

17 February 2022

Global Markets Research

Daily Market Highlights

17-Feb: Fed prepared for faster normalisation

FOMC minutes points to possibly faster pace of rate hikes

Short-term yields slumped; USD weakened for second session

US retail sales, industrial production beat expectations

- US stocks ended on a mixed note overnight as the market digested the FOMC minutes, stronger US data and Russia-West tensions. The Dow Jones slipped 0.2% alongside the 0.1% decline in NASDAQ while the S&P 500 rose slightly (+0.09%), supported by the gains in eight out of its eleven sectors. Stocks slumped in Europe but rallied in key Asian markets earlier of the day.
- US treasury yields dipped despite the FOMC minutes confirming a rate hike in mid-March as investors stayed uneasy over the lingering geopolitical tensions. Yields were down sharply at the front-end, steepening the curves; likely due to the absence of an explicit discussion of a 50-basis-point hike next month. The yield on 2Y treasury notes dropped 5.7bps to 1.52% while the 10Y UST yield was down by a mere 0.5bps to 2.04%.
- The dollar weakened for the second consecutive session, as the USD fell against all G10 and most Asian currencies. The AUD and NZD led the gains; the Dollar Index registered 0.3% loss. USD/MYR was little changed at 4.1845. The broadly weaker USD overnight may offer support to the MYR, although the pair may still be capped within a tight range by the cautious market sentiment related to geopolitics.
- Gold prices picked up 0.8% to \$1870.2/oz alongside lower USD. Oil prices rebounded by 1.6-1.7% after the over-3.0% selloff in the previous session. WTI closed at \$93.66/barrel and Brent crude settled at \$94.81/barrel.

FOMC minutes showed officials prepared for more aggressive normalisation:

- The minutes of the 25-26 January FOMC meeting confirmed that the Federal Reserve is prepared to normalise policy next month. Officials first agreed that the above-2.0% inflation and strong labour market warrant the end of the asset purchase program and raising of the fed funds rate target range.
- Importantly, the minutes revealed that officials may be prepared to raise the fed funds rate at a more aggressive pace in March onwards. "Most participants suggested that a faster pace of increases in the target range for the federal funds rate than in the post-2015 period would likely be warranted", taking into account "a much stronger outlook for growth in economic activity, substantially higher inflation, and a notably tighter labour market". "If inflation does not move down as they expect, it would be appropriate for the Committee to remove policy accommodation at a faster pace than they currently anticipate". "Some officials were concerned over the unduly tightening of the financial conditions should this happen, but could be mitigated through clear and effective communication to the markets."

US retail sales and industrial production beat forecasts; imported inflation surged:

- Retail sales in the US picked up more than expected in January, driven mostly by vehicles and online sales. Headline retail sales value rose 3.8% m/m in January,

Key Market Metrics

	Level	d/d (%)
Equities		
Dow Jones	34,934.27	-0.16
S&P 500	4,475.01	0.09
NASDAQ	14,124.09	-0.11
Stoxx 600	467.77	0.04
FTSE 100	7,603.78	-0.07
Nikkei 225	27,460.40	2.22
Hang Seng	24,718.90	1.49
Straits Times	3,439.30	0.52
KLCI 30	1,603.20	0.22
FX		
Dollar Index	95.70	-0.30
EUR/USD	1.1373	0.12
GBP/USD	1.3586	0.35
USD/JPY	115.52	-0.08
AUD/USD	0.7195	0.60
USD/CNH	6.3324	-0.07
USD/MYR	4.1845	-0.03
USD/SGD	1.3439	-0.13
Commodities		
WTI (\$/bbl)	93.66	1.73
Brent (\$/bbl)	94.81	1.64
Gold (\$/oz)	1,870.20	0.83

Source: Bloomberg, HLBB Global Markets Research

compared to the consensus forecast of 2.0%. The sharp gain followed a downwardly revised 2.5% m/m decline in December. The retail sales for the control group, a gauge of core sales, registered a solid 4.8% m/m growth (Dec: -4.0%). "Eating and drinking" fell last month as the Omicron outbreak deterred people from dining out. The strong January showing added to signs of strong US consumer demand but could also partially be attributed to the higher prices amid persistent inflation.

- Industrial production gained 1.4% m/m in January after the lacklustre 0.1% growth prior. This was better than the forecast of 0.5%. The Fed attributed the sharper rise to the surge in utilities output (+0.9% m/m) as the colder than usual temperatures boosted demand for heating. Manufacturing output rose 0.2% m/m after a small decline, indicating solid conditions; mining picked up 1.0% m/m.
- The import price index jumped 2.0% m/m in January (Dec: -0.4%) despite the stronger USD last month, reflecting the impact of supply chain pressures and sharply higher oil prices. Core import prices (ex-petroleum) also surged sharply by 1.4% m/m (Dec: +0.4%). This translated to a 10.8% y/y gain in imported prices, an acceleration from December (+10.2%).

US builder sentiment weakened as interest rates climbed:

- The NAHB Housing Market Index slipped to 82.0 in February, from 83.0 in January, indicating a fall in builder sentiment. The survey showed that builders turned less optimistic over future sales and prospective buyers' traffic amid higher construction costs and the expected rise in interest rates this year.
- This is evident in the continuous fall in the MBA mortgage applications, which declined by 5.4% w/w last week (prior: -8.1%), driven by falls in both purchases and refinancing applications following the increase in the overall mortgages rates that were tied to higher treasury yields.

Eurozone's strong industrial reading driven by Germany:

- Industrial production in the Eurozone beat expectations in December as output rose 1.2% m/m versus the consensus forecast of 0.3%. This reflects strong reading from Germany (+1.1% m/m) as other major countries such as France, Spain and Italy reported lower output amid the rising number of Covid-19 cases during that period. Compared to December in the previous year, the output was higher by 1.6% y/y (Nov: -1.4%)

UK CPI backed view on BOE rate hike:

- Inflation in the UK accelerated further in January, strengthening the case for another BOE rate hike in March. Headline CPI rate picked up to 5.5% y/y, up from the consensus estimate and December reading of 5.4% y/y. This reflects higher cost of food & non-alcoholic beverages, housing, communication, household related items as well as clothing & footwear. Month-on-month, CPI fell 0.1% (Dec: +0.5%), a smaller-than-expected decline. Core CPI inflation accelerated to 4.4% y/y, from 4.2% previously. The PPI output inflation also climbed to 9.9% y/y (Dec: +9.3%), painting a picture of broad-based increase in prices.

Japan's exports grew at softer pace in January:

- Japan's January export growth missed forecast at 9.6% y/y, slowing from 17.5% y/y prior as the number of Covid-19 cases picked up sharply last month amid the rapid spread of the Omicron variant. The government tightened restrictions and extended the entry ban on foreigners. Meanwhile, imports picked up 39.6% y/y (Dec: +41.1%), softer than December but beating the consensus estimates.
- In a separate release, Japan's core machinery orders unexpectedly rose 3.6% m/m in December (Nov: +3.4%), translating to a 5.1% y/y growth (Nov: +11.6%). This indicates stronger investment and positive business expectations.

China's inflation slowed in January:

- China's inflationary pressures eased further in January, indicating weak domestic demand although the improving supply chain conditions may be a driving factor as well. Consumer price index rose 0.9% y/y in January, down from the 1.5% gain in December, versus the forecast of 1.0%. On a m/m basis, CPI rose 0.4% m/m (Dec: -0.3%), as prices rose ahead of the annual Lunar New Year celebration.
- Producer prices inflation softened to 9.1% y/y, from 10.3% prior and was below the consensus estimates of 9.5%. Prices fell 0.2% m/m (Dec: -1.2%), led by the easing in prices in the upstream segment. The retreat in inflation in China placed the PBOC in a less complicated position to ease policy as the Chinese government strives to support growth this year via monetary policy.

Singapore's GDP rebounded by 7.6% in 2021:

- The Singapore economy expanded by 7.6% in 2021, turning around from the 4.1% pandemic-driven contraction in 2020. A final report showed that Singapore 4Q21 GDP growth was revised higher to 6.1% y/y (3Q21: +7.5%), up from the advance estimate of 5.9%. On a quarterly basis, GDP managed to grow by 2.3% (3Q: +1.5%), supported by manufacturing and services output. This was despite the surge in the Covid-19 cases and tighter government restrictions, highlighting the small city-state's economic resilience.

Australia Westpac leading index pointed to brighter outlook:

- The Westpac Leading Index six-month annualised growth rate to +0.4% in January, from -0.1% in December, marking its first positive and above trend reading recorded since the Delta variant lockdown last August. This signals that the growth outlook has improved in Australia as the strong balance sheets and rising incomes will support both consumer spending and business investment.

House View and Forecasts

FX	This Week	1Q-22	2Q-22	3Q-22	4Q-22
DXY	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
17/02	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
	JP Natl CPI Ex Fresh Food YoY (Jan)	0.5%
18/02	UK Retail Sales Inc Auto Fuel MoM (Jan)	-3.7%
	US Existing Home Sales MoM (Jan)	-4.6%

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US Leading Index (Jan)	0.8%
EZ Consumer Confidence (Feb A)	-8.5

Source: Bloomberg

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