

13 October 2022

## Global Markets Research

### Daily Market Highlights

## 13 Oct: Markets remain in risk-off mood

### FOMC minutes said inflation remained stubbornly high

### Global stocks fell; bonds traded mixed amid ongoing BOE jitters

### Malaysia's indicators reaffirmed the case of further growth pick-up in 3Q

- The S&P 500 notched a sixth consecutive daily loss and hitting the lowest close since November 2020 as investors looked ahead to a key consumer price report that will offer more clues on the pace of the Federal Reserve's rate hikes going forward. The Dow and NASDAQ shed 0.10% d/d, while the broader S&P 500 lost 0.3% d/d.
- Treasury yield also fell as investors bought bonds after the release of the Federal Reserve's latest meeting minutes. The 10-year Treasury yield fell 5bps to below 3.90%. The 2 and 30-year yield also fell 2bps and 5bps to 4.29% and 3.87% respectively. UK bonds rebounded in later trading hours and yields tumbled 0-20bps generally led by the front end at close as the BOE snapped up £4.6bn bonds yesterday, with the exception of the 30-year gilt which rose 2bps to 4.80%.
- The British pound rebounded amid choppy trade on Wednesday influenced by mixed messages about the end of the Bank of England's emergency bond-buying package. BOE Governor Andrew Bailey's comments on Tuesday initially sent sterling lower, but the pound rebounded early on Wednesday following a Financial Times report that said the Bank of England is privately signalling a willingness to extend its emergency bond-buying program. The pound ended 1.2% stronger against the dollar, back above the 1.10 handle at 1.1100.
- The Dollar Index, meanwhile, edged up slightly by 0.1% d/d to 113.32 as the greenback traded mixed against the G10s, advancing against the JPY, EUR and Nordic currencies. The JPY fell to 146.91 per dollar, surpassing the level that prompted Japan's first intervention to buy the yen since 1998.

In the Asia space, the South Korean won led with a 0.8% gain against the greenback, propped up by the Bank of Korea's 50bps hike to its benchmark policy rate to 3.00%. The MYR weakened by another 0.2% to 4.6840 against a firm US dollar and closed at a new record low against SGD, depreciating by 0.5% to 3.2609.

- Oil prices, meanwhile, continued with its downward trend on strong dollar, recession worries and hawkish Fed. WTI fell 2.3% d/d to \$87.27/barrel, while Brent declined 2.0% d/d to \$92.45/barrel. Gold was also marginally lower by 0.5% d/d to \$1,670.30/oz.

#### Key Market Metrics

|                    | Level     | d/d (%) |
|--------------------|-----------|---------|
| <b>Equities</b>    |           |         |
| Dow Jones          | 29,210.85 | -0.10   |
| S&P 500            | 3,577.03  | -0.33   |
| NASDAQ             | 10,417.10 | -0.09   |
| Stoxx Eur 600      | 385.88    | -0.53   |
| FTSE 100           | 6,826.15  | -0.86   |
| Nikkei 225         | 26,396.83 | -0.02   |
| Hang Seng          | 16,701.03 | -0.78   |
| Straits Times      | 3,083.19  | -0.70   |
| KLCI 30            | 1,380.57  | -0.45   |
| <b>FX</b>          |           |         |
| Dollar Index       | 113.32    | 0.09    |
| EUR/USD            | 0.9703    | -0.05   |
| GBP/USD            | 1.1100    | 1.20    |
| USD/JPY            | 146.91    | 0.72    |
| AUD/USD            | 0.6278    | 0.10    |
| USD/CNH            | 7.1750    | 0.02    |
| USD/MYR            | 4.6840    | 0.23    |
| USD/SGD            | 1.4353    | -0.22   |
| <b>Commodities</b> |           |         |
| WTI (\$/bbl)       | 87.27     | -2.33   |
| Brent (\$/bbl)     | 92.45     | -1.95   |
| Gold (\$/oz)       | 1,670.30  | -0.50   |
| Copper (\$\$/MT)   | 7,545.00  | -0.67   |
| Aluminum(\$/MT)    | 2,305.00  | 3.09    |
| CPO (RM/tonne)     | 3,586.00  | -1.61   |

Source: Bloomberg, HLBB Global Markets Research

**FOMC minutes said inflation remained stubbornly high; suggesting the Fed's aggressive rate hike path will stay:**

- In its latest FOMC minutes, Federal Reserve officials observed that inflation remained unacceptably high and commented that recent inflation data generally had come in above expectations and is expected to persist in the near term. Numerous contributing factors were cited as supporting this view, including labor market tightness and the resulting upward pressure on nominal wages, continuing supply chain disruptions, and the persistent nature of increases in services prices, particularly shelter prices. In assessing inflation expectations, participants noted that longer-term expectations appeared to remain well anchored and stressed that a more prolonged period of elevated inflation would increase the risk of inflation expectations becoming unanchored, making it much more costly to bring inflation down. With this, many participants had raised their assessment.

**US PPI rose more than expected by 0.4% m/m; mortgage applications down:**

- The producer price index rebounded more than expected to increase 0.4% m/m in September (Aug: -0.2%), compared with consensus estimate of a 0.2% gain. Excluding food, energy and trade services, the index rose 0.4% m/m and 5.6% y/y (Aug: +0.2% m/m and +5.6% y/y). Food prices helped boost the increase in goods inflation, with a 1.2% m/m increase. Energy rose 0.7% after posting massive gains the previous two months.
- Mortgage applications continued to decline, falling 2.0% w/w in the week ended 7-Oct as the Refinance Index decreased 1.8% w/w and was 86.0% lower y/y. The Purchase Index decreased 2.1% w/w and was down 39.2% y/y. Mortgage rates continued edging up, with the 30-year borrowing rate reaching 6.81%, compared to 3.18% a year ago, and marked its highest level since 2006.

**Europe's industrial production rebounded to +1.5% m/m**

- Euro zone industrial production soared in August, increasing by 1.5% m/m and 2.5% y/y and a rebound from -2.3% m/m in July. The positive reading was driven by output of capital goods, such as machinery, which rose 2.8% m/m, in a sign of optimism pointing to new appetite for investment. Manufacturers also produced more consumer goods, while they cut their energy output. Among the bloc's largest economies, France's industrial production rose 2.5% m/m, Italy's was up by 2.3%, whereas output declined in Germany by 0.5%.

**Weak bag of UK data is expected to complicate BOE's policy plans:**

- Monthly GDP unexpectedly fell 0.3% m/m in August (Jul: +0.1%), dragged by declines mainly in manufacturing and services activities, implying an even bleaker outlook for the UK economy ahead.
- Monthly production output fell by 1.8% m/m in August (Jul: -1.1% m/m revised) and is now 0.9% below February 2020, which was the last month of "normal" trading conditions prior to the coronavirus (COVID-19) pandemic. The monthly fall in output resulted from a decline in three of the four production sectors, with mining and quarrying falling by 8.2%, manufacturing by 1.6% and electricity and gas by 0.6%; in contrast, water supply and sewerage remained flat at 0.0%. Manufacturing saw 8 of its 13 sub-sectors negatively contributing to growth during August; most notably, manufacture of basic pharmaceutical products, manufacture of transport equipment, and manufacture of basic metals and metal products.

- Monthly construction output increased by 0.4% m/m in August 2022, which is the second consecutive monthly growth following the upwardly revised increase to 0.1% in July. August 2022 is the second highest monthly value in level terms (£15.1bn). At the sector level, the main contributors to the increase seen in August were infrastructure, private industrial and private housing new work, which increased 5.3%, 4.3% and 1.7%, respectively.
- Monthly services output fell by 0.1% m/m in August (Jul: +0.3%), and is now 0.2% below February 2020. 8 of the 14 sectors fell during August 2022; most notably, human health and social care.
- UK visible trade deficit widened to £19.3bn in August from £17.6bn in July as growth in imports (+5.5% m/m) outpaced exports (+3.9% m/m). Meanwhile, services saw sustained surplus of £12.2bn.

#### **Decline in Japan machinery orders dragged by non-manufacturing:**

- Machinery orders decreased 9.5% m/m in August after July's +0.3% m/m. More importantly, private-sector machinery orders, excluding volatile ones for ships and those from electric power companies, decreased a seasonally adjusted by 5.8% in August with non-manufacturing sector leading the decline at 21.4% m/m. Manufacturing sector, on the other hand, turnaround to record double digit growth of 10.2 from -5.4% previously. The decline in non-manufacturing was led by real estate, telco, agriculture, forestry and mining as well as transportation and postal activities.

#### **Malaysia's August indicators reaffirmed the case of further growth pick-up in 3Q:**

- Growth in Malaysia's industrial production remained in double digit territory at +13.6% y/y for the month of August. This is an uptick from +12.5% previously and is compared to consensus forecast of +10.2% y/y. Stronger growth was seen in the manufacturing sector (+15.2% y/y), and mining (+8.0% y/y). Within the manufacturing sector, electronics and electrical led growth at +19.2% y/y, transport equipment and others (+53.6% y/y) as well as non-metallic mineral and basic metal products (+13.6% y/y). Mining was spearheaded by natural gas and crude oil and condensates.
- In tandem with this, manufacturing sales also rose 24.4% y/y in August (Jul: +23.8% y/y), driven by the Electrical and Electronics subsector (+25.8% y/y), Petroleum, Chemical, Rubber and Plastic (+27.6% y/y) as well as Food, Beverages & Tobacco (+18.4% y/y). Total employees employed in the sector grew by 4.3% (Jul: +4.1% y/y), while salaries and wages expanded by 7.5% (Jul: +7.1% y/y).
- The wholesale & retail trade charted robust 33.7% growth in August (Jul: +40.7%), driven by continuous albeit more moderate growth pace across all the key sectors, thanks to recovery in consumer spending. Wholesale trade increased 16.0% y/y, driven by household goods, and food, beverages & tobacco. Retail sales expanded 34.5% y/y (Jul: +37.5%), driven by sales across all key categories including fuel, specialized and non-specialized stores; while the motor vehicle sales normalized from distorted levels.
- All the August key economic indicators reaffirmed our expectations for double-digit advance in real GDP growth in 3Q22. Quarter to date, exports expanded 43.1% y/y, IPI grew 13.1% y/y while wholesale & retail trade increased 37.3% y/y, all picking up from 2Q's +30.0%, +6.9% and +26.4% y/y respectively. We are maintaining our view of a double-digit increase in 3Q

GDP, before tapering to low single-digit in 4Q, keeping our full year growth forecast of 7.4% intact.

## House View and Forecasts

| <b>FX</b> | <b>This Week</b> | <b>4Q-22</b> | <b>1Q-23</b> | <b>2Q-23</b> | <b>3Q-23</b> |
|-----------|------------------|--------------|--------------|--------------|--------------|
| DXY       | 110-115          | 115.00       | 112.70       | 110.45       | 110.00       |
| EUR/USD   | 0.95-1.00        | 0.95         | 0.97         | 0.98         | 0.98         |
| GBP/USD   | 1.10-1.14        | 1.10         | 1.10         | 1.11         | 1.12         |
| USD/JPY   | 143-148          | 147.00       | 146.00       | 145.00       | 144.00       |
| AUD/USD   | 0.63-0.67        | 0.62         | 0.63         | 0.64         | 0.64         |
| USD/MYR   | 4.65-4.70        | 4.68         | 4.64         | 4.62         | 4.60         |
| USD/SGD   | 1.42-1.45        | 1.45         | 1.44         | 1.42         | 1.40         |

  

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

Source: HLBB Global Markets Research

## Up Next

| <b>Date</b> | <b>Events</b>                             | <b>Prior</b> |
|-------------|-------------------------------------------|--------------|
| 13/10       | UK RICS House Price Balance (Sep)         | 53%          |
|             | JN PPI YoY (Sep)                          | 9.00%        |
|             | AU Consumer Inflation Expectation (Oct)   | 5.40%        |
|             | US CPI MoM (Sep)                          | 0.10%        |
|             | US Initial Jobless Claims (8-Oct)         | 219k         |
| 13-21/10    | US Real Avg Hourly Earning YoY (Sep)      | -2.80%       |
|             | CH 1-Yr Medium-Term Lending Facility Rate | 2.75%        |
| 14/10       | NZ BusinessNZ Manufacturing PMI (Sep)     | 54.9         |
|             | CH PPI YoY (Sep)                          | 2.30%        |
|             | CH CPI YoY (Sep)                          | 2.50%        |
|             | EC Trade Balance SA (Aug)                 | -40.3b       |
|             | US Retail Sales Advance MoM (Sep)         | 0.30%        |
|             | US Import Price Index MoM (Sep)           | -1.00%       |
|             | US Export Price Index MoM (Sep)           | -1.60%       |
|             | US U. of Mich. Sentiment (Oct P)          | 58.6         |
|             | CH Exports YoY (Sep)                      | 7.10%        |

Source: Bloomberg

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