Global Markets Research

Daily Market Highlights

11-Mar: Stocks closed lower after US CPI hit 7.9%

10Y UST yield briefly hit 2.00%; USD broadly strengthened

EUR weakened despite hawkish ECB signals

Oil prices reversed intraday gains to close lower

- US and European stocks closed lower on Thursday as investors assessed the 40-year high inflation in the US as well as the global economic impact of the Russia-Ukraine war. The Dow Jones fell 0.3%, the S&P 500 lost 0.4% while NASDAQ dropped the most by nearly 1.0%. European major benchmarks such as the CAC 40 and DAX fell 2.8% and 2.9% respectively. The pan European STOXX Europe 600 was down by 1.7%.

- Treasury yields rose after the US inflation hit 7.9% y/y in February ahead of next week's Federal Reserve meeting. The yield on the benchmark 10Y UST briefly reached 2.00% before retreating to close at 1.99%, 3.3bps higher compared to the previous session.

- The dollar regained strength on Thursday after Wednesday's selloff. The euro saw a huge intraday reversal and was the biggest loser in the G10 basket; EUR/USD shot up to as high as 1.1120 after the ECB announced a surprise phasing out of its APP program, before retreating to close the day 0.81% lower at 1.0986. Commodity currencies extended gains, led by the Australian dollar. The dollar index rose 0.6% to 98.51.

- USD/MYR closed 0.07% higher at 4.1890 on Thursday, as MYR resilience capped the pair's gain to less than 0.1% for the past four sessions. The pair is still expected to trade at recent levels as the market assessed the impact of war on commodity prices as well as the US CPI data. The MYR may stay relatively resilient, against a backdrop of positive economic outlook especially after the Prime Minister announced the reopening of the Malaysian border on 1 April.

- Crude oil prices erased intraday gains to close the day lower as the sky-high US inflation risks hurting oil demand; Brent crude topped $118/barrel before falling back to $109.33/barrel (-1.6%). The US benchmark WTI shed 2.5% to settle at $106.02/barrel. Gold prices recovered 0.6% to $2000.4/oz from the recent selloff.

Hawkish ECB surprised market by revising APP purchases; flagged risks posed by Russia-Ukraine war:

- The ECB maintained its policy unchanged during yesterday's meeting but surprised the market by revising its Asset Purchase Program (APP) purchase schedule for the coming months. Monthly net purchases will be €40b in April, €30b in May and €20b in June, compared to the previous plan of €40b per month throughout 2Q22; it said that the purchases in 3Q will be based on medium term inflation outlook and hinted that it may end the APP in that quarter provided that inflation outlook does not weaken. Any adjustment to the key ECB rates will take place "some time" after the end of APP and will be gradual.
- The ECB warned of the economic risks posed by the Russian invasion of Ukraine. It said that the war will have a material impact on economic activity through

Key Market Metrics

	Level	d/d (%)
Equities		
Dow Jones	33,174.07	-0.34
S&P 500	4,259.52	-0.43
NASDAQ	13,129.96	-0.95
Stoxx 600	427.12	-1.69
FTSE 100	7,099.09	-1.27
Nikkei 225	25,690.40	3.94
Hang Seng	20,890.26	1.27
Straits Times	3,240.73	1.42
KLCI 30	1,580.53	1.16
FX		
Dollar Index	98.51	0.55
EUR/USD	1.0986	-0.81
GBP/USD	1.3086	-0.72
USD/JPY	116.14	0.27
AUD/USD	0.7358	0.49
USD/CNH	6.3272	0.06
USD/MYR	4.1890	0.07
USD/SGD	1.3594	0.07
Commodities		
WTI ($/bbl)	106.02	-2.47
Brent ($/bbl)	109.33	-1.63
Gold ($/oz)	2,000.40	0.61

Source: Bloomberg, HLBB Global Markets Research higher energy and commodity prices, the disruption of international commerce and weaker confidence. In its baseline projections based on solid underlying conditions that incorporate the war implication, GDP growth was revised to 3.7% for 2022 (down from 4.2% in the December projections). Inflation was revised to 5.1% in 2022 (up sharply from 3.2% in December forecasts) and is likely to stabilise at its 2.0% target over the medium term. Nonetheless, alternative scenarios (adverse and severe) that experience significant drag on economic activity will also see inflation stabilising at around 2% over the medium term (2024).

- In terms of near-term economic outlook, the ECB expects growth to remain weak in 1Q22. The prospects for the economy depend on the war, the financial sanctions and other measures. Other headwinds to growth are waning. The risks to the outlook have increased substantially after the invasion and are tilted to the downside. Meanwhile, the risks related to the pandemic have declined. The war in Ukraine may have a stronger impact on economic sentiment and could worsen supply chain constraints again. There was also a "substantial upside risk" to energy prices.

US consumer inflation surged to 7.9%:

- The US consumer price index rose 0.8% m/m in February, faster than the 0.6% gain in the previous month, driven by the gains in prices of gasoline, shelter, and food. The gasoline prices rose 6.6% in February and accounted for almost a third of the all-items' monthly increase according to the BLS. Prices of gasoline had increased even before the Russian invasion of Ukraine as strong domestic demand outweighed the tight global supply. This helped boost the annual CPI rate to a fresh 40-year high of 7.9% y/y, up from 7.5% in January. The core prices rose 0.5% m/m (Jan: +0.6%) and recorded a y/y increase of 6.4% (Jan: +6.0%).
- Initial jobless claims rose by 11k to 227k last week, from the revised 216k previously, driven by higher claims in a few states and not indicative of a broad-based slowdown in hiring. The four-week moving average rose to 231.25k, from 230.75k.

Japan's household spending growth reflects low base effect:

- Japan's household spending fell 1.2% m/m in January, after the small 0.2% increase in December, reflecting consumer caution amid the Omicron outbreak. Spending rose 6.9% y/y in January (Dec: -0.2%), beating the consensus forecast of 3.4%. The sharp gain was boosted by low base effect; the country was put under stricter restrictions in the same month last year which had curtailed spending.

NZ manufacturing growth accelerated; food inflation steepest since 2011:

- The BNZ Manufacturing PMI for New Zealand rose to 53.6 in February, pointing to a faster expansion in manufacturing activity despite the climb in Covid-19 cases in the country. The overall growth was supported by higher production, employment and new orders.
- On a separate note, food prices fell 0.1% m/m in February after the 2.7% increase prior. However, on a y/y basis, food prices posted a 6.8% gain, its largest increase since 2011, driven by the 17% surge in prices of fruits and vegetables. This adds to the evidence of higher inflation in the coming months, meaning that more rate hikes are coming from the RBNZ.

House View and Forecasts

FX	This Week	1Q-22	2Q-22	3Q-22	4Q-22
DXY	97-100	96.15	96.40	96.30	96.30
EUR/USD	1.08-1.11	1.13	1.12	1.12	1.13
GBP/USD	1.31-1.34	1.34	1.33	1.35	1.36
AUD/USD	0.72-0.75	0.72	0.72	0.74	0.75
USD/JPY	114-116	115	116	115	114
USD/MYR	4.17-4.20	4.17	4.15	4.15	4.10
USD/SGD	1.35-1.37	1.35	1.34	1.34	1.33

Rates, %	Current	1Q-22	2Q-22	3Q-22	4Q-22
Fed	0.00-0.25	0.25-0.50	0.75-1.00	1.25-1.50	1.25-1.50
ECB	-0.50	-0.50	-0.50	-0.50	-0.50
BOE	0.50	0.75	1.00	1.00	1.00
RBA	0.10	0.10	0.10	0.10	0.25
BOJ	-0.10	-0.10	-0.10	-0.10	-0.10
BNM	1.75	1.75	1.75	1.75	2.00

Source: HLBB Global Markets Research

Up Next

Date	Events	Prior
11/03	MA Industrial Production YoY (Jan)	5.8%
	UK Monthly GDP (MoM) (Jan)	-0.2%
	UK Industrial Production MoM (Jan)	0.3%
	UK Visible Trade Balance GBP/Mn (Jan)	-£12.3b
	US U. of Mich. Sentiment (Mar P)	62.8
15/03	NZ Performance Services Index (Feb)	45.9
	CN Industrial Production YTD YoY (Feb)	9.6%
	CN Fixed Assets Ex Rural YTD YoY (Feb)	4.9%
	CN Retail Sales YTD YoY (Feb)	12.5%
	UK Payrolled Employees Monthly Change (Feb)	108k
	UK Average Weekly Earnings 3M/YoY (Jan)	4.3%
	UK ILO Unemployment Rate 3Mths (Jan)	4.1%
	UK Employment Change 3M/3M (Jan)	-38k
	EZ ZEW Survey Expectations (Mar)	48.6
	EZ Industrial Production SA MoM (Jan)	1.2%
	US PPI Final Demand YoY (Feb)	9.7%
	US Empire Manufacturing (Mar)	3.1

Source: Bloomberg

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