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Global Markets Research

Daily Market Highlights

15 Dec: Powell's speech sent equities and USD down

Fed expectedly hiked rates by 50bps to 4.25%-4.50%; cut 2023 GDP forecast to 0.5%

Powell reiterated that there are still some ways to go; noted that rate is data dependent

Dow plunged 600 points during "the hour"; DXY gave up gains after Powell's presser

- Major benchmark stock indices hit their lows of the sessions after Federal Reserve Chairman Jerome Powell signalled more data was needed before the central bank would meaningfully change its view of inflation. In fact, the Dow plunged as much as 600 points during "the hour" as markets gyrated following the Fed rate hike decision. The S&P 500 lost 2.2%, while the Nasdaq Composite plunged 2.5%. The three indices, nevertheless, narrowed earlier losses to close the day between 0.4-0.8% d/d lower.

  European stocks were muted with Stoxx 600 closing flat and FTSE 100 edging down 0.1% d/d as investors braced for monetary policy announcements from the UK and EU. Asia-Pacific markets, on the other hand, traded higher, with Hang Seng up 0.4% d/d and Nikkei 225 gaining 0.7% d/d.

- The Treasury yield curve held steady after the Fed's decision. The 2-year Treasury yield dipped less than 1bps to 4.23%, while the yield on the benchmark 10-year Treasury note last dipped about 2bps to 3.48%.

- The greenback initially moved higher for the day after the Fed's announcement but gave up those gains toward the Jerome Powell's presser. The Dollar Index was last at 103.77, down about 0.2% d/d, pulling back from an intraday high of 104.16. Against its G10 peers, the greenback weakened 0.5% d/d against Euro and sterling, and depreciated 0.1% d/d against the yen and AUD. Asian currencies also traded firmer with 0.3% gain in the Chinese yuan while the MYR advanced 0.8% d/d/ against the USD to 4.3927, closing below the 4.40 handle again for the first time in a week.

- Oil rallied for the 3rd day as IEA forecast overrides Fed warning. The agency has said that oil prices may rise in 2023 as sanctions squeeze Russian supplies and demand beats earlier forecast, sending both WTI and Brent up by 2.5% d/d. Gold prices, meanwhile, slipped marginally by 0.4% d/d.

Fed expectedly hiked 50bps to 4.25%-4.50%; cut 2023 GDP growth forecast to 0.5%

- As expected, the Federal Reserve unanimously decided to raise the federal funds rate by 50bps to 4.25%-4.50%. as it seeks to achieve maximum employment and inflation at the rate of 2% over the longer run. In its projection, we also note that the median target fed funds rate for 2023 has been revised upwards by 50bps to 5.10% vis-a-a-vis its Sep projection, a tad above our projection of 4.75% to 5.00%. While the GDP forecast was downgraded to 0.5% (vs 1.2% previously), the projection for unemployment

Key Market Metrics

	Level	d/d (%)
Equities		
Dow Jones	33,966.35	-0.42
S&P 500	3,995.32	-0.61
NASDAQ	11,170.89	-0.76
Stoxx Eur 600	442.51	-0.02
FTSE 100	7,495.93	-0.09
Nikkei 225	28,156.21	0.72
Hang Seng	19,673.45	0.39
Straits Times	3,278.57	0.22
KLCI 30	1,483.17	0.89
FX		
Dollar Index	103.77	-0.20
EUR/USD	1.0682	0.46
GBP/USD	1.2426	0.49
USD/JPY	135.48	-0.08
AUD/USD	0.6864	0.13
USD/CNH	6.9430	-0.30
USD/MYR	4.3927	-0.81
USD/SGD	1.3469	0.00
Commodities		
WTI ($/bbl)	77.28	2.51
Brent ($/bbl)	82.70	2.50
Gold ($/oz)	1,807.50	-0.35
Copper ($$/MT)	8,516.50	0.23
Aluminum($/MT)	2,444.00	-0.69
CPO (RM/tonne)	3,902.50	2.44

Source: Bloomberg, HLBB Global Markets Research rates (4.6% vs 4.4%) and core-PCE inflation (3.5% vs 3.1%.) has been revised upwards.

- In the press conference, Chair Jerome Powell reiterated that there are still some ways to go but noted that the size of the rate increase on Feb 1 would be data dependent. This would, effectively, leave the door open to another 50bps or a step down to 25bps. He added that he would not consider rate cuts until the Fed is confident that inflation is moving to 2.0% in a sustained way, despite the inflation data received so far for October and November showing a welcome slowdown in the monthly pace of price increases.
- In the housing market, despite a slightly higher mortgage rates for the week, mortgage applications rebounded to increase +3.2% w/w for the week ended Dec 9. (Prior: -1.9% w/w). Both the Refinance and Purchase indices increased 3.0% w/w and 4.0% w/w respectively.
- US import prices decreased slightly more than expected by 0.6% m/m in November (Oct: -0.4% m/m), contributed by lower nonfuel and fuel prices. As it is, import price has not recorded a monthly advance since June. Similarly, prices for exports, meanwhile, also fell albeit smaller than expected by 0.3% m/m (Oct: -0.4% m/m), marking its 4th straight month of contraction. Lower non-agricultural prices in November more than offset higher agricultural prices.

Eurozone IPI fell on weak demand

- Eurozone industrial production declined for the first time in three months in October, with almost all sectors contracting as economic uncertainty and higher producer prices took a toll on demand. IPI dropped 2.0% m/m exceeding the expected 1.5% m/m drop and reversed the revised 0.8% m/m rise in September. All sectors except non-durable consumer goods contracted in October.

UK CPI eased more than expected from its 41-year high to 10.7%

- The gain in UK consumer prices tapered off more than expected to 10.7% y/y in November (Oct: +11.1% y/y) with largest contributions for inflation coming from housing and household services (principally from electricity, gas, and other fuel), and food and non-alcoholic beverages. The largest downward contribution, meanwhile, were from transport.

Japan's Tankan showed manufacturers' mood worsened in 4Q; bigger fall in industrial production but core machine orders rebounded more than expected

- Business confidence among big Japanese manufacturers worsened for a fourth straight quarter in 4Q amid rising costs of living and a slowdown in the global economy. The index slipped slightly to +7 from +8 in September and +6 expected in a Bloomberg poll. In tandem with this, the survey also showed big firms plan to raise their capital spending by 19.2% in the financial year to March, a shade lower that 20.7% expected by economists and down from a 21.5% gain seen in the previous survey.
- Core machine orders in Japan was up a seasonally adjusted 5.4% m/m October, beating forecast of +1.8% m/m and a turnaround from Sept's -4.6% m/m. The turnaround was premised upon higher orders from the public sector. Foreign demand eased while domestic demand contracted at a slower pace.
- Industrial output, meanwhile, was revised down to -3.2% m/m in November. This is worse than -3.0% m/m previously anticipated and -2.6% m/m in October. Operating ratio, on the other hand, rose to 97.3 from 95.2.

New Zealand 3Q GDP growth picked up more than expected to 6.4% y/y; expects technical recession in 2023

- New Zealand GDP rose more than expected at 6.4% y/y y/y (consensus: +5.5% y/y vs prior: +0.3% y/y). Nevertheless, the New Zealand Treasury is expecting the economy to enter a technical recession within 2023. The Half Year Economic and Fiscal Update report predicts base case real GDP growth forecast of a contraction of 0.8% over the three quarters to end 2023 before a slow, gradual recovery in 2024 and beyond.

House View and Forecasts

FX	This Week	4Q-22	1Q-23	2Q-23	3Q-23
DXY	103-106	100.00	98.00	96.04	96.04
EUR/USD	1.04-1.07	1.08	1.10	1.11	1.11
GBP/USD	1.21-1.25	1.25	1.26	1.27	1.27
USD/JPY	133-137	133	130	128	128
AUD/USD	0.67-0.69	0.69	0.70	0.72	0.72
USD/MYR	4.40-4.45	4.36	4.31	4.28	4.28
USD/SGD	1.34-1.37	1.33	1.32	1.30	1.30

Rates, %	Current	4Q-22	1Q-23	2Q-23	3Q-23
Fed	4.25-4.50	4.25-4.50	4.75-5.00	4.75-5.00	4.75-5.00
ECB	2.00	2.75	2.75	2.75	2.75
BOE	3.00	3.25	3.25	3.25	3.25
BOJ	-0.10	-0.10	-0.10	-0.10	-0.10
RBA	3.10	3.10	3.10	3.10	3.10
BNM	2.75	2.75	3.00	3.00	3.00

Source: HLBB Global Markets Research

Up Next

Date	Events	Prior
15-Dec	JN Exports YoY (Nov)	25.30%
	AU Consumer Inflation Expectation (Dec)	6.00%
	AU Unemployment Rate (Nov)	3.40%
	CH 1-Yr Medium-Term Lending Facility Rate	2.75%
	CH Industrial Production YoY (Nov)	5.00%
	CH Retail Sales YoY (Nov)	-0.50%
	CH Fixed Assets Ex Rural YTD YoY (Nov)	5.80%
	CH Surveyed Jobless Rate (Nov)	5.50%
	UK Bank of England Bank Rate	3.00%
	EC ECB Main Refinancing Rate	2.00%
	US Empire Manufacturing (Dec)	4.5
	US Retail Sales Advance MoM (Nov)	1.30%
	US Initial Jobless Claims (10-Dec)	230k
	US Philadelphia Fed Business Outlook (Dec)	-19.4
	US Industrial Production MoM (Nov)	-0.10%
16-Dec	NZ BusinessNZ Manufacturing PMI (Nov)	49.3
	AU S&P Global Australia PMI Mfg (Dec P)	51.3
	AU S&P Global Australia PMI Services (Dec P)	47.6
	UK GfK Consumer Confidence (Dec)	-44
	SI Non-oil Domestic Exports YoY (Nov)	-5.60%
	JN Jibun Bank Japan PMI Mfg (Dec P)	49
	JN Jibun Bank Japan PMI Services (Dec P)	50.3
	UK Retail Sales Inc Auto Fuel MoM (Nov)	0.60%
	HK Unemployment Rate SA (Nov)	3.80%
	EC S&P Global Eurozone Manufacturing PMI (Dec P)	47.1
	EC S&P Global Eurozone Services PMI (Dec P)	48.5
	UK S&P Global/CIPS UK Manufacturing PMI (Dec P)	46.5
	UK S&P Global/CIPS UK Services PMI (Dec P)	48.8
	EC Trade Balance SA (Oct)	-37.7b
	EC CPI YoY (Nov F)	10.00%
	US S&P Global US Manufacturing PMI (Dec P)	47.7
	US S&P Global US Services PMI (Dec P)	46.2

Source: Bloomberg

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