8 September 2022

Global Markets Research

Daily Market Highlights

08 Sep: Selloffs in equities and bonds took a breather

US equities and bonds rebounded; retreat in oil prices soothed inflation concerns

2Q GDP readings in the EU and Australia showed economic resiliency

BOC hiked at a more modest pace of 75bps; ECB and BNM in focus today

- The US equity and bond markets rebounded, as lower oil prices dampened inflation fear and rate hike expectations. The three major benchmark stock indices jumped 1.4-2.1% d/d. The Dow rose 1.4% while the tech-heavy NASDAQ rallied 2.1%. European and Asian stocks were largely sold off earlier amid risk aversion and fear over continued aggressive policy tightening.

- Global bonds rebounded from recent selloffs along with stocks amid further slides in oil and gas futures, pushing yields sizeably lower in the US and Europe. 10Y UST yields fell 9bps to 3.26% while the 2s shed 7bps to 3.43%. Yields retreated 5-11bps in Europe and was relatively flat in Asia.

- The Dollar Index retreated and closed below the 110s, at 109.54 (-0.65%). The greenback weakened against all G10s except JPY. EUR led gainers with a 1.0% gain back above parity at 1.0006, while the sterling bounced off a 37-year low to end at 1.1533 (+0.1%). Aussie's 0.5% gain was also supported by acceleration in 2Q GDP growth while the CAD saw modest 0.2% increase amid less aggressive rate hike path by the Bank of Canada. Bank of Canada slowed the pace of rate increase to 75bps at yesterday's meeting, after hiking 100bps in July, citing stickiness in core inflation and tight labour market.

- Asian currencies remained under pressure, led by further losses in KRW (-0.9%) and JPY (-0.7%). CNY continued to see modest losses (-0.2%) but SGD regained lost ground, strengthening 0.2% against the USD to 1.4042. MYR losses extended into a fifth straight day, falling by a further 0.1% to 4.5020, breaking above the 4.50 critical resistance as expected.

- Oil plunged amid renewed demand concerns as growth risks mount. Brent crude fell 5.5% to $87.71/ barrel (4-month low), while the WTI plummeted 6.1% to $81.66/ barrel (7-month low).

Mixed signals from the Fed Beige Book; mortgage applications fell; trade deficit narrowed:

- US MBA Mortgage Applications continued to fall for the 4th straight week, albeit at a slower rate of 0.8% w/w for the week ended 2-Sep (prior: -3.7%). Both purchases (-0.7%) and refinancing (-1.1%) continued to decline amid higher mortgage rates, confirming a softening US housing market as interest rates continued inching higher. The 30Y contract rate climbed further to a 14-year high of 5.94%, up from 5.80% a week ago and 3.03% a year ago.
- Trade deficit narrowed for the 4th straight month to $70.6bn in July (Jun: -$80.9bn), its lowest in nine months, as a result of higher exports (+0.2% m/m) and lower imports (-2.9% m/m). While the fall in imports led by consumer items and industrial materials suggests softer demand, the smaller trade deficit augurs well with 3Q GDP.

Key Market Metrics

	Level	d/d (%)
Equities		
Dow Jones	31,581.28	1.40
S&P 500	3,979.87	1.83
NASDAQ	11,791.90	2.14
Stoxx Eur 600	412.01	-0.57
FTSE 100	7,237.83	-0.86
Nikkei 225	27,430.30	-0.71
Hang Seng	19,044.30	-0.83
Straits Times	3,210.83	-0.41
KLCI 30	1,491.35	0.21
FX		
Dollar Index	109.54	-0.65
EUR/USD	1.0006	1.03
GBP/USD	1.1533	0.11
USD/JPY	143.74	0.66
AUD/USD	0.6769	0.50
USD/CNH	6.9591	-0.16
USD/MYR	4.5020	0.09
USD/SGD	1.4042	-0.16
Commodities		
WTI ($/bbl)	81.66	-6.09
Brent ($/bbl)	87.71	-5.54
Gold ($/oz)	1,720.00	1.00
Copper ($$/MT)	7,622.50	-0.57
Aluminum($/MT)	2,241.00	-0.86
CPO (RM/tonne)	3,844.50	-1.32

Source: Bloomberg, HLBB Global Markets Research

- The latest Fed Beige Book indicates economic activity was "unchanged on balance" since early July, with five districts reporting slight to modest growth in activity while five others reporting slight to modest softening. The report also suggests some modest moderation in inflation, and that outlook is softening in the next 6-12 months, implying the Fed would be caught in a tight position weighing between a 50-75bps hike at the upcoming meeting.

Eurozone final GDP prints pointed to sustained growth momentum in 2Q:

- Final print of 2Q GDP came in at 0.8% q/q and 4.1% y/y, beating the flash estimates of 0.6% q/q and 3.9% y/y. This marked an acceleration from the 0.7% q/q expansion in 1Q although growth moderated from 5.4% on a y/y basis. Growth was driven by improvement in household consumption (+1.3% vs 0.0%), government spending (+0.6% vs +0.2%), and investment (+0.9% vs -0.8%). Exports also saw sustained growth of 1.3% q/q (1Q: +1.2%) but was negated by the 1.8% q/q gain in imports (1Q: -0.2%). This positive GDP print is expected to raise the odds of a 75bps hike by the ECB today.

China's weaker than expected exports indicates recovery is losing steam:

- Exports grew at a much slower pace of 7.1% y/y in August, down from the 18.0% y/y increase in July and almost half the expected pace of 13.0%. Imports growth also came to a near halt (+0.3% vs +2.3% y/y), adding to concerns of slowing domestic demand and exports going forward. China is bracing for more challenging times ahead as the country battles external headwinds as well as continued localised Covid lockdown, the latest in Chengdu. This implies the need for more stimulus measures in the near term as China strives to contain the fallout and sustain the economy.

Pick-up in Australia 2Q GDP supports case for further rate hike:

- The Australian economy picked up some steam in 2Q, expanding 0.9% q/q and 3.6% y/y (1Q: +0.7% q/q and +3.3% y/y). Growth was underpinned by sustained 2.2% q/q increase in household spending following borders reopening and rebound in exports (+5.5% vs -0.8% q/q), which helped offset the decline in investment and inventories.
- Economic resiliency shall support the case for further rate hikes by RBA to rein in inflation but the pace of hike may be more moderate going forward as consumption growth will likely taper off going forward dampened by elevated inflation and the cumulative 225bps rate hike, on top of the pullback in savings rate to pre-pandemic low levels (8.7% in 2Q22 vs 9.7% in 1Q20).

Malaysia foreign reserves dipped again but remained sufficient:

- Foreign reserves pulled back again, to $108.2bn as at 30-August (15 Aug: $110.9bn). The reserves position is sufficient to finance 5.4 months of imports and is 1.1x the short term external debt.

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
08/09	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
09/09	NZ Card Spending Retail MoM (Aug)	-0.2%
	CN PPI YoY (Aug)	4.2%
	CN CPI YoY (Aug)	2.7%
	MA Industrial Production YoY (Jul)	12.1%

Source: Bloomberg

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