16 December 2022

Global Markets Research
Daily Market Highlights

16 Dec: Stocks battered on disappointing economic data

US retail sales and industrial production surprised on the downside
PBOC kept MLF rate unchanged at 2.75%; economy slumped before Covid-policy pivot
ECB and BOE delivered hawkish 50bps hike each

- Stocks fell sharply after fresh data showed retail sales fell more than expected in November, raising fears that the Federal Reserve's relentless interest rate hikes are tipping the economy into a recession. The Dow Jones Industrial Average closed down more than 700 points or 2.3% d/d. The S&P 500 dropped 2.5% d/d, while the Nasdaq Composite tumbled 3.2% d/d. The sell-off was broad-based. Shares of Netflix fell more than 8.7% d/d. Bank shares also declined as fears of a recession increased. JPMorgan Chase and Bank of America fell 2.5% d/d and 1.6% d/d respectively.

  European stocks also suffered heavy losses after ECB struck a hawkish tone and global markets dipped following the U.S. Federal Reserve's latest policy update. Stoxx 600 closed 2.9% d/d, while FTSE100 slipped 0.9% d/d. Earlier in the day, Asia-Pacific region had also reacted negatively after the Fed raised its benchmark rates. The Hang Seng index fell 1.6% d/d while Nikkei 225 traded 0.4% d/d lower. CSI300 dipped 0.1% d/d as official data showed China retail sales shrank far more than expected, while industrial production disappointed. China's annual Central Economic Work Conference will reportedly be held behind doors for two days until Friday.

- The 10-year Treasury yield also fell as markets digested a disappointing retail sales report that added to concerns the Federal Reserve's aggressive rate hiking campaign could lead to a recession. The yield on the benchmark 10-year Treasury note was down by 3bps to 3.45%, while the yield on the 30-year Treasury bond slipped nearly 4bps to 3.50%. The 2-year yield, on the other hand, rose 2bps to 4.23%.

- The Dollar Index reversed its previous losses to climb by 0.9% d/d to 104.58 as investors sought safe haven greenback. USD strength was broad based. Against its G10 peers, the Dollar strengthened 0.5% d/d against euro, 2.0% d/d against sterling and 1.7% d/d against yen. Against regional currencies, the greenback also appreciated 0.7% d/d against Chinese yuan, 2.4% d/d against AUD, 1.1% d/d against SGD and 0.5% d/d against MYR at 4.4158.

- Oil snapped a 3-day rally with commodities from oil to copper under pressures on fears of a global economic slowdown and waning demand mounted. Both the WTI and Brent were 1.4% d/d and 1.6% d/d lower. Price of gold also slipped 1.7% d/d as further US central bank rate hikes could dampen the metal's appeal.

Key Market Metrics

	Level	d/d (%)
Equities		
Dow Jones	33,202.22	-2.25
S&P 500	3,895.75	-2.49
NASDAQ	10,810.53	-3.23
Stoxx Eur 600	429.91	-2.85
FTSE 100	7,426.17	-0.93
Nikkei 225	28,051.70	-0.37
Hang Seng	19,368.59	-1.55
Straits Times	3,273.75	-0.15
KLCI 30	1,467.13	-1.08
FX		
Dollar Index	104.58	0.88
EUR/USD	1.0628	-0.51
GBP/USD	1.2178	-2.00
USD/JPY	137.78	1.70
AUD/USD	0.6703	-2.35
USD/CNH	6.9913	0.70
USD/MYR	4.4158	0.53
USD/SGD	1.3610	1.05
Commodities		
WTI ($/bbl)	76.37	-1.36
Brent ($/bbl)	81.45	-1.63
Gold ($/oz)	1,787.10	-1.74
Copper ($$/MT)	8,295.00	-2.69
Aluminum($/MT)	2,386.00	-2.69
CPO (RM/tonne)	3,889.00	-0.35

Source: Bloomberg, HLBB Global Markets Research

ECB increased rates by 50bps to 2.00%. see significant increases ahead

- The European Central Bank (ECB) opted for a smaller rate hike at its latest meeting, taking its key rate from 2.00% to 2.50 % but reiterated the need to raise rates "significantly" further to tame inflation. It also said that from the beginning of March 2023 it would begin to reduce its balance sheet by €15bn per month on average until the end of 2Q 2023. According to the latest Eurosystem staff projections, a recession would be relatively short-lived and shallow, expecting the economy to grow by 3.4% in 2022, 0.5% in 2023, 1.9% in 2024 and 1.8% in 2025. The central bank also added that it sees inflation remaining above its 2.0% target until 2025. It now expects average inflation of 8.4% in 2022, 6.3% in 2023, 3.4% in 2024 and 2.3% in 2025.
- At a news conference following the announcement, ECB President Christine Lagarde also added: "Anybody who thinks this is a pivot for the ECB is wrong. We're not pivoting, we're not wavering, we are showing determination and resilience in continuing a journey where we have. ... If you compare with the Fed, we have more ground to cover. We have longer to go." As it is, ECB remained hawkish despite the dial down in rates and the start of a quantitative tightening.

BOE raised key rate by 50bps to 3.50%, will continue to respond 'forcefully' if needed

- The Bank of England's (BOE) Monetary Policy Committee voted 6-3 in favour of a 50bps rate hike which takes the bank rate to 3.5% and signalled that more tightening will be needed to rein in inflation. In its MPC statement, the Bank noted that labour market remains tight and while there is "considerable uncertainties" around the outlook, they will "respond forcefully" if inflationary pressures begin to look more persistent. As it is, the bank expects UK GDP to contract by 0.1% in 4Q. Governor Andrew Bailey, in the press conference, also noted the recent deceleration in CPI represented "the first glimmer" that inflation had begun to ease and he expected a rapid fall, "probably from the late spring onwards".
- The message from BOE also suggests that there is a little further to go on this hiking cycle, before interest rates peak but the downshift to 50bps from 75bps and the vote split suggests that the level of rates is increasingly in focus and that the speed of tightening may slow to 25-50bps in 2023.

China central bank kept MLF rate unchanged at 2.75%, economy slumped before Covid-policy pivot

- China's central bank rolled over maturing medium-term policy loans while keeping interest rate unchanged for the 4th straight month, largely matching market expectations. The People's Bank of China (PBOC) said it was keeping the rate on 650bn yuan of one-year medium-term lending facility (MLF) loans to some financial institutions unchanged at 2.75%. The amount is more than the 500bn due this month, The liquidity support could ease the stress on money markets caused by the reopening-led sell off in bonds and heavy debt redemptions by retail investors.
- Meanwhile, Chinese economic activity worsened in November before the government abruptly dropped its Covid-zero policy. The contraction in retail sales widened to 5.9% in November (consensus: -5.0% y/y vs Oct: -0.5% y/y), industrial output slowed to +2.2% y/y (consensus: 3.5% y/y vs Oct: +5.0% y/y), while fixed asset investment weakened to 5.3% y/y (consensus: 5.6% y/y vs Oct: +5.8% y/y) for the first 11 months. Jobless rate also climbed to 5.7%, worse than expectation and highest since May.

US data showed that retail sales and manufacturing sector worsened, while labour market stayed resilient

- US retail sales fell more than expectations in November by the most in nearly a year at 0.6% m/m after rising 1.3% previously. Despite the November data including the Black Friday sale, 9 of 13 retail categories fell, led by vehicle sales and sales at gasoline stations
- Industrial production unexpectedly contracted 0.2% m/m in November (Oct: -01% m/m) and with it, capacity utilization also moved down 0.2ppts to 79.7%. This is a shade lower than consensus had expected but is 0.1ppts above its long-run (1972–2021) average. Specifically, manufacturing output fell 0.6% m/m, led by losses in motor vehicles and parts.
- This trend is expected to continue in December, as reflected in both the Empire Fed and Philadelphia Fed Manufacturing Surveys which fell more than expected at -11.2 (consensus: -1.0 vs Nov: +4.5) and -13.8 (consensus: -10.0 vs Nov: +19.4) respectively. We noted that labour market was mixed for both surveys but looking ahead, firms expect some improvement in business conditions over the next six months.
- Manufacturers and trade inventories, meanwhile, rose less than expected by 0.3% m/m in October (Sept: +0.2% m/m). The total business inventories/sales ratio was unchanged at 1.33.
- On a positive note, labour market remained resilient, with initial jobless claims unexpectedly falling 20k to 211k (consensus: 232k vs prior: 231k). Continuing claims, although increased slightly by 1k to 1671k, also came below street estimate at 1674k.

Japan’s exports up 20%, overwhelmed by hefty imports

- Japan's exports jumped 20.0% y/y in Nov (consensus: +19.7% y/y vs Oct: +25.3% y/y), but imports outpaced shipments, resulting in a 16th straight month of trade deficits. Import growth rose +30.3% y/y (consensus: 26.9% y/y vs Oct: +53.5% y/y). As a result, the trade balance came to a deficit of ¥2.0 trillion (consensus: -¥1.68 trillion vs Oct: -¥2.2 trillion). The surge in imports was led by demand for crude oil, coal and liquefied natural gas. Exports, meanwhile, was supported by US demand for automobiles and mining machinery, which offset the slower exports of chip-making machinery and autoparts to China. Exports to China halved to 3.5%.

Australia unemployment rate held steady; inflation expectations moderate

- Australia employment jumped past all expectations in November while the jobless rate stayed at five-decade lows as more people went looking for work, a sign that the labour market remains robust. Australian Bureau of Statistics reported that net employment surged by 64k in November, blowing past forecasts for an increase of just 19k up from a 43k increase in October. The jobless rate held steady at 3.4%, though only because the participation rate popped up to match the record peak of 66.8%.
- After a jump last month, the expected inflation rate fell by 0.8ppts 5.2% in December. The moderation suggests that consumers are accounting for the ongoing tightening of monetary policy. Wage expectations also fell in December, with consumers continuing to expect weak wage growth

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	2.50	2.50	3.00	3.00	3.00
BOE	3.50	3.50	4.00	4.00	4.00
BOJ	-0.10	-0.10	-0.10	-0.10	-0.10
RBA	3.10	3.10	3.35	3.35	3.35
BNM	2.75	2.75	3.00	3.00	3.00

Source: HLBB Global Markets Research

Up Next

Date	Events	Prior
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
19-Dec	NZ Westpac Consumer Confidence (4Q)	87.6
	MA Exports YoY (Nov)	15.00%
	MA Imports YoY (Nov)	29.20%
	MA Trade Balance MYR (Nov)	18.09b
	EC Labour Costs YoY (3Q)	4.00%
	EC Construction Output MoM (Oct)	0.10%
	US NAHB Housing Market Index (Dec)	33

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

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