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Global Markets Research

Daily Market Highlights

07-Apr: FOMC minutes weighed on stocks, bonds

Fed plans to shrink asset holdings by \$95b per month according to latest minutes

US stocks sold off alongside longer dated treasuries; USD strengthened

Oil prices tanked over 5% after IEA announced release of \$120 million barrels of oil

- Global stocks and bonds sold off on Wednesday as the markets assessed the impact of the Fed's imminent balance sheet tapering and more rate increases as well as the new rounds of Western sanctions on Russia. Overnight, US stocks fell alongside longer-term treasuries as the Fed spelled out its plan to tighten policy aggressively in the latest FOMC minutes.
- Tech shares led the losses again, as the NASDAQ index slumped 2.2%. The broader S&P 500 fell nearly 1% while the Dow closed 0.4% lower. In Europe, the pan-European STOXX Europe 600 fell 1.6% alongside lower German, France and UK benchmarks. Most Asian markets ended Wednesday's session in red. The Nikkei 225 fell 1.6% and Hang Seng lost 1.9%.
- The benchmark 10Y UST yield rose 5.1bps to 2.60%, its highest level since April 2019 amid the selling of medium-to-long dated bonds. Short-term yields pulled back where the 2Y yield fell 4.2% bps to 2.47%.
- The dollar index rose for the fifth consecutive session, adding 0.1% to 99.60. The USD strengthened against all G10 currencies amid poor sentiment. AUD erased recent gains to become the biggest loser (-0.9%) in the G10 basket. GBP and EUR were relatively steady, posting minor losses of less than 0.1%. USD/MYR rebounded by 0.1% to 4.2135 on Wednesday. The continuous USD strength may support the pair today at levels near 4.2200 with next resistance at 4.2250.
- Oil prices tanked on Wednesday with Brent benchmark settling 5.2% lower at \$101.07/barrel. This followed the International Energy Agency (IEA)'s announcement that its 31 members will tap into their emergency stockpiles and add 120 million barrels of oil to the market including an additional 60 million barrels from the US. The US EIA meanwhile, showed that crude stockpiles rose 2.4million barrels last week. WTI closed 5.6% lower at \$96.23/barrel.
- The US announced more sanctions targeting Russia's largest banks, state-owned entities and family members of top Russian officials including President Putin's two adult daughters as well as ban all new US investment in Russia. The UK said it would end all imports of Russian coal and oil by end-2022, alongside a full asset freeze on the largest Russian bank and all new UK outward investment into Russia.

Fed minutes shows Fed's plan to shrink balance sheet by \$95b per month:

- The March 15-16 FOMC minutes shed light on the Federal Reserve's plan to tighten policy in May onwards. Officials had opted to raise the fed funds rate by 25bps during that meeting, although they would have preferred a 50bp increase if it weren't for the near-term uncertainty associated with the Russian invasion of Ukraine.

Key Market Metrics

	Level	d/d (%)
Equities		
Dow Jones	34,496.51	-0.42
S&P 500	4,481.15	-0.97
NASDAQ	13,888.82	-2.22
Stoxx 600	455.97	-1.53
FTSE 100	7,587.70	-0.34
Nikkei 225	27,350.30	-1.58
Hang Seng	22,080.52	-1.87
Straits Times	3,422.95	-0.64
KLCI 30	1,604.72	0.50
FX		
Dollar Index	99.60	0.13
EUR/USD	1.0896	-0.08
GBP/USD	1.3069	-0.04
USD/JPY	123.80	0.16
AUD/USD	0.7512	-0.88
USD/CNH	6.3590	-0.29
USD/MYR	4.2135	0.11
USD/SGD	1.3598	0.03
Commodities		
WTI (\$/bbl)	96.23	-5.62
Brent (\$/bbl)	101.07	-5.22
Gold (\$/oz)	1,918.40	-0.23

Source: Bloomberg, HLBB Global Markets Research

- In terms of balance sheet reduction, officials agreed to shrink its securities holding at a faster pace than the 2017-2019 episode amid the elevated inflation and tight labour market conditions. Officials agreed to reduce its \$8.9 trillion balance sheet by \$95b per month in May i.e., \$60b for treasuries and \$35b for mortgage back securities.
- They agreed that “one or more 50 basis point increases in the target range could be appropriate at future meetings, particularly if inflation pressures remained elevated or intensified”. All members expressed strong commitment to restore price stability and agreed that the monetary policy stance should be changed to neutral.

US mortgage applications slumped as interest rates rose:

- The MBA mortgage applications fell 6.3% w/w last week, extending from the 6.8% decline prior. The refinancing applications fell 9.9% w/w to a three-year low while the applications to purchase homes were down by 3.4% w/w. Mortgage rates rose across the board, tracking the higher treasury yields. Notably, the average 30Y fixed rate contract rate picked up sharply by 10bps to 4.9% (vs 3.4% a year ago).

Hong Kong and China's PMI weakened to below 50 in March:

- The S&P Global Hong Kong PMI slipped to 42.0 in March, from 42.9 prior, reflecting the deteriorating business conditions in Hong Kong as the city-state battled Covid-19 outbreak and supply chain constraints stemming from the lockdowns in Mainland China and the Russia-Ukraine war.
- The Caixin China Services PMI slumped to 42.0 in March as well, from 50.2 in the previous month. The sharp drop in services activity coincides with the localised lockdowns reintroduced by the government to curb the spread of the Covid-19 cases.

House View and Forecasts

FX	This Week	2Q-22	3Q-22	4Q-22	1Q-21
DXY	97-99	98.5	99	98	97.5
EUR/USD	1.10-1.12	1.1	1.09	1.1	1.12
GBP/USD	1.30-1.32	1.29	1.28	1.3	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	4.2	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
07/04	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
08/04	Nil	

Source: Bloomberg

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