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Global Markets Research

Daily Market Highlights

09 Sep: Risk rally amid hawkish central banks

Fed Chair Powell reiterated the need for aggressive policy moves

ECB's hawkish hike raised bets for another 75bps increase in October

BNM hiked 25bps as expected and signalled a pause in November

- Global equities largely ended in the green as hawkish central bank rhetorics reinforced expectations for further policy tightening to rein in runaway inflation. Fed Chair Powell said in a conference that the Fed "need to act now, forthrightly, strongly as we have been doing", suggesting the Fed is committed to raising rates even at a 75bps pace. Odds of a 75bps Fed rate hike has risen since last week. The three US benchmark stock indices continued to see gains of between 0.6-0.7% d/d. European and Asian stocks also traded on positive note earlier but futures point to a mixed opening this morning.

- Global bond yields climbed higher amid hawkish central bank action/ speech. 10Y UST rose 5bps to 3.32% while the 2Y note yields increased 7bps to 3.50%. In Europe, sovereign bond yields were seen jumping up to the tune of 14bps (10Y German bund yields) while that of the 10Y UK gilts rose 12bps to 3.14%.

- The Dollar Index rebounded and clinched a 0.1% gain to 109.64 at close, as the USD strengthened against 8 G10s after Fed Chair Powell's reiteration of the need to further raise rates spurred gains in the greenback. The EUR erased earlier post-ECB gains to end the day slightly lower at 0.9997 (-0.09%), while the sterling lost 0.25% to 1.1504, still holding above the key 1.15 big figure. The JPY weakened 0.3% while commodity currencies (AUD and NZD) lost 0.3-0.4%. The Aussie came under pressure pushing lower towards the 0.67 levels amid choppy trade following the disappointing trade surplus figures. The CAD however continued to nudge a 0.2% gain amid continued spill over from BOC's 75bps hike.

- Selloffs in Asian currencies took a breather as risk sentiments improved in Asia markets. THB led the gainers (+0.7%), followed by a distant KRW (+0.2%). SGD fell again (-0.06%) after Wednesday's brief advance. CNY strengthened for the first time in four days to clock in a 0.1% gain at 6.9576. MYR regained grounds for the first time in six days, settling at 4.5015 on Thursday's close (+0.01%) as the MYR narrowed early session gains post BNM MPC which offered hints of a pause going forward after 75bps cumulative hikes since May.

- Oil rebounded over 1.0% from multi-months low as US oil inventories surprisingly increased more than expected, pointing to demand risks aggravated by China's Covid lockdown. Brent crude rose 1.0% to $88.61/ barrel while the WTI increased 1.3% to $82.73/ barrel.

US initial jobless claims fell to a 3-month low as labour market remained tight:

- Initial jobless claims fell 6k to 222k for the week ended 3-Sep, from a revised 228k in the preceding week. This marked its 4th consecutive week of retreat and was its lowest level in three months, a sign of a tight labour market.

Key Market Metrics

	Level	d/d (%)
Equities		
Dow Jones	31,774.52	0.61
S&P 500	4,006.18	0.66
NASDAQ	11,862.13	0.60
Stoxx Eur 600	414.09	0.50
FTSE 100	7,262.06	0.33
Nikkei 225	28,065.28	2.31
Hang Seng	18,854.62	-1.00
Straits Times	3,233.61	0.71
KLCI 30	1,494.73	0.23
FX		
Dollar Index	109.64	0.10
EUR/USD	0.9997	-0.09
GBP/USD	1.1504	-0.25
USD/JPY	144.11	0.26
AUD/USD	0.6751	-0.27
USD/CNH	6.9615	0.03
USD/MYR	4.5017	-0.01
USD/SGD	1.4051	0.06
Commodities		
WTI ($/bbl)	82.73	1.31
Brent ($/bbl)	88.61	1.03
Gold ($/oz)	1,710.00	-0.58
Copper ($$/MT)	7,850.00	2.98
Aluminum($/MT)	2,277.00	1.61
CPO (RM/tonne)	3,680.50	-4.27

Source: Bloomberg, HLBB Global Markets Research

Continuing claims however edged up to a 5-month high at 1473k for the week ended 27-Aug (prior: 1437k).

ECB raised rates by 75bps and guided for further rate increases to above neutral level:

- The ECB delivered a hawkish hike at yesterday's policy meeting, raising all three key rates by 75bps as widely expected, echoing its recent hawkish shift as inflationary concerns took centre stage over recession risks. The ECB has upgraded its inflation forecasts (2022: from 6.8% to 8.1%; 2023: from 3.5% to 5.5%), and signalled that it will raise rates above neutral level, pointing to rising odds of another 75bps hike in is next meeting in October.
- Meanwhile, the ECB expects the economy to stagnate in 2H22 and early 2023, slashing 2023 growth forecast from 2.1% to 0.9% even as this year's growth forecast are being upgraded from 2.8% to 3.1% given resiliency in the 2Q. Following yesterday's 75bps hike, the ECB main refinancing rate, marginal lending facility, and deposit facility rate, now stood at 1.25%, 1.50% and 0.75% respectively.

BNM hiked 25bps as expected and signalled a pause:

- BNM raised the OPR by a further 25bps to 2.50% as widely expected, marking its third straight quarter-point increase since the normalization cycle began in May. However, we sense that the policy statement has turned a tad cautious, and highlighting that the "MPC is not on any pre-set course", potentially hinting at a pause even though it reiterated that policy decisions will remain data dependent, and that "any adjustments to the monetary policy settings going forward would be done in a measured and gradual manner".
- We therefore see the case of a pause in November with the OPR ending at 2.50% for the year. Any further policy moves back to pre-pandemic levels will depend on the sustainability of current growth momentum and inflation trajectory going into next year.

Japan 2Q GDP came in stronger than expected but 3Q outlook at risk:

- Trailing the relatively positive 2Q GDP releases from the Eurozone and Australia, Japan's 2Q GDP also surprised on the upside indicating recovery in the Japanese economy remains largely intact. Economic activities picked up more than expected to expand 0.9% q/q in 2Q (prelim: +0.5% and 1Q: +0.1%) bringing the Japanese economy back into pre-pandemic levels. On a seasonally adjusted annualized basis, growth also expanded at a quicker than initially expected pace of 3.5% in 2Q (prelim: +2.2% and 1Q: +0.2%), driven by higher capital spending, private consumption and net exports.
- Looking ahead, growth is expected to moderate going into 3Q amid a softening global outlook and higher inflationary pressure, aggravated by a plunge in the JPY against the greenback to a 24-year low.

Australia July trade surplus fell short of expectations:

- Trade surplus narrowed more than expected to A$8.7bn in July, sharply lower than June's surplus of A$17.1bn and came in short of the A$14.7bn expected, spurring concerns growth would show a sharp deceleration in 3Q.
- Exports contracted more than expected by 9.9% m/m in July, reversing from the 4.9% gain in June and marking its biggest drop since May-20 amid declines in coal (-29.8%) and iron ore (-20.5%) exports. Exports to the top three destinations namely China, Japan, and Korea all fell on a m/m basis reflecting softer global demand. Meanwhile, imports unexpectedly expanded 5.2% m/m, picking up from the 0.7% increase in June aggravating the pullback in trade surplus.

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	2.50	2.50	2.50

Source: HLBB Global Markets Research

Up Next

Date	Events	Prior
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%
12/09	UK Monthly GDP (MoM) (Jul)	-0.6%
	UK Industrial Production MoM (Jul)	-0.9%
	UK Index of Services MoM (Jul)	-0.5%
	UK Visible Trade Balance GBP/Mn (Jul)	-£22847m

Source: Bloomberg

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