike expectations aside; markets were influenced by a combo of factors including geopolitical development, inflation and growth uncertainties.

- The verdict is finally out with the Fed raising the Fed funds target rate by 50bps to 0.75-1.00% as widely expected, in an unanimous vote. The Fed also announced that it would begin trimming its balance sheet on 1-June, at an initial pace of $47.5bn a month comprising $30bn in treasuries (UST) and $17.5bn in mortgage-backed securities (MBS). This will be slowly increased to $95bn a month ($60bn UST and $35bn MBS) over three months.

- The policy decision was well-received as the Fed tempered expectations of a bigger quantum of hike which would likely adversely affect growth prospects going forward whilst being seen doing enough with a 50bps hike in combating inflationary concerns. The three benchmark equity indices jumped after the FOMC announcement and ended the day 2.8-3.2% higher, with commendable gains across all key sectors.

- US treasuries generally advanced as Fed Chair Powell downplayed the case of a 75bps rate hike. Overall benchmark yields closed mixed between -14bps to +3bps, with yields retreating up to the 10Y while the long bond posted marginal gains. The UST 2Y yield fell 14bps to 2.64% whilst the benchmark UST 10Y note yield closed 4bps lower at 2.93%.

- European and Asian stocks were generally sold off ahead of the FOMC announcement. There was some relative calm in Asian markets as China is off for its week-long Golden holidays even though rising Covid cases in Beijing is posing continued uncertainties. Meanwhile, several countries in the region are seeing a shortened trading week in observation of Labour Day and Hari Raya festive holidays.

- In the FX market, the Dollar Index gapped down from the 103.60 to 102.50 levels and settled close to the day low at 102.59, down 0.85% on the day. The USD were seen weakening against all G10s, the most vs AUD and NZD. On Tuesday, RBA raised rates for the first time since Nov-20, by a bigger than expected pace of 25bps to 0.35%. Markets have been expecting a 15bps rate increase earlier after Australia 1Q CPI surprised on the upside last week at a two decade high of 5.1%. The greenback also lost ground against some major Asian currencies namely the SGD, CNH and KRW.

- USD/MYR last settled at 4.3485 on Wednesday, little changed from last Friday's close of 4.3545 as the Malaysian markets were closed since, and partly

Key Market Metrics

	Level	d/d (%)
Equities		
Dow Jones	34,061.06	2.81
S&P 500	4,300.17	2.99
NASDAQ	12,964.86	3.19
Stoxx 600	441.37	-1.08
FTSE 100	7,493.45	-0.90
Nikkei 225	26,818.53	-0.11
Hang Seng	20,869.52	-1.10
Straits Times	3,349.27	-0.23
KLCI 30	1,600.43	0.20
FX		
Dollar Index	102.59	-0.85
EUR/USD	1.0622	0.96
GBP/USD	1.2631	1.06
USD/JPY	129.09	-0.81
AUD/USD	0.7260	2.31
USD/CNH	6.6223	-0.40
USD/MYR	4.3485	-0.14
USD/SGD	1.3742	-0.73
Commodities		
WTI ($/bbl)	107.81	5.27
Brent ($/bbl)	110.14	4.93
Gold ($/oz)	1,868.80	-0.10

Note: KLCI 30 and USDMYR close as at 29 April
Source: Bloomberg, HLBB Global Markets Research

attributable to more subdued trading in the USD amid cautiousness ahead of the FOMC policy decision. We expect the pair to trade on a firmer note in the 4.32-4.36 region amid some consolidation in the USD in the next two trading days before the week draws to a close.

- Gold futures settled marginally lower by 0.1% at $1868.80/oz. Brent crude rose 4.9% to $110.14/barrel whilst US WTI jumped 5.3% to $107.81/barrel on news Europe is proposing a total oil ban on Russian oil while OPEC may tone down its increase in output amid concerns over slower demand.

The Fed hiked rates by 50bps as expected; balance sheet reduction to begin in June

- The Fed raised its Fed funds target rate by 50bps to 0.75-1.00% as expected in an unanimous vote. The Fed announced details to begin unwinding its asset purchases starting 1-June, at an initial pace of $47.5bn a month comprising $30bn in treasuries (UST) and $17.5bn in mortgage-backed securities (MBS). This will be slowly increased to $95bn a month ($60bn UST and $35bn MBS) over three months.
- Fed Chair Powell also signalled similar pace of rate hike going forward, suggesting we will see 50bps increases at least in the next meeting in June and probably July, before reverting to quarter-point hike in our view. This, coupled with the softer than expected March core PCE at 5.2% y/y, also squashed earlier expectations that the Fed may be delivering 75bps hike.

Mixed bag of US data

- ISM services surprisingly pulled back to 57.1 in April (Mar: 58.3), against expectation for an uptick to 58.5, dragged by softer employment and new orders. Meanwhile, final print of S&P global PMI services came in at 55,6 in April, better than the flash estimate of 54.7, but still marked a pullback from March's 58.0.
- ADP added fewer than expected 247k jobs in April (Mar: upwardly revised from 455k to 479k). This marked its weakest level of job gains since Dec-20, reaffirming tightness in the US job market especially hiring difficulty among small businesses. Labour shortages could well exert upward pressure on wages, further heightening inflationary risks.
- Trade deficit widened for the 5th straight month, and by more than expected to a record $109.8bn in March (Feb: -$89.8bn). Imports gain of 10.3% m/m far outweighed the 5.6% m/m increase in exports, hence widening the trade deficit by 22.3% m/m. The broad-based gain in imports points to robust domestic demand, but would dampen net exports and hence overall GDP growth as evident in 1Q GDP.
- MBA mortgage application rebounded and increased 2.5% for the week ended 29-April (prior: -8.3%). This marked its first positive gain in eight weeks, helped by turnaround in both new purchases (+4.1% vs -7.6%) as well as refinancing (+0.2% vs -9.0%) as the long term 30Y borrowing costs tapered off a tad from 5.37% to 5.36%.

Uptick in Eurozone services activities; contraction in retail sales

- Final print of S&P global PMI services came in unchanged from the initial estimate of 57.7 in April (Mar: 55.6). This marked its 3rd straight month of uptick and its highest level since Aug-21 reflecting bigger optimism over incoming new businesses despite risk stemming from ongoing energy crisis amid Russia-Ukraine standoff.
- Retail sales contracted 0.4% m/m in March (Feb: +0.4% revised) while sales tapered off more than expected to 0.8% on an annual basis (Feb: +5.2% y/y revised), a sign of weaker consumer spending in the region as geopolitical uncertainties continued clouding growth outlook. The renewed decline in retail sales was dragged by declines in non-food products (-1.2% vs +1.3% m/m), mail orders and internet (-4.3% vs +0.5%), and auto fuel & special stores (-2.9% vs

+2.5% m/m), entirely offsetting the 0.8% turnaround in food, drink & tobacco (Feb: +0.6% m/m). Retail sales fell in Germany, Spain and France.

Australia retail sales and home loans surprised on the upside; PMI services a tad weaker

- Retail sales growth eased much less than expected to 1.6% m/m in March (Feb: +1.8% m/m), suggesting resiliency in consumer spending given improvement in the labour market and high savings rate which would help consumers tie up this period of high inflation.
- Home loans staged a surprised rebound and grew 1.6% m/m in March (Feb: -3.5% revised) on expectations housing demand from international students and migrant workers will increase as the border reopens.
- PMI services final print came in at 56.1 in April, slightly lower than its flash estimate of 56.6 but still marked an uptick from March's 55.6 driven by more upbeat employment prospects.

Decent 1Q job data in New Zealand

- Unemployment rate stabilized at record low of 3.2% in 1Q (4Q: 3.2%) while employment rose 0.1% q/q as expected but missed expectations for a 3.1% y/y increase. On a y/y basis, employment posted a bigger than expected moderation from 4Q21's +3.5% y/y to +2.9% y/y in 1Q22. Wage growth improved with the average hourly earnings unexpectedly quickened to 1.9% q/q (4Q: +1.4%), fanning expectations spiralling wage growth and a solid labour market will continue to exert pressure on the RBNZ to raise rates further. What was noteworthy from yesterday's release was the 1.9% decline in ANZ commodity prices in April (Mar: +3.9%), offering a tentative sign of easing inflationary pressure in the months ahead.

Singapore April PMI surprised on the upside

- PMI reading unexpectedly picked up 0.2ppt to 50.3 in April (Mar: 50.1), against expectations for a moderation to 50.0. This marked its first uptick in four months, driven by broadly improved outlook in new orders, exports, output, inventories, import, input prices and employment. In tandem, electronics PMI also ticked higher to 50.7 (Mar: 50.4). This shall underpin expectations for continuous recovery in the Singapore economy, allowing the MAS to tighten further.

House View and Forecasts

FX	This Week	2Q-22	3Q-22	4Q-22	1Q-23
DXY	101-103	98.5	99.0	98.0	97.5
EUR/USD	1.04-1.07	1.10	1.09	1.10	1.12
GBP/USD	1.24-1.27	1.29	1.28	1.30	1.31
AUD/USD	0.70-0.74	0.76	0.77	0.76	0.76
USD/JPY	127-131	121	120	120	120
USD/MYR	4.32-4.36	4.20	4.18	4.16	4.16
USD/SGD	1.36-1.39	1.36	1.35	1.34	1.33

Rates, %	Current	2Q-22	3Q-22	4Q-22	1Q-23
Fed	0.75-1.00	1.25-1.50	2.00-2.25	2.50-2.75	2.50-2.75
ECB	-0.50	-0.50	-0.50	-0.25	-0.25
BOE	0.75	1.25	1.25	1.25	1.25
RBA	0.35	0.50	0.75	1.00	1.25
BOJ	-0.10	-0.10	-0.10	-0.10	-0.10
BNM	1.75	1.75	2.00	2.00	2.25

Source: HLBB Global Markets Research

Up Next

Date	Events	Prior

05/05	MA S&P Global Malaysia PMI Mfg (Apr)	49.6
	HK S&P Global Hong Kong PMI (Apr)	42.0
	SG S&P Global Singapore PMI (Apr)	52.9
	AU Exports MoM (Mar)	0.0%
	CN Caixin China PMI Services (Apr)	42.0
	SG Retail Sales YoY (Mar)	0.0
	HK Retail Sales Value YoY (Mar)	-0.1
	UK S&P Global/CIPS UK Services PMI (Apr F)	58.3
	UK Bank of England Bank Rate (05 May)	0.75%
	US Initial Jobless Claims (30 Apr)	180k
06/05	US Change in Nonfarm Payrolls (Apr)	431k
	US Unemployment Rate (Apr)	3.6%
	US Labor Force Participation Rate (Apr)	62.4%

Source: Bloomberg

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