

6 December 2022

Global Markets Research

Daily Market Highlights

6 Dec: Selloffs in US equities and bonds

Surprised pick-up in ISM services fuelled continuous rate hike concern

DXY advanced above 105; CNH traded below 7.00

Commodity prices fell; oil lost over 3.0% while gold slipped 1.6%

- Stocks fell Monday as hotter-than-expected reading of November ISM Services report further fuelled concerns that the Fed will continue hiking interest rates in 2023. Dow Jones lost 1.4% d/d, while the S&P 500 and Nasdaq Composite slid by 2.0% d/d and 1.9% d/d respectively. Of note, Tesla shares shed about 7.0% on reports of an output cut at its Shanghai factory, while VF Corp. shares plunged 11.4% d/d after cutting its outlook.

Shares in Asia also mostly rose on Monday as China relaxed virus testing rules in some cities, signalling more easing may come in the nation, which has been under strict Covid-related restrictions for more than two years. Hang Seng rose 4.5% d/d leading gains in the region. CSI gained 2.0% d/d, while Nikkei 225 was up +0.2% d/d. European markets bucked the positive trend, with Stock Eur 600 dipping 0.4% d/d.

- Bond yields pushed higher as equities fell, with the yield on the benchmark 10-year Treasury last trading up nearly 11bps at 3.59%. The yield for the 2-year also rose 13bps to 4.40%.
- The Dollar strengthened against the pound and the yen after the ISM-Services data unexpectedly picked up, raising optimism that a recession could be avoided in 2023 while also spurring speculation about how high rates will rise. The Dollar Index ended the day up by 0.7% d/d at 105.29. The US dollar climbed 1.8% d/d against the yen, 0.4% d/d against euro and 0.7% d/d against sterling. China easing their COVID restriction on several cities also boosted yuan below 7.00 vs the USD at 6.9750 at close. MYR strengthened a further 0.5% to 4.3685 while the SGD weakened 0.4% d/d against the greenback.
- Both gold and oil prices also pared their gains on the ISM-Services data. Oil prices had climbed earlier in the day after China made further progress towards reopening the economy, sanctions on Russian crude kicked in while OPEC+ decided to keep output steady over the weekend. WTI closed the day 3.8% d/d lower, Brent also fell 3.4% d/d while gold inched down by 1.6% d/d.

PMI-Services growths have generally waned, contractions deepened in November, mixed outlook in the US

- In November, ISM services index surprisingly picked up 2.1ppts to 56.5, against expectations for a pullback to 53.5, led by Business Activity Index which surged 9ppts to 64.7. In contrast, the S&P Global Services PMI dipped for a 2nd straight month to 46.2 in November (Oct: 47.8), and marked its 5th straight month of contraction. The fall in PMI was largely linked to lower new orders and subdued client demand. The rate of contraction was the fastest since August and among the sharpest on record (since October 2009).

Key Market Metrics

	Level	d/d (%)
Equities		
Dow Jones	33,947.10	-1.40
S&P 500	3,998.84	-1.79
NASDAQ	11,239.94	-1.93
Stoxx Eur 600	441.47	-0.41
FTSE 100	7,567.54	0.15
Nikkei 225	27,820.40	0.15
Hang Seng	19,518.29	4.51
Straits Times	3,267.54	0.26
KLCI 30	1,471.56	-0.69
FX		
Dollar Index	105.29	0.71
EUR/USD	1.0491	-0.42
GBP/USD	1.2190	-0.73
USD/JPY	136.75	1.82
AUD/USD	0.6698	-1.35
USD/CNH	6.9750	-0.66
USD/MYR	4.3685	-0.45
USD/SGD	1.3576	0.44
Commodities		
WTI (\$/bbl)	76.93	-3.81
Brent (\$/bbl)	82.68	-3.38
Gold (\$/oz)	1,767.40	-1.59
Copper (\$\$/MT)	8,391.00	-0.70
Aluminum(\$/MT)	2,522.50	-0.90
CPO (RM/tonne)	3,991.50	-1.98

Source: Bloomberg, HLBB Global Markets Research

- In the Eurozone, the S&P Global Services PMI signalled a fourth straight month of falling output levels at 48.5 in November (Oct: 48.6), the fastest decline since February 2021. The survey also noted that signs of inflation having peaked.
- UK PMI services was unchanged at 48.8 in November. Nevertheless, it should be noted that there is reduction in new sales volumes for the third month in a row amidst ongoing caution amongst businesses and belt-tightening amongst households in the face of continued cost of living challenges.
- The China Caixin services index dropped 1.7 points m/m to 46.7 in November (Oct: 48.4), the lowest since May as Covid-19 outbreaks curtailed services activity in many parts of China. As it is, expectations for future activity recorded an eight-month low, and was significantly below its long-term average. Entrepreneurs' concerns stemmed from the direction in which the pandemic was heading, and its impact on the market.
- The au Jibun Bank Japan PMI services eased to 50.3 in November (Oct: 53.2). The reading signalled a third consecutive expansion in output across the Japanese service sector but one which was only marginal and the weakest in the past 3 months. The upturn reportedly stemmed from an increase in order book volumes.
- In Singapore, the headline S&P Global Singapore PMI, a composite single figured indicator of performance, eased from 57.7 in October to 56.2 in November. The rate of growth, while slower than October, was amongst the strongest on record. Moving forward, while firms were generally hopeful that sales will continue to improve, the average level of optimism fell to a modest one with recession risks, with higher GST impact on sales and COVID-19 implications reported to have negatively affected sentiment.
- In Hong Kong, the headline seasonally adjusted Composite PMI remained in negative territory for the third month at 48.7 in November (Oct: 49.3). The two biggest PMI components, output and new orders, recorded steeper contractions, affected by rising COVID-19 infections in November and a worsening economic backdrop.

US factory orders accelerated more than expected

- New orders for manufactured goods increased more than expected in October amid strong gains in demand for machinery which could allay concerns of a sharp slowdown in manufacturing. Factory orders jumped more than expected by 1.0% m/m in October (Sept: +0.3% m/m). Orders shot up 12.8% y/y for the month.
- The Commerce Department also reported that durable goods orders rose at a faster pace of 1.1% m/m in October final print (Sept: +0.2% m/m). Orders for non-defense capital goods, excluding aircraft, which are seen as a measure of business spending plans on equipment, increased 0.6% m/m in October (Sept: -0.7% m/m). Shipments of these so-called core capital goods, which are used to calculate business equipment spending in GDP rose 1.5% m/m (Sept: -0.1% m/m), upwardly revised from preliminary reading of +1.3% m/m.

Euro Sentix rose to the highest since June; retail sales worse than expected

- The Eurozone Sentix Investor Confidence index improved more than expected to -21.0 in December (Nov: -30.9) with the expectations index jumping to -22.0 from -32.3, hitting its highest since March 2022. Retail sales, on the other hand, fell more than expected in October, contracting 1/8% m/m (Sept: +0.8% m/m).

Australia inflation expectations surged to fresh record

- According to Melbourne Institute of Applied Economic and Social Research, Australia's inflation expectation rose 5.9% y/y in November (Oct: +5.2% y/y),

the fastest pace on record. The surge was driven mainly by rising prices in private motoring as well as holiday travel and accommodation. Core inflation, meanwhile, rose 5.6% y/y. RBA is set to meet today and we expect policy makers will raise the cash rate by another 25bps to 3.10%.

Japan household spent more despite lower real wage growth

- Japan's household spending rose for the second month, by a faster than expected 1.2% y/y in October (Sept: +2.3% y/y) despite lower real wage growth, a positive start for 4Q as it demonstrates resilience spending. A separate report showed that real wages kept decreasing for the 7th month amidst higher inflation and falling the most since 2015. The 2.6% y/y real decline (Sept: -1.2% y/y and consensus -2.2% y/y) and nominal gain of +1.8% y/y (September: 2.2% y/y and consensus forecast: +2.0% y/y) fell short of BOJ Governor Haruhiko Kuroda's wage hopes. He has maintained that Japan needs paycheck to grow by 3.0% y/y to get to the central bank's 2% inflation target rate.

Singapore retail sales growth moderated, but still strong at 10.4%

- Singapore's retail sales growth moderated, but remained strong at +10.4% y/y in October (September: +11.3% y/y). Even excluding motor vehicles, retail sales rose 14.3% y/y following the 16.9% y/y increase in September. Specifically, we noted that sales of computer and telecommunication equipment decelerated sharply from +34.9% y/y to +0.6% y/y.

House View and Forecasts

FX	This Week	4Q-22	1Q-23	2Q-23	3Q-23
DXY	102-105	100.00	98.00	96.04	96.04
EUR/USD	1.04-1.07	1.08	1.10	1.11	1.11
GBP/USD	1.21-1.25	1.25	1.26	1.27	1.27
USD/JPY	133-138	133	130	128	128
AUD/USD	0.67-0.69	0.69	0.70	0.72	0.72
USD/MYR	4.35-4.45	4.36	4.31	4.28	4.28
USD/SGD	1.34-1.36	1.33	1.32	1.30	1.30

Rates, %	Current	4Q-22	1Q-23	2Q-23	3Q-23
Fed	3.75-4.00	4.25-4.50	5.25-5.50	5.25-5.50	5.25-5.50
ECB	2.00	2.75	2.75	2.75	2.75
BOE	3.00	3.25	3.25	3.25	3.25
BOJ	-0.10	-0.10	-0.10	-0.10	-0.10
RBA	2.85	3.10	3.10	3.10	3.10
BNM	2.75	2.75	3.00	3.00	3.00

Source: HLBB Global Markets Research

Up Next

Date	Events	Prior
6-Dec	AU RBA Cash Rate Target	2.85%
	UK S&P Global/CIPS UK Construction PMI (Nov)	53.2
	US Trade Balance (Oct)	-\$73.3b
7-Dec	AU GDP SA QoQ (3Q)	0.90%
	JN Leading Index CI (Oct P)	97.5
	EC GDP SA QoQ (3Q F)	0.20%
	US MBA Mortgage Applications	-0.80%
	US Unit Labor Costs (3Q F)	3.50%
	CH Foreign Reserves (Nov)	\$3052.43b
	CH Exports YoY (Nov)	-0.30%
	CH Imports YoY (Nov)	-0.70%

Source: Bloomberg

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