14 February 2022

Global Markets Research

Daily Market Highlights

14-Feb: Flight to safe havens

US government warned of Russia-Ukraine confrontation

US equities clocked in weekly losses; yields retreated

Greenback and yen supported by safe haven demand

- Investors sold global equities on Friday, as the US government warned of a military escalation at the Russia-Ukraine border even before the end of the Winter Olympics on 20 February. US equities plunged sharply in a single session, unwinding the early week's gains and pushing stocks into negative territory last week. The Dow Jones fell over 500 pts or 1.4% while the S&P 500 shed 1.9%; NASDAQ was again the worst performer with a 2.8% decline. For the week, all three indexes suffered losses ranging from 1.0% to 2.2%.

- The flight to safe assets pushed up US treasuries and depressing yields in the process. Overall yields tumbled by 6.7 to 9.6bps, partially reversing the CPI-related jump of the prior session. The yield on the benchmark 10Y UST slipped back below 2.0%, to 1.94% (-9.2bps). The dollar and yen were boosted by safe haven demand; the greenback strengthened against most G10 currencies. JPY gained 0.5% while GBP appeared resilient, picking up 0.05% against the USD. The dollar index added 0.6%.

- USD/MYR ticked higher (+0.2%) to 4.1900 on Friday as the market paid no heed to the better-than-expected Malaysia's 4Q21 GDP. The pair closed out the week with a modest 0.3% w/w gain. In the week ahead, we are neutral to bullish on USD/MYR, with a weekly range of 4.17-4.22 as the greenback may be supported by its safe-asset quality amid the potential military confrontation by Russia towards Ukraine.

- On the commodity front, gold prices advanced 0.3% further to $1840.8/oz, securing its second w/w win of 1.9%. Oil prices rallied by more than 3.0% despite the global risk-off flow, sending Brent ($94.44/barrel) and WTI ($93.10/barrel) higher for the eighth consecutive week after the International Energy Agency (IEA) said that the oil markets were tight.

US consumer sentiment slumped in early February:

- Consumer sentiment in the US weakened sharply in early February to its lowest level in a decade according to the preliminary University of Michigan Consumer Sentiment survey. The headline index plummeted sharply (-5.5pts) to 61.7 in early February (Jan: 67.2), driven by "weakening personal financial prospects, largely due to rising inflation, less confidence in the government's economic policies, and the least favourable long term economic outlook in a decade".

UK GDP turned around to expand 7.5% in 2021:

- The UK economy expanded by 1.0% q/q in 4Q21, steadying from the newly revised 1.0% q/q in 3Q21. The reading slightly missed the Bloomberg estimates of 1.1% and was driven by stronger investment that was offset by the weaker household expenditure attributed to the raging Omicron outbreak.

Key Market Metrics

	Level	d/d (%)
Equities		
Dow Jones	34,738.06	-1.43
S&P 500	4,418.64	-1.90
NASDAQ	13,791.15	-2.78
Stoxx 600	469.57	-0.59
FTSE 100	7,661.02	-0.15
Nikkei 225	27,696.08	0.42
Hang Seng	24,906.66	-0.07
Straits Times	3,428.95	0.03
KLCI 30	1,578.89	0.56
FX		
Dollar Index	96.08	0.55
EUR/USD	1.1350	-0.68
GBP/USD	1.3564	0.05
USD/JPY	115.42	-0.51
AUD/USD	0.7137	-0.42
USD/CNH	6.3655	0.03
USD/MYR	4.1900	0.17
USD/SGD	1.3471	0.18
Commodities		
WTI ($/bbl)	93.10	3.58
Brent ($/bbl)	94.44	3.31
Gold ($/oz)	1,840.80	0.25

Source: Bloomberg, HLBB Global Markets Research

- Year-on-year, GDP growth slowed to 6.5% in the final quarter (3Q21: +7.0%), pushing the full year 2021 growth to 7.5%, the strongest expansion since 1941 as the economy turned around from the pandemic-stricken shock in 2020 (-9.4%).
- Separate reports showed that industrial production growth softened to 0.3% m/m in December (Nov: +0.7%) and services output fell 0.5% m/m (Nov: +0.6%). Goods trade deficit narrowed to £12.4b, from £12.7b thanks to stronger export performance (+3.1% m/m) relative to imports (+1.4% m/m).

Malaysian economy grew by 3.1% in 2021:

- The Malaysian economy rebounded in 4Q21 amid greater economic reopening and easing of containment measures that revived private consumption. The continuous recovery in the global economy also lifted trade activities simultaneously. GDP increased more than expected by 3.6% y/y (3Q: -4.5% y/y), above the consensus and our estimates of +3.3% and +3.1% respectively. This brings the full year 2021 GDP growth to 3.1% y/y, a modest rebound from the 5.6% contraction seen in 2020.
- On a quarter-on-quarter basis, economic activities grew 6.6% in 4Q21 (3Q21: -3.6%), putting the double-dip recession behind. The economy grew in all the three months in 4Q, although we noticed the momentum has softened somewhat in December. The new Omicron wave would inevitably set back some of the recovery momentum especially from the services sector in 1Q22, but we do not expect any extreme containment measures which could significantly dampen the overall growth outlook for 2022.

New Zealand's services sector hit by Omicron restrictions; food prices surged:

- The New Zealand Performance of Services Index slumped to 45.9 in January, from 49.8 prior as all sub-indexes slipped below 50.0 to indicate contractions. Notably, new orders, sales as well as inventories went from expansionary levels to contractionary as the country tightened restrictions to curb the community spread of the Omicron variant.
- On a separate note, StatNZ reported that food prices experienced its largest monthly rise in five years, meaning that the RBNZ may have to tighten policy to curb the surging prices although it may prove to be a dilemma as economic activity slowed down amid the spread of the virus. Food prices rose by a whopping 2.7% m/m in January, versus 0.6% in December. This marked its biggest monthly gain since January 2017, when monthly food prices rose 2.8%. StatNZ said that food prices often increased in January but this was larger than usual. The y/y increase in food prices was 5.9%, the sharpest in over a decade.

House View and Forecasts

FX	This Week	1Q-22	2Q-22	3Q-22	4Q-22
DXY	95-97	96.15	96.40	96.30	96.30
EUR/USD	1.13-1.15	1.13	1.12	1.12	1.13
GBP/USD	1.34-1.36	1.34	1.33	1.35	1.36
AUD/USD	0.70-0.72	0.72	0.72	0.74	0.75
USD/JPY	114-116	115	116	115	114
USD/MYR	4.17-4.22	4.17	4.15	4.15	4.10
USD/SGD	1.34-1.35	1.35	1.34	1.34	1.33

Policy Rate %	Current	1Q-22	2Q-22	3Q-22	4Q-22
Fed	0-0.25%	0-0.25	0.25-0.50	0.50-0.75	0.75-1.00
ECB	-0.50	-0.50	-0.50	-0.50	-0.50
BOE	0.50	0.50	0.50	0.50	0.75
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
15/02	JP GDP SA QoQ (4Q P)	-0.9%
	JP Industrial Production MoM (Dec F)	-1.0%
	UK Jobless Claims Change (Jan)	-43.3k
	UK Average Weekly Earnings 3M/YoY (Dec)	4.2%
	UK ILO Unemployment Rate 3Mths (Dec)	4.1%
	UK Employment Change 3M/3M (Dec)	60k
	EZ ZEW Survey Expectations (Feb)	49.4
	EZ Trade Balance SA (Dec)	-1.3b
	EZ Employment QoQ (4Q P)	0.9%
	EZ GDP SA QoQ (4Q P)	0.3%
	US Empire Manufacturing (Feb)	-0.7
	US PPI Final Demand YoY (Jan)	9.7%

Source: Bloomberg

Hong Leong Bank Berhad
Fixed Income & Economic Research, Global Markets
Level 8, Hong Leong Tower
6, Jalan Damanlela
Bukit Damansara
50490 Kuala Lumpur
Tel: 603-2081 1221
Fax: 603-2081 8936
HLMarkets@hlbb.hongleong.com.my