14 September 2022

Global Markets Research

Daily Market Highlights

14 Sep: Broad market selloffs

US equities plunged; snapping a four-day gaining streak

Higher than expected US CPI spurred talks of an outsized 100bps Fed rate hike

UST curve bear flattened; DXY rebounded back above 110

- US equities halted four straight sessions of gains, and came under immense selling after report showed a lesser than expected moderation in August CPI, spurring expectations for another 75bps Fed rate hike at next week's FOMC meeting. Expectations for a 50bps was completely squashed while talks on an outsized 100bps hike emerged. The three major US stock benchmark indices dived 3.9-5.2% with losses across all sectors, led by tech and consumer discretionary shares. The Dow shed 3.9%, the S&P 500 was down 4.3% while the tech-heavy NASDAQ plunged 5.2% d/d.

- The global sovereign bond markets were under pressure too. The UST curve bear steepened, as the 2Y note yields spiked 19bps to 3.76% while the 10s saw more modest increase of 5bps to 3.41%. Inversion in the yield curve (2/10) widened to 35bps, from 21bps a day ago.

- USD bulls made a return after two days of losses. The Dollar Index gapped up two big figures from 107s to 109s post CPI release, and continued to push higher to a close at 110.01 (+1.6% d/d), recapturing the 110 handle for the first time in five days. The USD strengthened against all G10s, the most vs the NOK (-2.6%), followed by the AUD (-2.3%) and NZD (-2.3%). The EUR fell 1.5% to below parity again at 0.9970 while the GBP weakened 1.6% to 1.1493, below the key 1.15 levels, and its lowest since 1984. Safe haven JPY was not spared either, losing 1.2% to 144.58, its weakest in 32 years.

- Major Asian currencies saw mixed trading for another day ahead of the US CPI release. CNH was at the bottom of the list (-0.9%), followed by SGD (-0.8%). MYR weakened slightly by 0.08% to 4.5070 against the USD, closing above the 4.50 levels for the 2nd straight day, reinforcing bullishness in the pair towards 4.52s.

- Oil prices also reversed course and fell 0.5-0.8% d/d amid broad market risk aversion. Brent crude slipped 0.8% d/d to $93.55/ barrel while the WTI fell 0.5% to $87.64/ barrel.

Smaller than expected moderation in US CPI spurred odds of another aggressive Fed rate hike:

- US CPI tapered off less than expected to 8.3% y/y in August (Jul: + 8.5% y/y) while core CPI quickened at a faster than expected pace to 6.3% y/y (Jul: +5.9% y/y). The bulk of the inflation stemmed from services (+3.5ppt to overall CPI), implying higher prices have filtered down to the system. Energy and food contributed much smaller 1.7ppt and 1.6ppt respectively.

Key Market Metrics

	Level	d/d (%)
Equities		
Dow Jones	31,104.97	-3.94
S&P 500	3,932.69	-4.32
NASDAQ	11,633.57	-5.16
Stoxx Eur 600	421.13	-1.55
FTSE 100	7,385.86	-1.17
Nikkei 225	28,614.63	0.25
Hang Seng	19,326.86	-0.18
Straits Times	3,290.08	0.47
KLCI 30	1,487.84	-0.68
FX		
Dollar Index	110.01	1.58
EUR/USD	0.9970	-1.50
GBP/USD	1.1493	-1.63
USD/JPY	144.58	1.22
AUD/USD	0.6730	-2.29
USD/CNH	6.9828	0.94
USD/MYR	4.5072	0.08
USD/SGD	1.4069	0.79
Commodities		
WTI ($/bbl)	87.64	-0.45
Brent ($/bbl)	93.55	-0.75
Gold ($/oz)	1,702.00	-1.39
Copper ($$/MT)	7,830.00	-2.17
Aluminum($/MT)	2,308.00	0.68
CPO (RM/tonne)	3,642.50	0.48

Source: Bloomberg, HLBB Global Markets Research

- The higher than expected CPI print heightened expectations for another forceful rate hike at next week's FOMC meeting. Odds for a 75bps increase has increased to 82% while talks of a 100bps surfaced, with a 18% probability. Month-on-month, headline CPI staged a surprised increase of +0.1% (Jul: 0.0%) while core CPI unexpectedly picked up to 0.6% (Jul: +0.3%). Real average hourly earnings fell at a slower pace by 2.8% y/y in August (Jul: -3.0% y/y) but nevertheless marking its 16th straight month of contraction.
- NFIB small business optimism rose more than expected to a 3-month high at 91.8 in August (Jul: 89.9), as small businesses turned less pessimistic over business and inflation outlook. Seven out of ten of the indices improved, including plans to hire, plans to increase inventory, and increased capex.

Eurozone ZEW expectations plunged; heightening recession concerns:

- ZEW investor expectations index plunged further into the red, to -60.7 in September (Aug: -54.9), a fresh record low, on fear of a deepened energy crisis in Europe as winter approaches. The survey showed business activities have started to contract and inflation is hurting households and companies.

Mixed bag of UK labour data:

- The UK labour market continued to see mixed signals. ILO unemployment rate unexpectedly pulled back to 3.6% in the three months to July (Jun: 3.8%), its lowest in nearly five decades. Payrolls added 71k jobs in August, lower than the 77k revised in the preceding month while jobless claims staged a surprised increase of 6.3k in August, contrary to the 14.5k decline in July. Wages as measured by average weekly earnings (ex-bonus) also increased at a faster than expected rate of 5.2% y/y in the three months to July (Jun: +4.7%), adding to signs of a still tight labour market in the UK which could pave the way for the BOE to raise rates at a faster pace going forward. UK CPI due later today will be the next key watch for more clues if the BOE would quicken its rate hike pace to 75bps next week.

Australia sees improvement in both consumer and business confidence:

- Westpac consumer confidence index climbed 3.9% m/m up to 84.4 in September (Aug: -3.0% to 81.2), snapping its 9th straight month of decline, as consumers turned more upbeat on family finances and economic outlook in the year ahead, shoring up expectations that the Australian economy may be able to avert a severe slowdown as the world and the China economy lost momentum. Plan to buy major household items increased for the first time in eight months (+2.8% vs -8.4%), suggesting recent rate hikes have had little dent on consumers.
- In a separate release, NAB business confidence also improved to a 4-month high in August (10 vs 8), while the current condition index added a point to 20 (Jul: 19), driven by improved confidence on trading, forward orders, capex, offsetting lower confidence in profitability and employment.

House View and Forecasts

FX	This Week	3Q-22	4Q-22	1Q-23	2Q-23
DXY	108-112	106.00	105.00	103.00	102.00
EUR/USD	0.98-1.00	1.02	1.03	1.05	1.04
GBP/USD	1.14-1.17	1.21	1.22	1.24	1.23
USD/JPY	140-145	138.00	135.00	133.00	132.00
AUD/USD	0.66-0.69	0.67	0.69	0.70	0.70
USD/MYR	4.48-4.52	4.42	4.40	4.38	4.35
USD/SGD	1.40-1.42	1.40	1.38	1.37	1.36

Rates, %	Current	3Q-22	4Q-22	1Q-23	2Q-23
Fed	2.25-2.50	2.75-3.00	3.25-3.50	3.25-3.50	3.25-3.50
ECB	-0.50	0.75	1.75	2.25	2.75
BOE	1.75	2.25	3.25	3.25	3.25
BOJ	-0.10	-0.10	-0.10	-0.10	-0.10
RBA	1.85	2.35	3.10	3.10	3.10
BNM	2.25	2.50	2.50	2.50	2.50

Source: HLBB Global Markets Research

Up Next

Date	Events	Prior
14/09	JP Core Machine Orders MoM (Jul)	0.9%
	JP Industrial Production MoM (Jul F)	1.0%
	UK CPI YoY (Aug)	10.1%
	EZ Industrial Production SA MoM (Jul)	0.7%
	US MBA Mortgage Applications (07 Sep)	-0.8%
	US PPI Final Demand YoY (Aug)	9.8%
15/09	NZ GDP SA QoQ (2Q)	-0.2%
	JP Exports YoY (Aug)	19.0%
	AU Employment Change (Aug)	-40.9k
	AU Unemployment Rate (Aug)	3.4%
	EZ Trade Balance NSA (Jul)	-24.6b
	UK Bank of England Bank Rate (15 Sep)	1.75%
	US Initial Jobless Claims (10 Sep)	--
	US Empire Manufacturing (Sep)	-31.3
	US Retail Sales Advance MoM (Aug)	0.0%
	US Philadelphia Fed Business Outlook (Sep)	6.2
	US Import Price Index YoY (Aug)	8.8%
	US Industrial Production MoM (Aug)	0.6%

Source: Bloomberg

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