

11 October 2022

Global Markets Research

Daily Market Highlights

11 Oct: Global equities fell led by tech stocks

Bonds rout continued pushing yields higher, DXY advanced on haven appeal

US's new sweeping rules on chips exports to China sent chills to markets

Expect risk-off mood today amid signs of escalating geopolitical tensions

- US stocks wavered amid ongoing worries about Fed rate increases, and Russia-Ukraine tension, while chip stocks fell on new export rules on semiconductors and chip-manufacturing equipment by the US on China. Dow Jones lost 0.3%, S&P 500 slipped 0.8% and NASDAQ dropped 1.0% d/d. Investors also remained cautious ahead of 3Q earnings, with Pepsico, Delta Airline and JP Morgan due later in the week.
- In the UK, turbulence continued to grip the gilt market as selloff accelerated despite the BOE extending its emergency backstop measures to support market functioning. The 10-year inflation-linked yields rose 24bps to 4.47%. The 2-year and 30-year was also up by 19bps and 29bps to 4.25% and 4.67% respectively.
- In Asia Pacific, Hang Seng led the losses as Chinese chip stocks like Semiconductor Manufacturing International Corporation fell 2.9% d/d, Hua Hong Semiconductor dropped more than 9.4% while Shanghai Fudan Microelectronics Company plunged more than 20% d/d. The broader Hang Seng index was 3.0% lower, while in mainland China, the Shanghai Composite lost 1.7%.
- In the currency market, the Dollar Index advanced 0.3% d/d to 113.14. Chinese CNH retreated with the yuan falling for the 4th day to 7.1536 or 0.3% d/d. In a statement, FX regulator SAFE said that China will strengthen monitoring and analysis of cross border capital flows and risk prevention. On the domestic front, Ringgit was untraded on Monday in lieu of a public holiday but depreciated 0.3% d/d to 4.6502 as at last Friday's close, receiving little boost from the expansionary budget proposal.
- Oil prices slipped, with the Brent and WTI trading 1.8% and 1.6% lower at US\$96.19/barrel and US\$91.13/barrel respectively as traders focus on incoming inflation data due end of the week as well as weak CAIXIN PMI-services number. Gold prices, meanwhile, fell 2.0% d/d to US\$1,667.30/oz.

US nonfarm added 263k jobs in September:

- Non-farm payroll increased slightly more than expected by 263,000 in September, but nevertheless marked a slowdown from August's 315,000. Meanwhile, the unemployment rate edged down to 3.5%, returning to its July level. In tandem with this, the number of unemployed persons edged down to 5.8m for the month. The labor force participation rate was little changed at 62.3%, 1.1ppts below their values in February 2020, prior to the

Key Market Metrics

	Level	d/d (%)
Equities		
Dow Jones	29,202.88	-0.32
S&P 500	3,612.39	-0.75
NASDAQ	10,542.10	-1.04
Stoxx Eur 600	390.12	-0.40
FTSE 100	6,959.31	-0.45
Nikkei 225	27,116.11	-0.71
Hang Seng	17,216.66	-2.95
Straits Times	3,107.47	-1.22
KLCI 30	1,406.00	-1.02
FX		
Dollar Index	113.14	0.31
EUR/USD	0.9702	-0.43
GBP/USD	1.1055	-0.28
USD/JPY	145.72	0.32
AUD/USD	0.6303	-1.13
USD/CNH	7.1536	0.28
USD/MYR	4.6502	0.27
USD/SGD	1.4377	0.38
Commodities		
WTI (\$/bbl)	91.13	-1.63
Brent (\$/bbl)	96.19	-1.77
Gold (\$/oz)	1,667.30	-1.95
Copper (\$/MT)	7,578.50	1.62
Aluminum(\$/MT)	2,260.00	-1.70
CPO (RM/tonne)	3,645.50	1.36

Source: Bloomberg, HLBB Global Markets Research
Note: Closing for KLCI and USDMYR as at 7-October

COVID-19 pandemic. Specifically, notable gains were observed in the leisure and hospitality which added 83,000 jobs in September. Manufacturing employment continued to trend up in September (+22,000). Job gains occurred in motor vehicles and fabricated metal products and electrical equipment and appliances. Employment in construction continued to trend up (+19,000), in line with average monthly job growth in the first 8 months of this year.

- In August, consumer credit increased at a seasonally adjusted annual rate of 8.3% to US\$32.2bn (July: +6.8%). Revolving credit increased at an annual rate of 18.1% after a 11.7% gain the prior month while nonrevolving credit increased at an annual rate of 5.1%. Nonrevolving credit, typically auto and student loans and is much less volatile, was down slightly from a 5.2% gain in July. While economists are concerned by the pace of growth in consumer credit and think that households are using expensive debt to keep spending with inflation so elevated, Fed officials say household balance sheets are generally in good shape as many consumers were able to pay down debt during the pandemic.

Europe's Sentix investor confidence plummeted to -38.3:

- The Eurozone economy continues to plummet to -38.3 points in October (Sept:-34.7), the lowest level since May 2020. Situation and expectations index fell again. Specifically, the Germany Sentix confidence signaled a catastrophic state of the economic condition. The decline was dragged by the ongoing uncertainties about the gas and energy situation in winter due to the attack on the Nordstream pipelines and increasing probability of an escalation of the military conflict in Ukraine.

BOE announced additional measures to support market functioning:

- The Bank of England (BOE) announced additional measures to support an orderly end of its purchase scheme. Firstly, BOE will increase the size of its daily auctions to ensure there is sufficient capacity for gilt purchases ahead of 14 October to up to £10bn. Secondly, the Bank will launch a Temporary Expanded Collateral Repo Facility (TECRF) to enable banks to help to ease liquidity pressures facing their client liability driven investment (LDI) funds through liquidity insurance operations, which will run beyond the end of this week. Thirdly, the Bank said it would be ready to use its regular Indexed Long Term Repo operations each Tuesday, which allow market participants to borrow BOE cash reserves for six months in exchange for less liquid assets, to further ease liquidity pressures on LDI funds.

Japan spending rose 5.1% y/y, real wages down 1.8% y/y on inflation:

- Japan's household spending was up 8.8% y/y and 5.1% y/y respectively in nominal and real terms in August (July: +6.6% y/y and +3/4% y/y). While spending on items such as food and utilities grew steadily, consumers were wary of spending on big purchases such as furniture and housing. Real wages, meanwhile, fell for a fifth month at -1.8% as average nominal wages growth of +1.6% y/y in August was outpaced by inflation.
- Japan maintained its assessment index for the economy at improving as the Leading Index rebounded to 100.9 (July: 100.1) in August while its Coincident Index rose further to 101.7 (July: 100.1)

China's COVID-19 restrictions led to slight drop in services activity to 49.3

- The Caixin China Services PMI dropped 5.7 points to 49.3 in September (Aug: 54.4) as Covid outbreaks emerged in many areas and containment measures were tightened, impacting both services supply and demand. The gauges for

business activity and total new business both fell into contractionary territory, and were down around 5 points compared with the average readings in the previous three months. More importantly, expectations for future activities recorded the lowest reading in six months, a sign of a softening outlook ahead.

Malaysia's unveiled Budget 2023, foreign reserves stood at US\$106.1bn as at end-September:

- In the unveiling of the 2023 Budget, the Ministry of Finance expects the Malaysian economy to post a moderate growth of 4.0-5.0% in 2023, supported by strong domestic demand, vibrant services sector, as well as implementation of infrastructure projects. This is in line with our growth forecast of +4.2% for the year. For 2022, our GDP growth forecast of 7.4% is slight above MOF's range of 6.5%-7.0%. On the fiscal front, budget deficit is expected to stay elevated at RM99.1bn in 2023, accounting for 5.5% of GDP. Despite the massive increase in net development expenditure (+32.4% to RM94.3bn), this was offset by budget pullback in COVID-19 fund to (-82.6% to RM5.0bn). as well as a 4.3% decline in operating expenditure. Government revenue is expected to decline 4.4% to RM272.6bn, in line with slower economic growth as well as lower revenue from petroleum. *(Please refer to our separate commentary for details)*
- The international reserves of Bank Negara Malaysia edged down slight by US\$0.2bn to US\$106.1bn as at end-September. The reserves level has taken into account the quarterly foreign exchange revaluation changes and is sufficient to finance 5.6 months of imports of goods and services and is 1.1 times of the total short-term external debt.

House View and Forecasts

FX	This Week	3Q-22	4Q-22	1Q-23	2Q-23
DXY	110-115	106.00	105.00	103.00	102.00
EUR/USD	0.95-1.00	1.02	1.03	1.05	1.04
GBP/USD	1.10-1.14	1.21	1.22	1.24	1.23
USD/JPY	143-148	138.00	135.00	133.00	132.00
AUD/USD	0.63-0.67	0.67	0.69	0.70	0.70
USD/MYR	4.65-4.70	4.42	4.40	4.38	4.35
USD/SGD	1.42-1.45	1.40	1.38	1.37	1.36

Rates, %	Current	3Q-22	4Q-22	1Q-23	2Q-23
Fed	3.00-3.25	3.00-3.25	4.25-4.50	4.25-4.50	4.25-4.50
ECB	1.25	1.25	2.75	2.75	2.75
BOE	2.25	2.25	3.25	3.25	3.25
BOJ	-0.10	-0.10	-0.10	-0.10	-0.10
RBA	2.60	2.35	3.10	3.10	3.10
BNM	2.50	2.50	2.50	2.75	2.75

Source: HLBB Global Markets Research

Up Next

Date	Events	Prior
11/10	AU Westpac Consumer Conf SA MoM (Oct)	3.90%
	JN Trade Balance BoP Basis (Aug)	-¥1212.2b
	AU NAB Business Conditions (Sep)	20
	AU NAB Business Confidence (Sep)	10
	JN Eco Watchers Survey Outlook SA (Sep)	49.4
	UK Payrolled Employees Monthly Change (Sep)	71k
	UK Claimant Count Rate (Sep)	3.90%
	UK Jobless Claims Change (Sep)	6.3k

12/10	UK Average Weekly Earnings 3M/YoY (Aug)	5.50%
	UK ILO Unemployment Rate 3Mths (Aug)	3.60%
	UK Employment Change 3M/3M (Aug)	40k
	US NFIB Small Business Optimism (Sep)	91.8
	JN Core Machine Orders MoM (Aug)	5.30%
	MA Industrial Production YoY (Aug)	12.50%
	MA Manufacturing Sales Value YoY (Aug)	23.80%
	JN Machine Tool Orders YoY (Sep P)	10.70%
	UK Monthly GDP (MoM) (Aug)	0.20%
	UK Construction Output MoM (Aug)	-0.80%
	UK Industrial Production MoM (Aug)	-0.30%
	UK Manufacturing Production MoM (Aug)	0.10%
	UK Index of Services MoM (Aug)	0.40%
	UK Visible Trade Balance GBP/Mn (Aug)	-£19362m
	EC Industrial Production SA MoM (Aug)	-2.30%
	US MBA Mortgage Applications (7-Oct)	-14.2%
	US PPI Final Demand MoM (Sep)	-0.10%

Source: Bloomberg

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