13 April 2022

Global Markets Research

Daily Market Highlights

13-Apr: US inflation surged to fresh four-decade high

US stocks, treasury yields slipped lower as markets digested CPI data

Dollar index closed above 100; Oil prices rallied more than 6%

China's trade data, UK CPI and RBNZ's OCR decision in focus

- US stocks fell overnight, in the wake of the newly released March CPI data showed US inflation surging to a four-decade high. The Dow Jones, S&P 500 and NASDAQ closed the session around 0.3% lower, tracking the decline in European stocks earlier. Most of Asian benchmarks dropped on the same day, although Hong Kong and Chinese shares recovered partially from Monday's sharp losses as Shanghai eased the Covid restrictions in some areas.

- Fed Governor Lael Brainard said that the Fed will be moving "expeditiously towards a more neutral posture" and reaffirmed the Fed's ability to reduce inflation. She said that it is the central bank's most important task and repeated last week's statement that the Fed will be tightening policy "methodically" through a series of rate increases and balance sheet runoff.

- US treasury yields retreated in response to the lower-than-expected core CPI inflation reading. The yield on the benchmark 10Y UST dropped to as low as 2.67% overnight before rebounding to 2.72% (-6bps d/d) as the auction of $34b 10Y notes attracted weaker demand.

- The dollar index rose for the ninth consecutive session and closed above 100 (+0.4%) for the first time since May-2020. The USD strengthened against most G10 currencies but weakened against commodity-linked currencies namely the AUD, NOK and NZD amid the rally in oil prices.

- Oil benchmarks jumped over 6.0% on Tuesday, returning to above-$100 levels and erasing the previous session's losses. Brent crude settled at $104.64/barrel while WTI closed at $100.60/barrel in response to Shanghai's move to lift some restrictions as well as President Putin's vow to continue his campaign on Ukraine. Apart from that, the EIA trimmed its forecasts for 2022 and 2023 US crude output growths as well as the outlook for demand as higher prices will weigh on consumption.

- USD/MYR closed little changed at 4.2320 on Tuesday after retreating from the daily high of 4.2415. The broad-based USD strength may still dampen MYR and its EM counterparts but the rebound in oil prices may offer some support to the local unit, anchoring the pair at circa 4.2300. Upsides are capped at 4.2375.

- Focus shifts to China's trade data today as well as the RBNZ's rate decision. The central bank is expected to raise the OCR by 25bps to 1.25% amid its current tightening cycle. The sterling market will also watch out for the UK CPI data.

US headline inflation rose to fresh four-decade high:

- The US consumer price inflation increased by 1.2% m/m in March, accelerating from 0.8% m/m prior amid a broad-based increase in prices of goods and services.

Key Market Metrics

	Level	d/d (%)
Equities		
Dow Jones	34,220.36	-0.26
S&P 500	4,397.45	-0.34
NASDAQ	13,371.57	-0.30
Stoxx 600	456.65	-0.35
FTSE 100	7,576.66	-0.55
Nikkei 225	26,334.98	-1.81
Hang Seng	21,319.13	0.52
Straits Times	3,330.25	-0.99
KLCI 30	1,597.13	-0.47
FX		
Dollar Index	100.29	0.36
EUR/USD	1.0828	-0.51
GBP/USD	1.3001	-0.22
USD/JPY	125.38	0.01
AUD/USD	0.7456	0.53
USD/CNH	6.3765	-0.19
USD/MYR	4.2320	0.02
USD/SGD	1.3641	-0.07
Commodities		
WTI ($/bbl)	100.60	6.69
Brent ($/bbl)	104.64	6.26
Gold ($/oz)	1,972.10	1.43

Source: Bloomberg, HLBB Global Markets Research

Notably, gasoline prices rose 18.3% m/m alongside higher costs of transportation, housing, food and medical care. The overall services inflation picked up to 0.7% m/m (Feb: +0.5%) but core inflation eased to 0.3% m/m (Feb: +0.3%).

- The y/y headline inflation rose to 8.5% in March (Feb: +7.9%), its highest level since 4Q 1981 and slightly higher than the consensus estimates of 8.4%. The core inflation came in higher than the previous month at 6.5% y/y (Feb: +6.4%) but missed the forecast of 6.6% y/y. The March reading showed that price pressures continued to build up in the US, driven by a combination of factors including the higher energy prices, solid demand and labour market conditions as well as the persistent global supply chain bottlenecks.

US small business sentiment slipped for the third straight month:

- The NFIB Small Business Optimism index slipped to 93.2 in March (Feb: 95.7), the lowest level since Apr-2020 during the onset of the pandemic. This marked the index's third consecutive decline as small businesses owners struggled with high inflation and downgraded their outlook for economic growth. 31% surveyed owners said that inflation was their biggest challenge last month (vs 26% in Feb) and 72% reported higher selling prices (up from 68% prior). The NFIB Uncertainty Index dropped to 63, from 73 previously.

UK job data offered mixed signals on labour market:

- UK payrolls rose a mere 35k in March, underperforming the consensus forecast of 125k, offering some early signs of a softer labour market in this quarter. Adding to the wound was the downward revision to February's payrolls that showed 174k gains (vs +275k prior). Jobless claims fell 46.9k in the same month (Feb: -58k).
- A separate release showed that the number of employment rose 10k in the three months to February (prior: -12k), also lower than forecast of 52k. The unemployment rate continued to fall to 3.8%, down from 3.9% previously. In the same period, the average weekly earnings surged to 5.4% y/y (prior: +4.8%) whereas the base earnings growth also accelerated to 4.0% y/y (prior: +3.8%), posing upside risk to inflation.

German investor sentiment weakened in April:

- German investor sentiments deteriorated in April as the war between Russia and Ukraine rages on and commodity prices remains elevated. The ZEW expectations index for the Eurozone slipped to -43.0, from -38.7 previously. The same expectations index for Germany also turned slightly more negative (-41.0 vs -39.3 prior) while the current condition index plunged sharply to -30.8, from -21.4, reflecting the ongoing supply chain problem and higher inflationary pressure. The data came on the heels of the higher CPI reading in Germany which surged to 7.3% y/y in March, a marked increase from the 5.1% y/y rate recorded in February.

Japan's machinery orders plunged in February:

- Japan's core machinery orders fell sharply by 9.8% m/m in February (Jan: -2.0%), marking its second month of decline. This sharp drop in orders came as Covid restrictions were imposed in areas covering 90% of Japanese GDP according to Bloomberg. This was in line with the recent weakness in the manufacturing PMI and the BOJ Tankan Survey. Y/y, orders were 4.3% higher (Jan: +5.1%).

Australia's business conditions improved in March:

- Australia's NAB Business Confidence Index rose to 16 in March, from 13 in February. The gauge for business conditions also rose 9pts to 18, marking its biggest monthly jump since Jun-2020. This indicates that the Australian economy continues to recover from the Omicron setback in late 2Q.

House View and Forecasts

FX	This Week	2Q-22	3Q-22	4Q-22	1Q-21
DXY	99-101	98.5	99.0	98.0	97.5

EUR/USD	1.08-1.10	1.10	1.09	1.10	1.12
GBP/USD	1.30-1.32	1.29	1.28	1.30	1.31
AUD/USD	0.74-0.76	0.76	0.77	0.76	0.76
USD/JPY	120-125	121	120	120	120
USD/MYR	4.21-4.25	4.20	4.18	4.16	4.16
USD/SGD	1.35-1.37	1.36	1.35	1.34	1.33

Rates, %	Current	2Q-22	3Q-22	4Q-22	1Q-21
Fed	0.25-0.50	1.25-1.50	1.75-2.00	2.00-2.25	2.00-2.25
ECB	-0.50	-0.50	-0.50	-0.25	-0.25
BOE	0.75	1.25	1.25	1.25	1.25
RBA	0.10	0.10	0.75	1.00	1.25
BOJ	-0.10	-0.10	-0.10	-0.10	-0.10
BNM	1.75	1.75	2.00	2.00	2.25

Source: HLBB Global Markets Research

Up Next

Date	Events	Prior
13/04	AU Westpac Consumer Conf SA MoM (Apr)	-4.2%
	NZ RBNZ Official Cash Rate (13 Apr)	1.0%
	CN Exports YoY (Mar)	20.9%
	UK CPI YoY (Mar)	6.2%
	EZ Industrial Production SA MoM (Feb)	0.0%
	US MBA Mortgage Applications (08 Apr)	-6.3%
	US PPI Final Demand YoY (Mar)	10.0%
14/04	NZ BusinessNZ Manufacturing PMI (Mar)	53.6
	SG GDP YoY (1Q A)	6.1%
	SG Singapore MAS April 2022 Monetary Policy Statement ()	
	AU Employment Change (Mar)	77.4k
	AU Unemployment Rate (Mar)	4.0%
	EZ ECB Deposit Facility Rate (14 Apr)	-0.5%
	US Import Price Index YoY (Mar)	10.9%
	US Initial Jobless Claims (09 Apr)	166k
	US U. of Mich. Sentiment (Apr P)	59.4

Source: Bloomberg

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