6 October 2022

Global Markets Research

Daily Market Highlights

6 Oct: Renewed selloffs in stocks and bonds

Risk-off sentiments amid mounting growth and inflation uncertainties

OPEC+ production cut spurred gains in oil prices; hence inflationary risks

RBNZ raised official cash rates by 50bps; guiding 50-75bps hikes ahead

- U.S. stocks failed to hold on to the sharp gains from the last two days with the Dow Jones Industrial Average declining 0.1% d/d to 30,273.87. Earlier in the day, it was down as much as 429.88 points but rebounded on fresh economic insights into positive ISM-service and employment numbers. The S&P 500 lost 0.2% and the Nasdaq Composite slid 0.3%. The European market closed lower with Stoxx 600 and FTSE down 1.0% d/d and 0.5% d/d respectively. This followed September's Eurozone PMI reading, which cemented fears of a recession and was led by losses in retail stocks.

- US Treasury yields rose as solid service numbers intensified selling pressure. The 10-year treasury rose by around 12bps to 3.75%, while the policy-sensitive 2-year Treasury climbed 6bps to 4.15%. Ahead of this data, bearish sentiment was dictated by sharp rise in the UK and European bond yields, the former gaining 16bps to 4.02%.

- Amidst the positive services data, the Dollar Index gained 1.0% d/d to 111.21. The GBP dipped to a low of $1.1303 following PM Truss's speech who doubled down on her market-roiling tax-cutting agenda but rebounded to close at 1.1326 (-1.3% d/d). The EUR also weakened 1.0% d/d to 0.9884.

- Major Asian currencies, on the hand mostly strengthened against the USD, except CNH (-0.4%) and SGD (-0.2%). Specifically, Singapore is due to release its preliminary 3Q GDP numbers next week and we also expect another round of tightening by the MAS as inflation stayed elevated. On the domestic front, the MYR eked out a marginal gain of 0.06% d/d to 4.6310. All eyes will be on the announcement of the impending 2023 Budget on Friday.

- In attempt to shore up prices, OPEC+ decided to reduce production by 2 million barrels per day from November. This sent the Brent and WTI to US$93.37/barrel (+1.7%) and US$87.76/barrel (+1.4%) respectively. Gold prices edged down slightly by 0.6%d/d to US$1,711.40/oz.

US Job growth picked up, mortgage applications fall to the lowest since 1997:

- According to the ADP Employment Report, businesses created 208k jobs in September, up from a revised 185k in August, as schools reopened and pandemic concerns receded. While job growth is stable, it remains below the recent three-month average. Job changers, who have been notching double-digit y/y gains since the summer of 2021, lost momentum for the

Key Market Metrics

	Level	d/d (%)
Equities		
Dow Jones	30,273.87	-0.14
S&P 500	3,783.28	-0.20
NASDAQ	11,148.64	-0.25
Stoxx Eur 600	398.91	-1.02
FTSE 100	7,052.62	-0.48
Nikkei 225	27,120.53	0.48
Hang Seng	18,087.97	5.90
Straits Times	3,153.23	0.46
KLCI 30	1,420.55	0.79
FX		
Dollar Index	111.21	1.04
EUR/USD	0.9884	-1.02
GBP/USD	1.1326	-1.31
USD/JPY	144.64	0.35
AUD/USD	0.6488	-0.20
USD/CNH	7.0684	0.38
USD/MYR	4.6310	-0.06
USD/SGD	1.4262	0.22
Commodities		
WTI ($/bbl)	87.76	1.43
Brent ($/bbl)	93.37	1.71
Gold ($/oz)	1,711.40	-0.56
Copper ($$/MT)	7,679.50	-0.50
Aluminum($/MT)	2,352.00	0.17
CPO (RM/tonne)	3,451.00	2.31

Source: Bloomberg, HLBB Global Markets Research month, with growth in annual pay decelerating slightly to 15.7% from 16.2% previously.

- US trade deficit narrowed to US$67.4bn in August, down US$3.1bn m/m, led by decrease in the goods deficit of US$3.4bn to US$87.6bn, while the surplus in the services sector narrowed to US$20.2bn (-US$0.4bn). Exports registered a decline of 0.3% m/m, while imports fell 1.1% m/m.
- The highest mortgage rates in more than 20 years coincided with one of the deadliest hurricanes on record in the United States, both contributing to a steep drop in mortgage demand. According to the Mortgage Bankers Association's seasonally adjusted index, total mortgage application fell 14.2% w/w to the lowest level since 1997. The average contract interest rate for 30-year fixed-rate mortgages increased to 6.75% from 6.52%.

Services sector generally strong except for Europe:

- The US ISM-Services remained solid at 56.7 in September, although slightly lower by 0.2ppts m/m. The pullback was due to decreases in business activity and new orders, while employment improved and supplier deliveries slowed at a slightly slower rate. According to the survey respondent, there have been improvements regarding supply chain efficiency, operating capacity and materials availability; however, performance remains less than ideal. Employment continued to improve despite the restricted labour market. This contrasted to the S&P Global Services PMI which rose to 49.3 in September, up from 43.7 in August, and broadly in line with the earlier released flash estimate of 49.2.
- The S&P Global Eurozone Services PMI Business Activity Index fell to its lowest since February 2021 at 48.8 in September (49.8 in August). Weak demand conditions were underscored by a renewed reduction in backlogs of work. Latest survey data signalled the first drop in outstanding business volumes since March 2021. On a positive note, employment levels continued to rise.
- S&P Global/CIPS UK Services PMI moderated to a neutral level of 50.0 in September (Aug 50.9), signalled unchanged levels of output across the service economy. The data pointed to a loss of momentum for the services sector after 18 months of expansion. Shrinking client demand was widely attributed to pressure on household budgets from escalating inflation, alongside widespread pessimism about the economic outlook. Business expectations for the year ahead dropped to the lowest since May 2020.
- The S&P Global Singapore PMI rose to the strongest in record at 57.5 in September as the recent easing in COVID-19 related restrictions supported firmer demand conditions, firms enjoyed record growth in new orders and a marked expansion in output. On a more negative note, the rate of input cost inflation sharpened led by rates of staff cost and purchase price inflation.
- The Jibun Bank Japan Services Business Activity Index rose to 52.2 in September, the quickest expansion in service sector output since June. Going forward, the announcement that restrictions on foreign tourism will be lifted from October should also help support greater economic activity, while the improved business confidence to a 3-month high should enable a sustained recovery.
- The S&P Global Australia Services PMI, meanwhile, ticked slightly higher to 50.6 in September, up from 50.2 in August. The rise in business activity was largely attributed to firmer market conditions as well as total new business.

New Zealand raised official cash rates by 50bps to 3.50%:

- As expected, the Reserve Bank of New Zealand increased the Official Cash Rate (OCR) by 50bps to 3.50% as committee members are confident there is sufficient restraint on spending to bring inflation back within its 1-3% per annum target range. The central bank reiterated that the economy is still constrained by labour shortages and heightened wage pressures, signalling the case for further rate hike.

Singapore retail sales remained strong:

- On a y/y basis, Singapore retail sales remained strong with double digit growth of +13.7% (+14.9% in June 2022). The increase was partly attributed to larger growth in Wearing Apparel & Footwear, Food & Alcohol, Department Stores and Watches & Jewellery. Of this, online retail sales made up an estimated 12.7% of sales.

House View and Forecasts

FX	This Week	3Q-22	4Q-22	1Q-23	2Q-23
DXY	110-115	106.00	105.00	103.00	102.00
EUR/USD	0.95-1.00	1.02	1.03	1.05	1.04
GBP/USD	1.00-1.03	1.21	1.22	1.24	1.23
USD/JPY	143-148	138.00	135.00	133.00	132.00
AUD/USD	0.63-0.67	0.67	0.69	0.70	0.70
USD/MYR	4.62-4.68	4.42	4.40	4.38	4.35
USD/SGD	1.42-1.45	1.40	1.38	1.37	1.36

Rates, %	Current	3Q-22	4Q-22	1Q-23	2Q-23
Fed	3.00-3.25	3.00-3.25	4.25-4.50	4.25-4.50	4.25-4.50
ECB	1.25	1.25	2.75	2.75	2.75
BOE	2.25	2.25	3.25	3.25	3.25
BOJ	-0.10	-0.10	-0.10	-0.10	-0.10
RBA	2.35	2.35	3.10	3.10	3.10
BNM	2.50	2.50	2.50	2.75	2.75

Source: HLBB Global Markets Research

Up Next

Date	Events	Prior
06/10	HK S&P Global Hong Kong PMI (Sep)	51.2
	AU Exports MoM (Aug)	-10%
	EC Retail Sales MoM (Aug)	0.30%
	US Initial Jobless Claims (37165)	--
07/10	JN Household Spending YoY (Aug)	3.40%
	JN Leading Index CI (Aug P)	98.9
	JN Coincident Index (Aug P)	100.1
	MA Foreign Reserves (11202)	$106.3b
	US Change in Nonfarm Payrolls (Sep)	315k
	US Unemployment Rate (Sep)	3.70%
	US Average Hourly Earnings MoM (Sep)	0.30%

Source: Bloomberg

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