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Global Markets Research

Daily Market Highlights

06-Jan: Fed's hawkish surprise weighed on markets

Fed signalled sooner-than-expected rate hike in latest FOMC minute

US stocks, treasuries sold off; USD recorded mixed performances

US ADP private payrolls climbed 807k, best reading in 7 months

- US stocks and treasuries sold off overnight after the latest Federal Reserve minutes suggested a potentially sooner-than-expected move to raise the fed funds rate. The futures market now prices in a 76.5% chance of a 25bps rate hike as early as the 16-March meeting after the scheduled conclusion of its asset purchase program.
- All three US equity benchmarks closed sharply lower compared to the prior session; The S&P 500 lost 1.9%, with the real estate and tech shares suffering the biggest losses. The Dow Jones fell 1.1% while tech-focus NASDAQ recorded a massive decline of 3.3%.
- In the bond market, US treasury yields climbed further, led by the short-dated securities. The yield on the benchmark 2Y notes rose 6.6bps to 0.83% while the benchmark 10Y UST yield picked up 5.8bps to 1.71%, leading the curve to flatten.
- The dollar saw a mixed performance against the G10 basket overnight as it weakened against the EUR and GBP but strengthened against CAD, AUD and NZD. JPY and CHF were little changed. This resulted in the dollar index closing marginally lower (-0.09%) at 96.17.
- USD/MYR rose for the third consecutive session (+0.2%) to 4.1945. The faster-than-expected rate hike expectation for the Fed may offer further support for the pair with the bulls striving to breach 4.2000 resistance; nonetheless the anticipation for Friday job report could possibly cap the gain, resulting in a consolidation around 4.19 levels.
- Gold futures rose 0.6% to \$1825.10/oz amid mixed USD performances. Crude oil prices advanced after OPEC+ reaffirmed its confidence for the global oil demand by sticking to its plan of easing production cuts i.e., adding 400k barrels per day in February. Brent crude gained 1.0% to \$80.80/barrel and WTI settled 1.1% higher at \$77.85/barrel.

Fed signalled sooner-than-expected rate hike:

- The minutes for the FOMC 14-15 December meeting showed that officials are prepared to hike the fed funds rate sooner than initially expected after it decided to quicken the pace of asset tapering in January (by \$20b for treasuries and \$10b for mortgage-backed securities).
- Officials judged that the labour market would fast approach maximum employment, some viewed the labour market conditions as already largely consistent with maximum employment. The criteria of inflation "rising to 2% and moderately exceeding 2% for some time had been more than met".

Key Market Metrics

	Level	d/d (%)
Equities		
Dow Jones	36,407.11	-1.07
S&P 500	4,700.58	-1.94
NASDAQ	15,100.17	-3.34
Stoxx 600	494.35	0.07
FTSE 100	7,516.87	0.16
Nikkei 225	29,332.16	0.10
Hang Seng	22,907.25	-1.64
Straits Times	3,163.44	-0.56
KLCI 30	1,547.95	0.39
FX		
Dollar Index	96.17	-0.09
EUR/USD	1.1314	0.24
GBP/USD	1.3557	0.20
USD/JPY	116.11	-0.04
AUD/USD	0.7221	-0.21
USD/CNH	6.3755	0.00
USD/MYR	4.1945	0.17
USD/SGD	1.3577	0.18
Commodities		
WTI (\$/bbl)	77.85	1.12
Brent (\$/bbl)	80.80	1.00
Gold (\$/oz)	1,825.10	0.58

Source: Bloomberg, HLBB Global Markets Research

- Fed officials thought that a quicker conclusion of net asset purchase would better position the Fed to set policy to address the full range of plausible economic outcomes, thus it would be appropriate to double the pace of the ongoing reduction in net asset purchase.
- It may become warranted to increase the federal funds rate sooner or at a faster pace than participants had earlier anticipated. Some said that it could be appropriate to begin to reduce the size of the Fed's balance sheet relatively soon after beginning to hike rate. Some officials thought that a less accommodative future policy stance would likely be warranted and that the Fed should convey a strong commitment to address elevated inflation pressures.

US private sector added the most jobs in seven months:

- The US private sector created 807k jobs in December (Nov: +505k) according to the latest ADP National Employment Report, its best reading in seven months, underscoring the continuous strengthening of the US labour market conditions. Job gains concentrated in the services sector (+669k) of which the leisure & hospitality segment reported the largest number of hiring. The manufacturing sector added 74k jobs and construction reported 62k increase.
- The US Markit Services PMI slipped to 57.6 in December, from 58.0 in the previous month. This is in line with the lower ISM manufacturing index, pointing to a weaker rate of expansion but the overall state of manufacturing conditions remained solid.
- Mortgage applications fell 5.6% w/w in the last week of 2021, following a 3.2% gain, reflecting the declines in both purchases and refinancing.

Eurozone's services PMI edged lower:

- The Eurozone's Markit services PMI came in lower at 53.1 in December, from 55.9 in November, as growth resumed a slowdown trend amid the resurgence of Covid-19 cases in the region. Demand for services continued to rise according to the survey, but at a slower expansion rate. Firms expanded their workforce numbers, in line with the growing hiring expectations.

Hong Kong's private sector growth eased:

- Hong Kong's Markit PMI ticked lower to 50.8 in December, from 52.6 in November, indicating a deceleration in private sector growth. The survey showed softer new order and output while persistent supply constraints contributed to work backlogs. Demand from China slowed with new orders continuing to decline.

Singapore indicators pointed to positive outlook:

- SG Markit PMI surged to 55.1 in December, from 52.0 in November, signalling further improvement in business conditions. Demand and output growth accelerated thanks to the commencement of the vaccinated travel lanes (VTLs) that boosted cross border travels.
- On a separate note, Singapore's retail sales rose 2.5% m/m in November (Oct: +0.7%), translating to a 1.9% y/y growth (Oct: +7.5%). Sales rose at department stores, restaurants and in the recreational sector, in concurrent with the VTLs activation. Apart from that, sales of apparels & footwear as well as furniture & household equipment recorded double-digit m/m growth ahead of Christmas.

House View and Forecasts

FX	This Week	4Q-21	1Q-22	2Q-22	3Q-22
DXY	95-97	94.50	95.00	95.50	96.50
EUR/USD	1.12-1.14	1.15	1.14	1.14	1.13
GBP/USD	1.33-1.36	1.35	1.35	1.34	1.33
AUD/USD	0.71- 0.74	0.72	0.71	0.71	0.70
USD/JPY	114-116	112	113	114	115
USD/MYR	4.16-4.20	4.15	4.15	4.15	4.15
USD/SGD	1.33-1.36	1.35	1.34	1.33	1.34

Policy Rate %	Current	4Q-21	1Q-22	2Q-22	3Q-22
Fed	0-0.25%	0-0.25	0-0.25	0.25-0.50	0.50-0.75
ECB	-0.50	-0.50	-0.50	-0.50	-0.50
BOE	0.25	0.25	0.50	0.50	0.50
RBA	0.10	0.10	0.10	0.10	0.10
BOJ	-0.10	-0.10	-0.10	-0.10	-0.10
BNM	1.75	1.75	1.75	1.75	1.75

Source: HLBB Global Markets Research

Up Next

Date	Events	Prior
06/01	JP Jibun Bank Japan PMI Services (Dec F)	51.1
	CN Caixin China PMI Services (Dec)	52.1
	UK Markit/CIPS UK Services PMI (Dec F)	53.2
	US Trade Balance (Nov)	-\$67.1b
	US Initial Jobless Claims (01 Jan)	198k
	US Factory Orders (Nov)	1.00%
	US ISM Services Index (Dec)	69.1
	US Durable Goods Orders (Nov F)	2.5%
	US Cap Goods Orders Nondef Ex Air (Nov F)	-0.1%
	07/01	JP Labor Cash Earnings YoY (Nov)
JP Household Spending YoY (Nov)		-0.6%
MA Foreign Reserves (31 Dec)		\$116.3b
EZ Retail Sales MoM (Nov)		0.2%
EZ CPI Estimate YoY (Dec)		4.9%
EZ Economic Confidence (Dec)		117.5
US Change in Nonfarm Payrolls (Dec)		210k
US Unemployment Rate (Dec)		4.2%
US Average Hourly Earnings YoY (Dec)		4.8%
US Labor Force Participation Rate (Dec)		61.8%

Source: Bloomberg

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