14 April 2022

Global Markets Research

Daily Market Highlights

14-Apr: Central banks delivered aggressive tightening

US stocks rose as earnings season begins; dollar fell alongside UST yields

BOC and RBNZ hiked benchmark rates by 50 basis points

Singapore's MAS re-centered policy band and raised slope to tackle inflation

- US stocks rebounded overnight following the mixed performances in Europe and Asia earlier. Investors had to digest a slew of headlines that include the record high US PPI inflation, JP Morgan's huge profit hit, BOC and RBNZ's 50bp rate hikes as well as the upcoming easing in Chinese monetary policy. The Dow Jones and S&P 500 rose over 1% while NASDAQ outperformed with 2% gain.

- The earnings season kicked off this week as JPM, Delta Airline and Blackrock released their first quarter results. JPM reported a 5% y/y drop in revenue and a substantial 42% y/y decline in profit as it put aside $900mil loan loss reserves related to softer US growth and the Ukraine-Russia conflict. CEO Jamie Dimon said that the move aims to cushion the bank against the remote chance of a US economic recession, citing the war and high US inflation.

- China's State Council said yesterday that the PBOC would adjust the reserve requirement ratio (RRR) lower at an appropriate time and promised to increase financial support to the economy, reaffirming the views that China will step up policy easing to combat a slowdown in growth.

- US treasury yields pulled back further amid expectations that US underlying inflation may be peaking. The yield on the benchmark 10Y UST fell 2.3bps to 2.7% as the overall yields moved down by 0.7 to 5.7bps saves for the 0.2bp increase in 30Y yield. The yield curves steepened.

- The dollar index snapped a nine-day losing streak, trimming 0.4% to 99.88 amid stronger sterling, loonie, euro and Swedish krona. GBP led the gains in the G10 basket as the UK CPI inflation hit a record high of 7%. CAD rose in response to the BOC's 50bp rate hike. NZD was the biggest loser (-0.8%) as the market pared back the bets on future RBNZ rate hikes following the surprise 50bp increase in the OCR. The kiwi dollar slumped to a near-one-month low against the USD and weakened sharply against AUD. Other than that, CHF and JPY both weakened modestly against the USD.

- USD/MYR saw another muted trading session on Wednesday, closing little changed at 4.2315. The weaker USD overnight and the further rebound in oil prices may benefit the MYR but the pair could remain anchored near 4.2300 on the back of cautious sentiments.

- Oil benchmarks more than recovered Monday's heavy losses as traders weighed China's future policy support against continued expectations of supply deficit especially after the EIA cut its forecast on the US 2022 and 2023 crude output. Brent crude rose to $108.78/barrel (+4.0%) while WTI closed at $104.25/barrel (+3.6%) on Wednesday.

Key Market Metrics

	Level	d/d (%)
Equities		
Dow Jones	34,564.59	1.01
S&P 500	4,446.59	1.12
NASDAQ	13,643.59	2.03
Stoxx 600	456.78	0.03
FTSE 100	7,580.80	0.05
Nikkei 225	26,843.49	1.93
Hang Seng	21,374.37	0.26
Straits Times	3,342.22	0.36
KLCI 30	1,597.18	0.00
FX		
Dollar Index	99.88	-0.42
EUR/USD	1.0888	0.55
GBP/USD	1.3117	0.89
USD/JPY	125.62	0.19
AUD/USD	0.7451	-0.07
USD/CNH	6.3778	0.02
USD/MYR	4.2315	-0.01
USD/SGD	1.3624	-0.12
Commodities		
WTI ($/bbl)	104.25	3.63
Brent ($/bbl)	108.78	3.96
Gold ($/oz)	1,981.00	0.45

Source: Bloomberg, HLBB Global Markets Research

BOC hiked overnight rate by 50bps

- The Bank of Canada raised its overnight rate by 50bps to 1.0% to combat elevated inflation and signalled more hikes to come. The move matched the consensus expectations and followed the 25bp hike in March. BOC will also end its reinvestment and begin quantitative tightening (QT) on 25 April. The size of its balance sheet will reduce over time as maturing government bonds will no longer be replaced.
- BOC said that the Canadian economy is moving into excess demand and expects GDP to grow by 4.25% in 2022 before tapering off to 3.25% in 2023 and 2.25% in 2024. CPI inflation is expected to average almost 6% in the first half of 2022 and remain well above the control range throughout 2022 before slowing down in the next two years. "There is an increasing risk that expectations of elevated inflation could become entrenched." BOC said that interest rates will need to rise further and reaffirmed its commitment to achieve its 2% inflation target.

RBNZ surprised market with 50bp OCR hike:

- The RBNZ raised the official cash rate (OCR) by 50bps to 1.5%, exceeding the consensus forecast of a 25bp increase. RBNZ said that it brought forward monetary tightening as the committee agreed that "moving the OCR to a more neutral stance sooner will reduce the risks of rising inflation expectations". It remained comfortable with the OCR outlook outlined in the February forecast (1.5% at end-2Q, 1.9% at end-3Q and 2.2% at end-4Q), pointing to possibility of more rate hikes being brought forward to the next meetings.
- In the RBNZ minutes, officials noted that "inflation is above target and employment is above its maximum sustainable level. As such, the Committee confirmed that further increases in the OCR are needed in order to meet their mandate."
- They believed that annual consumer price inflation is expected to peak around 7% in the first half of 2022 and the risk of more persistent high inflation expectations has increased. RBNZ said that their move to increase OCR by 50bps would be a policy path of "least regret; it rather increased the rate more now, than later, to head off rising inflation expectations and minimise any unnecessary volatility in output, interest rates, and the exchange rate in the future.

MAS tightened policy and expects higher inflation:

- The Monetary Authority of Singapore (MAS) tightened policy by re-centering the S$NEER policy band and raising slightly its rate of appreciation in a move to tackle the expected rise in Singapore's inflation. There will be no change to the width of the policy band. The move followed the off-cycle tightening in January this year and marked its third consecutive tightening since October last year. The MAS said that inflation will increase more than previously expected in the coming quarters, citing sharply higher global commodity prices and the renewed supply chain constraints brought about by the Russia-Ukraine war. It revised upwards its 2022 core inflation forecasts to 2.5-3.5%, compared to the 2.0-3.0% projections back in January. The headline CPI will increase by more than the core inflation due to the step-up in private transport costs. It expects Singapore's GDP growth to range 3-5% this year.
- The MAS decision came alongside the release of Singapore's advance report of 1Q22 GDP which showed moderating growth in the first quarter. GDP expanded by 0.4% q/q (4Q: +2.3%) and 3.4% y/y (4Q: +6.1%). Both readings underperformed the consensus estimates of 0.9% q/q and 3.8% y/y respectively, reflecting sharply weaker manufacturing output.

US PPI inflation surged to record high; mortgage refinancing hit by higher rates:

- The US producer prices for final demand rose 11.2% y/y in March (Feb: +10.3%), versus the consensus forecast of 10.6% y/y, marking its largest y/y increase on record. Prices climbed 1.4% m/m, up sharply from 0.9% m/m prior, driven by the larger gains in the food and services categories as the gain in energy prices eased.

The core PPI inflation accelerated to 9.2% y/y (Feb: +8.7%), highlighting the persistent supply chain challenge and price pressures faced by US firms.

- The MBA mortgage applications fell for the first consecutive week, as the higher interest rates continued to weigh on the mortgage refinancing market. Headline applications fell 1.3% w/w last week (prior: -6.3%), but was driven mainly by the drop in refinancing segment (-4.9% w/w) as the purchases index rebounded by 1.4% w/w. The average rate of 30Y fixed-rate contracts rose to 5.13% last week, the highest rate since November 2018.

UK CPI rate surged to record high:

- The UK headline CPI inflation surged to a record high of 7.0% y/y in March, up from 6.2% in February and was higher than the consensus estimates of 6.7% y/y. On a monthly basis, CPI rose by 1.1% m/m in March 2022, up sharply from 0.8% m/m in March 2021, driven by the surge in alcohol & tobacco, clothing & footwear, transport as well as restaurant & hotels categories in a fully reopened economy. Transport costs jumped 2.4% m/m, in tandem with the higher energy prices caused by the Ukraine-Russia war.
- The core CPI inflation accelerated to 5.7% y/y (Feb: +5.2%), reaffirming that the BOE will continue to hike rates in the second quarter to rein in underlying price pressure. After delivering three rate hikes in a row since December, it is likely that the BOE will raise the bank rates twice more this quarter before ending the normalising cycle.

China's imports posted unexpected drop in March:

- China's export growth came in better than expected at 14.7% y/y in March Feb: +6.2%), higher than the forecast of 12.8% y/y. Imports unexpectedly fell by 0.1% y/y (Feb: +10.4%), marking its first decline since Aug-2020 which gave rise to concerns regarding the impact of strict lockdowns on China's consumption outlook. Analysts had been expecting imports to grow 8.4% y/y.
- The impact of the Shanghai lockdown (which was imposed in the middle of the month) is yet to be fully reflected in March export numbers so it is possible that external shipments may turn weaker in April. China's strict inland safety measures had created some logistical nightmares, aggravating the existing supply chain problems. Imports may also be impacted further as production may be shut down temporarily in affected factories while residents under lockdown are not allowed to go out to spend.

Australian's consumer confidence fell at easier pace:

- Australia's Westpac consumer confidence index fell 0.9% m/m in April, extending from the 4.2% m/m dip in March. Consumer sentiment has now fallen for the fifth straight month since December, albeit at an easing rate this month. The gauge for current conditions saw a further sharp drop of 5.1% m/m (Mar: -4.2%) while the expectation index improved 1.8% m/m (Mar: -4.1%). Consumers turned optimistic over the economic outlook for the year ahead as the Australian economy rebounds from the Omicron setback following the easing of restrictions and the reopening of borders. However, the gauge for family finance still fell 0.9% m/m (Mar: -0.4%), reflecting consumers' wariness about the higher inflation in the country.

New Zealand's manufacturing PMI shows solid growth; property market moderated:

- New Zealand's manufacturing sector expanded at a solid pace in March according to the BNZ Manufacturing PMI which rose to 53.8 (Feb: 53.6). New orders drove the index but production weakened, highlighting manufacturers' challenge to fulfil orders amid supply chain pressures.
- On a separate note, the REINZ house sales fell 33.5% y/y in March (Feb: -32.8%) while house prices rose at softer pace (+9% y/y vs +14.3% y/y prior), reflecting the continued moderation in the country's property market.

House View and Forecasts

FX	This Week	2Q-22	3Q-22	4Q-22	1Q-21
DXY	99-101	98.5	99	98	97.5
EUR/USD	1.08-1.10	1.1	1.09	1.1	1.12
GBP/USD	1.30-1.32	1.29	1.28	1.3	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	4.2	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
14/04	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
15/04	US Empire Manufacturing (Apr)	-11.8
	US Industrial Production MoM (Mar)	0.5%

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

DISCLAIMER

This report is for information purposes only and does not take into account the investment objectives, financial situation or particular needs of any particular recipient. The information contained herein does not constitute the provision of investment advice and is not intended as an offer or solicitation with respect to the purchase or sale of any of the financial instruments mentioned in this report and will not form the basis or a part of any contract or commitment whatsoever.

The information contained in this publication is derived from data obtained from sources believed by Hong Leong Bank Berhad ("HLBB") to be reliable and in good faith, but no warranties or guarantees, representations are made by HLBB with regard to the accuracy, completeness or suitability of the data. Any opinions expressed reflect the current judgment of the authors of the report and do not necessarily represent the opinion of HLBB or any of the companies within the Hong Leong Bank Group ("HLB Group"). The opinions reflected herein may change without notice and the opinions do not necessarily correspond to the opinions of HLBB. HLBB does not have an obligation to amend, modify or update this report or to otherwise notify a reader or recipient thereof in the event that any matter stated herein, or any opinion, projection, forecast or estimate set forth herein, changes or subsequently becomes inaccurate.

HLB Group, their directors, employees and representatives do not have any responsibility or liability to any person or recipient (whether by reason of negligence, negligent misstatement or otherwise) arising from any statement, opinion or information, expressed or implied, arising out of, contained in or derived from or omission from the reports or matter.

Potential and actual conflict of interest may arise from the activities of HLB Group. HLB Group constitute a diversified financial services group. These entities engage in a wide range of commercial and investment banking, brokerage, funds management, hedging transactions and other activities for their own account or the account of others. In the ordinary course of their business, HLB Group may effect transactions for their own account or for the account of their customers and hold long or short positions in the financial instruments. HLB Group, in connection with its business activities, may possess or acquire material information about the financial instruments. Such activities and information may involve or have an effect on the financial instruments. HLB Group have no obligation to disclose such information about the financial instruments or their activities.

The past performance of financial instruments is not indicative of future results. Whilst every effort is made to ensure that statements of facts made in this report are accurate, all estimates, projections, forecasts, expressions of opinion and other subjective judgments contained in this report are based on assumptions considered to be reasonable as of the date of the document in which they are contained and must not be construed as a representation that the matters referred to therein will occur. Any projections or forecasts mentioned in this report may not be achieved due to multiple risk factors including without limitation market volatility, sector volatility, corporate actions, the unavailability of complete and accurate information. No assurance can be given that any opinion described herein would yield favorable investment results. Recipients who are not market professional or institutional investor customer of HLBB should seek the advice of their independent financial advisor prior to taking any investment decision based on the recommendations in this report.

HLBB may provide hyperlinks to websites of entities mentioned in this report, however the inclusion of a link does not imply that HLBB endorses, recommends or approves any material on the linked page or accessible from it. Such linked websites are accessed entirely at your own risk. HLBB does not accept responsibility whatsoever for any such material, nor for consequences of its use.

This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation. This report is for the use of the addressees only and may not be redistributed, reproduced or passed on to any other person or published, in part or in whole, for any purpose, without the prior, written consent of HLBB. The manner of distributing this report may be restricted by law or regulation in certain countries. Persons into whose possession this report may come are required to inform themselves about and to observe such restrictions. By accepting this report, a recipient hereof agrees to be bound by the foregoing limitations.