

6 April 2022

## Global Markets Research

### Daily Market Highlights

# 06-Apr: Hawkish Fed speaks pressured US stocks and UST

**US stocks, treasuries sold off on Brainard's hawkish remarks**

**AUD strengthened after RBA dropped "patient" language; JPY erased gains**

**US government blocked Russia from paying debt via US banks**

- US stocks pulled back and treasury yields rose sharply on top Federal Reserve official Lael Brainard's hawkish remarks. Tech shares led the selloff on Tuesday after a recent rally; NASDAQ recorded the steepest losses of 2.3% among the main US indexes. The Dow Jones fell 0.8% while the S&P 500 ticked lower by 1.3%. European stocks closed lower in general while Asian markets registered mixed performances.
- Brainard, who is awaiting Senate confirmation to become the Fed's vice chair, spoke of the "paramount importance to get inflation down". She said that the Fed will tighten policy via a series of rate increases and by starting to reduce its \$9 trillion balance sheet at a "rapid pace" as soon as the May FOMC meeting.
- UST yields jumped by 9.2 to 15.9bps across the curve on Brainard's words. The yield on the benchmark 10Y UST surged to 2.66% (+15.2bps) versus the 2Y notes which yielded 2.51%. The 2Y/10Y yield curve returned to normal after being inverted for three sessions.
- Meanwhile, the dollar index moved up for the fourth straight session, to 99.47 (+0.5%). The USD strengthened against all G10 currencies except the AUD and NZD. AUD surged 0.5% after the RBA signalled a soon-to-happen rate hike by dropping the patient stance. JPY led the losses (-0.7%), reversing the earlier gains to circa 122 during the Asian session. The yen had been boosted by BOJ governor Kuroda's comment that the yen's recent move was "somewhat rapid". He said that a weaker yen is positive for the overall Japanese economy.
- USD/MYR fell 0.3% to 4.2090 as the ringgit strengthened alongside some Asian currencies. The firmer greenback overnight may help push USD/MYR back up to 4.2100-4.2200 today as risk-off sentiment returns to grip global markets.
- Oil prices erased some recent gains. Brent crude fell 0.8% to \$106.64/barrel while WTI shed 1.3% to \$101.96/barrel.
- Western allies are set to impose more sanctions on Russia. The US government moved to block Russia from using US banks to make foreign debt payments as part of its bid to drain Russia economically, raising the prospects of a Russian default. The EU is set to propose new sanctions that may include banning imports worth €9b and exports worth €10b to the country.

#### Australia's RBA dropped "patient" language:

- The RBA maintained the cash rate at 0.1% yesterday as expected. Notably, it dropped the word "patient" with regards to monitoring Australia's inflation, suggesting that a rate hike may soon happen. While it mentioned that "inflation has picked up and a further increase is expected", it remained cautious on wage

#### Key Market Metrics

|                    | Level     | d/d (%) |
|--------------------|-----------|---------|
| <b>Equities</b>    |           |         |
| Dow Jones          | 34,641.18 | -0.80   |
| S&P 500            | 4,525.12  | -1.26   |
| NASDAQ             | 14,204.17 | -2.26   |
| Stoxx 600          | 463.07    | 0.19    |
| FTSE 100           | 7,613.72  | 0.72    |
| Nikkei 225         | 27,787.98 | 0.19    |
| Hang Seng          | 22,502.31 | 2.10    |
| Straits Times      | 3,445.01  | 0.82    |
| KLCI 30            | 1,596.79  | -0.13   |
| <b>FX</b>          |           |         |
| Dollar Index       | 99.47     | 0.48    |
| EUR/USD            | 1.0905    | -0.61   |
| GBP/USD            | 1.3074    | -0.32   |
| USD/JPY            | 123.60    | 0.66    |
| AUD/USD            | 0.7579    | 0.48    |
| USD/CNH            | 6.3775    | 0.05    |
| USD/MYR            | 4.2090    | -0.26   |
| USD/SGD            | 1.3594    | 0.21    |
| <b>Commodities</b> |           |         |
| WTI (\$/bbl)       | 101.96    | -1.28   |
| Brent (\$/bbl)     | 106.64    | -0.83   |
| Gold (\$/oz)       | 1,922.90  | -0.33   |

Source: Bloomberg, HLBB Global Markets Research

growth trajectory. It said that wage growth rates are still lower than levels supposedly consistent with inflation being sustainably within the 2-3% target.

- RBA maintained the view that the Australian economy is resilient but rising prices are putting pressure on household budgets and the floods are causing hardship for many communities. It continued to highlight the strength in the labour market as the unemployment rate is still expected to fall below 4% this year and to remain so next year.
- RBA concluded by saying that it will assess important additional evidence on both inflation and the evolution of labour costs over the coming months to achieve its employment and inflation goals.

#### US services sector grew despite persistent supply chain issues:

- The US ISM Services Index rose to 58.3 in March (Feb: 56.5) and the S&P Global US Services PMI also rose to 58.0 (Feb: 56.5), signalling robust growth in the US services sector. The higher ISM index was driven by stronger output, new orders, employment and new export orders. The report highlights continuous price pressures resulting from global supply chain challenges and higher energy prices.
- The US registered a trade deficit of \$89.19b in February, near the record high level of January (-\$89.23b). Imports rose 1.3% m/m to a fresh high of \$317.8b, reflecting higher purchase of industrial supplies and the record level services imports. Exports also picked up 1.8% m/m to \$228.6b.

#### Services sectors gathered momentum as Covid restrictions eased by governments:

- The S&P Global Eurozone Services PMI was little changed at 55.6 in March (Feb: 55.5), adding to signs of continuously strong expansion in the services sector activity thanks to the looser Covid-19 restrictions.
- UK S&P Global/CIPS UK Services PMI ticked up to 62.6 in March (Feb: 60.5) as the removal of pandemic restrictions and return to offices led to a sharp rebound in customer demand, boosting the services sector output.
- Japan's services PMI improved to 49.4 in March (Feb: 44.2) indicating less severe contraction in the services sector following the easing of Covid-19 restrictions.

#### Singapore's retail sales fell in February:

- Singapore's retail sales fell 1.2% m/m in February (Jan: -2.2%), translating to 3.4% y/y decline in February (Jan: +12.0%). Compared to January, nearly all categories of goods fell m/m, with the largest drop being recorded in the sales of department store goods (-11.5%), reflecting the impact of softer demand post-Lunar New Year.
- The S&P Global Singapore PMI rose to 52.9 in March (Feb: 52.5). The main driver behind the increase in the headline PMI was the slower decline in employment levels as demand and output growth slowed in March. Selling prices climbed at a record pace and sentiments also turned negative for the first time in 19 months.

#### House View and Forecasts

| FX      | This Week | 2Q-22 | 3Q-22 | 4Q-22 | 1Q-23 |
|---------|-----------|-------|-------|-------|-------|
| DXY     | 97-99     | 98.5  | 99.0  | 98.0  | 97.5  |
| EUR/USD | 1.10-1.12 | 1.10  | 1.09  | 1.10  | 1.12  |
| GBP/USD | 1.30-1.32 | 1.29  | 1.28  | 1.30  | 1.31  |
| AUD/USD | 0.74-0.76 | 0.76  | 0.77  | 0.76  | 0.76  |
| USD/JPY | 120-124   | 121   | 120   | 120   | 120   |
| USD/MYR | 4.19-4.23 | 4.20  | 4.18  | 4.16  | 4.16  |
| USD/SGD | 1.35-1.37 | 1.36  | 1.35  | 1.34  | 1.33  |

  

| Rates, % | Current   | 2Q-22     | 3Q-22     | 4Q-22     | 1Q-21     |
|----------|-----------|-----------|-----------|-----------|-----------|
| Fed      | 0.25-0.50 | 1.25-1.50 | 1.75-2.00 | 2.00-2.25 | 2.00-2.25 |
| ECB      | -0.50     | -0.50     | -0.50     | -0.25     | -0.25     |
| BOE      | 0.75      | 1.25      | 1.25      | 1.25      | 1.25      |
| RBA      | 0.10      | 0.10      | 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    |
|-------|---------------------------------------|----------|
| 06/04 | HK S&P Global Hong Kong PMI (Mar)     | 42.9     |
|       | CN Caixin China PMI Services (Mar)    | 50.2     |
|       | EZ PPI MoM (Feb)                      | 5.2%     |
|       | US MBA Mortgage Applications (01 Apr) | -6.8%    |
| 07/04 | US FOMC Meeting Minutes (16 Mar)      | --       |
|       | AU Exports MoM (Feb)                  | 8.0%     |
|       | MA Foreign Reserves (31 Mar)          | \$115.2b |
|       | EZ Retail Sales MoM (Feb)             | 0.2%     |
|       | US Initial Jobless Claims (02 Apr)    | 187k     |

Source: Bloomberg

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