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Global Markets Research

Daily Market Highlights

16-Feb: Easing geopolitical tensions

Stocks and yields boosted by recovery in risk sentiment

Safe haven currencies lost appeal; oil benchmarks plunged over 3%

UK positive job report points to another BOE hike in March

- US stocks snapped a three-day losing streak to close higher on Tuesday amid easing geopolitical concerns. The Dow Jones climbed 423 pts or 1.2%. The S&P 500 rose 1.6%, boosted by nearly all sectors; energy shares slumped in concurrent with lower oil prices. Tech-heavy NASDAQ outperformed at +2.5%. Stocks rose in Europe earlier but saw mixed performances in Asia on the same day. Russia said that some of its troops had retreated from the Ukrainian borders although the US warned that an invasion is "distinctly possible".
- Bonds sold off as risk sentiment recovered and US PPI rose more than expected, pushing the yields up between 0.3 to 7.1bps and steepening the curves. The yield on the benchmark 10Y UST rose 5.6bps to 2.04%.
- The reversal in sentiment pressured safe haven currencies, as CHF and JPY weakened against the USD which in turn, fell against the rest of the G10s (except NOK). The dollar index lost 0.4% to just below 96.0. USD/MYR closed minimally lower (-0.08%) at 4.1860. The broadly weaker USD overnight and the loss in safe haven appetite may shift the pair lower although the pair may still be capped within a tight range by the cautious market sentiment.
- Gold prices advanced another 0.7% to \$1854.8/oz as the USD slipped. Oil prices plummeted more than 3% as the easing geopolitical tensions reduced the risks of a Russian oil cut-out to Europe. WTI plunged to \$92.07/barrel and Brent settled at \$93.28/barrel.

Surge in US PPI reaffirmed aggressive Fed rate hike:

- US producer price index (PPI) for final demand rose 1.0% m/m in January, versus the consensus forecast of 0.5% and followed the upwardly revised 0.4% m/m rate in December. The more-than-expected increase in the prices paid to US producers reaffirms the continuously higher inflation trend in the country, a result of economic and labour recovery as well as supply chain issues. The PPI rose 9.7% y/y, roughly matching the 9.8% rate in the previous month. The core PPI rate came in at 8.3% y/y, down from 8.5% prior. The overall reading bolsters the case for an aggressive rate hike by the Fed next month.
- The New York Fed Empire Manufacturing Index turned positive at 3.1 in February (Jan: -0.7), but missed the consensus forecast (12.0), indicating the business conditions improved modestly this month.

Eurozone 4Q GDP growth unrevised at 0.3%:

- The Eurozone's 4Q GDP growth was unrevised at 0.3% q/q (3Q: +2.3%); the softer growth reflects the impact of the Omicron outbreak in the region in the final months of 2021 as well as surging inflation and continuous supply chain challenge. On a year-on-year basis, the single-currency economy grew 4.6% (3Q:

Key Market Metrics

	Level	d/d (%)
Equities		
Dow Jones	34,988.84	1.22
S&P 500	4,471.07	1.58
NASDAQ	14,139.76	2.53
Stoxx 600	467.56	1.43
FTSE 100	7,608.92	1.03
Nikkei 225	26,865.19	-0.79
Hang Seng	24,355.71	-0.82
Straits Times	3,421.38	0.01
KLCI 30	1,599.61	1.00
FX		
Dollar Index	95.99	-0.40
EUR/USD	1.1359	0.46
GBP/USD	1.3538	0.07
USD/JPY	115.61	0.06
AUD/USD	0.7152	0.35
USD/CNH	6.3366	-0.33
USD/MYR	4.1860	-0.08
USD/SGD	1.3457	-0.10
Commodities		
WTI (\$/bbl)	92.07	-3.55
Brent (\$/bbl)	93.28	-3.32
Gold (\$/oz)	1,854.80	-0.71

Source: Bloomberg, HLBB Global Markets Research

+3.9%), pushing the full-year 2021 GDP growth to 5.2% and marking a rebound from the 6.4% downturn in 2020.

- In 4Q, employment rose by 0.5% q/q (3Q: +1.0%) and 2.1% y/y (3Q: +2.1%), confirming that hiring activity was undeterred by the virus and highlighting the underlying strength in the labour market recovery.
- Meanwhile, a separate note showed that the Eurozone's trade deficit widened to €9.7b in December, from €1.8b in November as import growth (+3.1% m/m) outweighed export growth (+0.6% m/m). December marked the second consecutive deficit recorded by the bloc, reflecting the strong demand for overseas goods.
- Last but not least, the ZEW expectations index showed that German investors turned more optimistic over Germany's economic outlook (+2.6pts) and less negative over the country's current situation (+2.1pts). However, the assessment over the Euro area as a whole showed that they were less convinced over the bloc's outlook; the expectations index came in less favourable at 48.6 (-0.8pts).

UK job data points to another BOE hike in March:

- The UK Statistics Office reported that payroll employees rose by 108k in January, following the downwardly revised 131k gain in December. The increase is still considered solid and suggests that the impact of the Omicron variant on the labour market seems minimal. A separate report showed that employment fell by 38k in the three months to December, less than the consensus forecast of 58k decline (prior: +60k) while the unemployment rate held steady at 4.1% in the same period. The average weekly earnings (including bonus payment) surged by 4.3% m/m (prior: +4.2%), beating forecast of 3.8%; this reaffirms the views that the BOE may hike the bank rate again in mid-March.

Japan's industrial production down in December:

- Japan's industrial production fell 1.0% m/m in December, a modest reversal from the 7% sharp growth in November before the Omicron outbreak picked up steam in January. Compared to the same month last year, industrial production growth slowed to 2.7% y/y, from 5.1% prior. The reintroduction of restrictions in January may weigh on manufacturing activity but the sector should be more resilient compared to the services sector as manufacturing sentiment and demand remained solid amid a global recovery.

RBA minutes suggest rate hike unlikely in near term:

- RBA said that the Australian economic recovery was not derailed by Omicron. Economy is resilient and spending was expected to pick up as Covid-19 cases numbers trended lower. Officials acknowledged the rapid fall in unemployment rate and the quicker-than-expected rise in inflation, but were more uncertain over potential pick-up in wages. It expects the rise in wage growth "to be only gradual" as there was "uncertainty about the behaviour of wages as the international border re-opens and the unemployment rate declines to historically low levels".
- Regarding inflation, some moderation is expected as supply chain problems are resolved. The central forecast was for underlying inflation to be within the target band over both 2022 and 2023.
- The decision to end the bond purchase program took into account "the actions of other central banks, the functioning of the Australian bond market, and actual and expected progress towards the Board's goals for employment and inflation". RBA said that, since November 2021 better-than-expected progress towards its economic goals had been made. On the cash rate trajectory, officials agreed it was too early to conclude that inflation was sustainably within the target band. It also cited the uncertainties over inflation outlook after the easing of supply pressures and the still-modest wage growth. The RBA said it resolved to be patient as it monitors inflation in Australia, implying that a hike in cash rate is still far off.

House View and Forecasts

FX	This Week	1Q-22	2Q-22	3Q-22	4Q-22
DX	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
16/02	AU Westpac Leading Index MoM (Jan)	-0.03%
	CN PPI YoY (Jan)	10.3%
	CN CPI YoY (Jan)	1.5%
	UK CPI YoY (Jan)	5.4%
	EZ Industrial Production SA MoM (Dec)	2.3%
	US MBA Mortgage Applications (11 Feb)	-8.1%
	US Retail Sales Advance MoM (Jan)	-1.9%
	US Import Price Index YoY (Jan)	10.4%
	US Industrial Production MoM (Jan)	-0.1%
	US NAHB Housing Market Index (Feb)	83.0
17/02	US FOMC Meeting Minutes (26 Jan)	--
	JP Exports YoY (Jan)	17.5%
	JP Core Machine Orders MoM (Dec)	3.4%
	AU Employment Change (Jan)	64.8k
	AU Unemployment Rate (Jan)	4.2%
	SG Non-oil Domestic Exports YoY (Jan)	18.4%
	US Building Permits MoM (Jan)	9.8%
	US Initial Jobless Claims (12 Feb)	--
	US Housing Starts MoM (Jan)	1.4%
	US Philadelphia Fed Business Outlook (Feb)	23.2

Source: Bloomberg

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