7 September 2022

Global Markets Research

Daily Market Highlights

07 Sep: Dollar Index rallied past 110

US equities and bonds remained under pressure amid choppy trade

ISM services renewed expectations for a 75bps Fed rate hike

RBA raised rates by 50bps as expected and signalled further hikes ahead

- The US markets reopened after Labour Day holiday and went through a volatile day before settling lower, extending the losses seen in the last three weeks. The three major benchmark stock indices ended 0.4-0.7% lower d/d, as markets remained wary of potential fallout from renewed odds of a Fed's aggressive policy tightening following the surprised uptick in ISM services.

- Stocks ended in positive territory in Europe and mixed in Asia earlier but futures point to lower openings this morning tracking overnight stock losses and higher bond yields in the US.

- Selling in global bonds showed no signs of abating, with 10Y UST yields rallying 16bps to 3.35% in part due to a flood of corporate bond supply. European 10Y sovereign bond yields rose between 3-7bps. The 10Y UK gilts jumped 16bps to 3.09% with the longer tenor rallying even faster to the tune of 21bps, amid concerns over the new prime minister's energy plan.

- The Dollar Index continued to head north, breaching the 110 key resistance and hit an intraday high of 110.55 before pulling back somewhat to a 110.25 close (+0.4%) on Tuesday. The USD advanced against all G10s save for the minor losses against the SEK and GBP. The JPY fell the most (-1.6%) to a 32-year low at 142.80 against the USD, followed by NZD (-0.9%) and AUD (-0.9%).

- Asian currencies remained under pressure too, led by further losses in CNY (0.3%) and SGD (-0.2%) while the MYR weakened for a fourth straight day, by 0.1% to 4.4980, just a tad off its intraday high of 4.5002. We expect USD/ MYR to break the 4.50 handle today amid broad USD strength.

- Oil traded mixed with the WTI reopening with a 0.3% gain to $86.87/ barrel. On the contrary, Brent crude fell 2.5% to $92.85/ barrel, as China's lockdown measures and risk-off sentiments weighed on oil prices, in addition to price cut by Saudi Arabia.

US ISM services surprised on the upside; PMI contracted a 2nd straight month:

- US ISM services registered a surprised pick-up to 56.9 in August (Jul: 56.7), marking its second straight month of uptick and its highest in four months. Business activity, new orders, employment and new export orders all expanded at faster pace, a sign of higher demand and wage gains. The prices paid component fell suggesting inflation is easing.

Key Market Metrics

	Level	d/d (%)
Equities		
Dow Jones	31,145.30	-0.55
S&P 500	3,908.19	-0.41
NASDAQ	11,544.91	-0.74
Stoxx Eur 600	414.38	0.24
FTSE 100	7,300.44	0.18
Nikkei 225	27,626.51	0.02
Hang Seng	19,202.73	-0.12
Straits Times	3,224.18	0.27
KLCI 30	1,488.27	-0.10
FX		
Dollar Index	110.25	0.42
EUR/USD	0.9904	-0.25
GBP/USD	1.1520	0.03
USD/JPY	142.80	1.56
AUD/USD	0.6735	-0.91
USD/CNH	6.9703	0.40
USD/MYR	4.4978	0.14
USD/SGD	1.4065	0.21
Commodities		
WTI ($/bbl)	86.87	0.30
Brent ($/bbl)	92.85	-2.50
Gold ($/oz)	1,713.00	0.79
Copper ($$/MT)	7,666.00	-0.10
Aluminum($/MT)	2,260.50	-1.20
CPO (RM/tonne)	3,896.00	-0.40

Source: Bloomberg, HLBB Global Markets Research

- This overshadowed the back-to-back contraction in the S&P global PMI services, which came in lower than the flash estimate, at 43.7 in August (Jul: 47.3), and its lowest since May-20. The positive ISM print spurred expectations that the US economy remains in good shape and could withstand another 75bps rate increase in the next FOMC meeting on 22-September.

RBA hiked 50bps and signalled further hikes ahead:

- RBA raised rates by 50bps to 2.35% as widely expected, in what Governor Lowe said would help bring inflation back to the 2.0% target level, and create a more sustainable balance between demand and supply in the Australian economy. RBA guided for further rate hikes ahead but reiterated that the size and timing of future rate hikes is not on a pre-set path but would depend on the outlook for inflation and labour market.
- Premising on the central bank's expectation for inflation to peak in late 2022, as global supply chain pressure eases and commodity prices decline, and having raising rates by a total 225bps in the current tightening cycle, room for further hikes are getting narrower. Our house view calls for a further 65bps increase to 3.00% by year end. Aussie failed to rally post-RBA as the central bank does not provide any fresh leads.

House View and Forecasts

FX	This Week	3Q-22	4Q-22	1Q-23	2Q-23
DXY	107-110	106.00	105.00	103.00	102.00
EUR/USD	0.98-1.00	1.02	1.03	1.05	1.04
GBP/USD	1.14-1.17	1.21	1.22	1.24	1.23
USD/JPY	137-141	138.00	135.00	133.00	132.00
AUD/USD	0.66-0.69	0.67	0.69	0.70	0.70
USD/MYR	4.46-4.50	4.42	4.40	4.38	4.35
USD/SGD	1.39-1.41	1.40	1.38	1.37	1.36

Rates, %	Current	3Q-22	4Q-22	1Q-23	2Q-23
Fed	2.25-2.50	2.75-3.00	3.25-3.50	3.25-3.50	3.25-3.50
ECB	-0.50	0.75	1.75	2.25	2.75
BOE	1.75	2.25	3.25	3.25	3.25
BOJ	-0.10	-0.10	-0.10	-0.10	-0.10
RBA	1.85	2.35	3.10	3.10	3.10
BNM	2.25	2.50	2.75	2.75	2.75

Source: HLBB Global Markets Research

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Date	Events	Prior
07/09	AU GDP SA QoQ (2Q)	0.8%
	MA Foreign Reserves (30 Aug)	$110.9b
	EZ GDP SA QoQ (2Q F)	0.6%
	US MBA Mortgage Applications (02 Sep)	-3.7%
	US Trade Balance (Jul)	-$79.6b
	CN Exports YoY (Aug)	18.0%
08/09	US U.S. Federal Reserve Releases Beige Book ()	
	JP GDP SA QoQ (2Q F)	0.5%
	AU Exports MoM (Jul)	5%
	MA BNM Overnight Policy Rate (08 Sep)	2.25%
	EZ ECB Deposit Facility Rate (08 Sep)	0.00%
	US Initial Jobless Claims (03 Sep)	232k

Source: Bloomberg

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