16 March 2022

Global Markets Research

Daily Market Highlights

16-Mar: Oil prices fell back below $100/barrel

Easing inflation fear related to falling oil prices helped revived sentiment

US equities rallied, treasury yields flat ahead of FOMC decision

Safe haven currencies, gold prices tumbled

- US stocks rallied overnight amid easing inflation concerns as oil prices slumped back below $100/barrel. The Dow Jones rose nearly 600pts or 1.8%, the S&P 500 picked up 2.1% while NASDAQ outperformed them slightly with a 2.9% gain. Earlier, equities edged lower modestly in Europe and sold off in China and Hong Kong; the Hang Seng Index tumbled by 5.7% as investors still reeled from the Chinese government's move to lock down Shenzhen and Jilin.

- The impact of the lockdown continued to be felt in the oil market for fear of decreasing demand. Crude benchmarks fell over 6.0% on Tuesday, adding to the over-5.0% decline on Monday; the collective fall dragged oil prices back below $100/barrel and undid most of the gains achieved since the Russian-Ukraine war started. Brent crude settled at $99.91/barrel while WTI closed at $96.44/barrel.

- After the sharp gain in the previous session, treasury yields moved little on Tuesday ahead of the two-day FOMC meeting during which the Fed is expected to raise the fed funds rate by 25bps. The yield on the benchmark 10Y UST rose 1.1bps to 2.14%.

- The dollar lost ground alongside safe haven currencies as risk sentiment improved. Among the gainers, CAD topped the chart in the G10 basket. The dollar index rose 0.1% to 99.1 due to the USD strength against JPY and CHF. Gold prices recorded a three-day losing streak on Tuesday, closing 1.6% lower at $1929.7/oz as haven demand weakened.

- USD/MYR briefly hit 4.2115 yesterday before retreating to close at 4.2065, virtually unchanged from the previous session. We are neutral on the pair today, as the USD weakened overnight amid a reversal in risk sentiment and investors are expected to be side-lined by the upcoming FOMC decision.

US producer prices inflation remained elevated:

- The producer prices for final demand rose 0.8% m/m in February, slowing down from the 1.2% m/m climb in January. The annual rate of PPI inflation held steady at the historical high of 10.0% y/y in February (January's rate was revised higher from 9.7% to 10.0%). The core PPI rate came in at 8.4% (Jan: +8.5%). The readings showed that US producers continued to face the challenges of high prices as the supply chain challenge persisted into this year.
- The New York Fed Empire State Manufacturing Index dropped to -11.8 in March, from 3.1 in February, pointing to a significant weakening of New York state manufacturing conditions this month. Supply chain constraints again seems to be the culprit as the new orders sub-index plunged dramatically by 12.6pts while the delivery time lengthened substantially (+11.1pts).

Key Market Metrics

	Level	d/d (%)
Equities		
Dow Jones	33,544.34	1.82
S&P 500	4,262.45	2.14
NASDAQ	12,948.62	2.92
Stoxx 600	435.12	-0.28
FTSE 100	7,175.70	-0.25
Nikkei 225	25,346.48	0.15
Hang Seng	18,415.08	-5.72
Straits Times	3,236.04	0.12
KLCI 30	1,557.41	-0.64
FX		
Dollar Index	99.10	0.10
EUR/USD	1.0956	0.15
GBP/USD	1.3042	0.31
USD/JPY	118.30	0.09
AUD/USD	0.7196	0.11
USD/CNH	6.3816	-0.21
USD/MYR	4.2065	0.02
USD/SGD	1.3658	-0.08
Commodities		
WTI ($/bbl)	96.44	-6.38
Brent ($/bbl)	99.91	-6.54
Gold ($/oz)	1,929.70	-1.59

Source: Bloomberg, HLBB Global Markets Research

Extended recovery in UK job market:

- Unemployment rate fell further from 4.1% to 3.9% in the three months to January, versus forecast of 4.0%, adding to existing evidence that the UK economy had weathered the Omicron outbreak well, leaving the labour market to recover further from the 2020 pandemic shock. In the same period (3 months to Jan), the number of jobs added were down by 12k (prior: -38k), but the timelier "monthly payrolled employees" amounted to 275k in February (Jan: +61k), more than the forecasted gain of 125k. Jobless claims also fell by 48.1k in February alone (Jan: -67.3k).
- As for wages growth, the average weekly earnings rose 4.8% y/y in the three months to January, up from 4.6% prior, firming up expectations that inflation will go up hand in hand with wages. This coming Thursday, the BOE is expected to hike its bank rate for the third consecutive time since December.

No growth in Eurozone's January industrial output; German investor sentiment plummeted:

- German investor sentiment turned deeply negative in March as the Russian invasion of Ukraine became a major source of uncertainties for the German and the broader Eurozone economic outlook. The headline ZEW expectations index for Germany plunged by 93.6pts to -39.3 in March (Feb: 54.3) while the current situation index was down to -21.4 (Feb: -8.1). The same expectations gauge for the Eurozone also slumped to -38.7 (Feb: 48.6), a decline of 87.3pts in a single month.
- Industrial production in the Eurozone was unchanged m/m in January, matching the consensus forecast. This followed the 1.3% m/m growth in December. The higher output of non-durable consumer goods was offset by the fall in production of other products, reflecting the impact of supply chain constraints at the start of the year. Compared to the same month last year, output was 1.3% lower (Dec: +2.0%).

Japan's trade deficit narrowed in February:

- Japan's exports rose 19.1% y/y in February (Jan: +9.6%); the acceleration in export growth, compared to the relatively steady import growth of 34.0% y/y (Jan: +38.7%) helped narrow the trade deficit to ¥668.3b (Jan: -¥2193.5b). The sustained growth in imports appeared to be driven by the elevated imported prices as the volume of merchandise imports fell that month. Exports were supported by shipments to the US, Europe and Asia (including China).

China's economic indicators beat expectations; PBOC held MLF rate unchanged:

- The PBOC on Tuesday maintained the 1Y medium-term lending facility rate unchanged at 2.85%, as opposed to the expectations of a 10-basis-point cut. Accompanying the decision was the stronger than expected key data for Jan-Feb 2022 period during which China had imposed stricter restrictions to curb the Covid-19 outbreak.
- The NBS reported that China's industrial production rose 7.5% y/y for the first two months of 2022 (Dec: +9.6%); it is common practice for the NBS to release cumulative data for January and February every year. Analysts had expected the industrial output growth to be at a modest 4.0% y/y.
- Meanwhile, retail sales rose 6.7% y/y in Jan-Feb (Dec: +12.5%), compared to the forecast of 3.0%, reflecting decent consumer demand when the country celebrated the Lunar New Year in early February.
- Fixed asset investment rose 12.2% y/y in the same period (Dec: +4.9%), also much higher than the consensus estimates of 5.0%. The overall data underscored the Chinese economy's solid start to the year before the Covid situation worsened, but this could be undone by the government's stringent adherence to its zero-Covid strategy that saw most recently, the lockdown of Shenzhen, recognised as the Chinese tech hub and home to 17.5 million residents.

Australia's leading index indicates recovery:

- Australia's Westpac Leading Index fell 0.15% m/m in February, extending from the downwardly revised 0.29% m/m decline prior. The six-month annualised growth index turned less negative at -0.25% (Jan: -0.53%), pointing to some improvement in growth outlook in the three to nine months ahead as the number of Covid-19 cases declined from the peak observed in January.

House View and Forecasts

FX	This Week	1Q-22	2Q-22	3Q-22	4Q-22
DXY	97-100	96.15	96.40	96.30	96.30
EUR/USD	1.07-1.10	1.13	1.12	1.12	1.13
GBP/USD	1.29-1.32	1.34	1.33	1.35	1.36
AUD/USD	0.71-0.73	0.72	0.72	0.74	0.75
USD/JPY	117-119	115	116	115	114
USD/MYR	4.17-4.22	4.17	4.15	4.15	4.10
USD/SGD	1.35-1.37	1.35	1.34	1.34	1.33

Rates, %	Current	1Q-22	2Q-22	3Q-22	4Q-22
Fed	0.00-0.25	0.25-0.50	0.75-1.00	1.25-1.50	1.25-1.50
ECB	-0.50	-0.50	-0.50	-0.50	-0.50
BOE	0.50	0.75	1.00	1.00	1.00
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
16/03	JP Industrial Production MoM (Jan F)	-1.3%
	US MBA Mortgage Applications (11 Mar)	8.5%
	US Retail Sales Advance MoM (Feb)	3.8%
	US Import Price Index YoY (Feb)	10.8%
	US NAHB Housing Market Index (Mar)	82.0
17/03	US FOMC Rate Decision (Upper Bound) (16 Mar)	0.25%
	NZ GDP SA QoQ (4Q)	-3.7%
	JP Core Machine Orders MoM (Jan)	3.6%
	AU Employment Change (Feb)	12.9k
	AU Unemployment Rate (Feb)	4.2%
	SG Non-oil Domestic Exports YoY (Feb)	17.6%
	HK Unemployment Rate SA (Feb)	3.9%
	EZ CPI YoY (Feb F)	5.1%
	UK Bank of England Bank Rate (17 Mar)	0.5%
	US Building Permits MoM (Feb)	0.5%
	US Housing Starts MoM (Feb)	-4.1%
	US Philadelphia Fed Business Outlook (Mar)	16.0
	US Initial Jobless Claims (12 Mar)	227k
	US Industrial Production MoM (Feb)	1.4%

Source: Bloomberg

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