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Global Markets Research

Daily Market Highlights

17-Mar: Fed signalled six additional rate hikes

Global equities rallied on hope for Chinese stimulus & Ukraine-Russia resolution

US yields rose, dollar weakened after Fed hike rates by 25bps

Oil prices tumbled further as Libya called for OPEC+ production boost

- US stocks advanced further on Wednesday after the Federal Reserve raised the fed funds rate by 25bps as expected. The Russia-Ukraine peace talks also signalled a firmer progress. The Dow Jones rose 518pts or 1.6% and the S&P 500 picked up 2.2%; the NASDAQ continued to outperform them both by climbing 3.8%. Earlier, European stocks tracked the rally in Asian shares to finish higher amid a reversal in risk sentiment as Chinese Vice Premier Liu He pledged more stimulus to boost economic growth. The STOXX Europe 600 gained 3.1%. Hang Seng rebounded sharply by 9.1% after a recent selloff induced by the Shenzhen lockdown.
- Front-to-medium term yields rose in response to the Fed's rate hike while long term yields fell slightly. The yield on the benchmark 2Y treasury notes edged higher by 8.9bps to 1.94% while the 10Y UST yield rose 4.1bps to 2.19%. The curves flattened.
- The dollar fell against all G10 currencies except the JPY. The Swedish Krona (+2.3%) topped the G10 chart after the Riksbank governor Stefan Ingves said he did not rule out a rate hike this year, a huge shift from its previous stance of keeping rates at zero until 2024. The rest of the G10 gainers, except the CHF, strengthened by 0.7% to 1.3% against the USD. The dollar index tumbled by 0.5% to 98.62. Gold prices fell 1.1% to \$1909.2/oz but is seen rebounding by 1% this morning.
- USD/MYR snapped a seven-day gaining streak to close 0.2% lower at 4.1980. MYR may track the broad-based strengthening of most currencies overnight, resulting in some further down moves in USD/MYR against a backdrop of positive sentiment.
- Meanwhile, oil prices saw extended declines on Wednesday, moving further below the \$100 mark amid growing hope of a Russia-Ukraine resolution while Libya urged OPEC+ to boost production. British PM Boris Johnson was optimistic over a Saudi oil boost after meeting with the Saudi Crown Prince. The US benchmark WTI fell 1.5% to \$95.04/barrel and Brent crude slumped 1.9% to \$98.02/barrel.

Fed dot plot signalled additional six rate hikes in 2022; Powell concerned over super tight job market and inflation:

- The Federal Reserve concluded its two-day meeting by raising the fed funds rate target range by 25bps to 0.25-0.50% as expected, marking its first hike since 2018 and signalled more to come this year. The latest dot plot showed that 12 out of 18 FOMC officials predicted an additional six 25-basis-point rate hikes in 2022 as the

Key Market Metrics

	Level	d/d (%)
Equities		
Dow Jones	34,063.10	1.55
S&P 500	4,357.86	2.24
NASDAQ	13,436.55	3.77
Stoxx 600	448.45	3.06
FTSE 100	7,291.68	1.62
Nikkei 225	25,762.01	1.64
Hang Seng	20,087.50	9.08
Straits Times	3,290.90	1.70
KLCI 30	1,571.32	0.89
FX		
Dollar Index	98.62	-0.48
EUR/USD	1.1035	0.72
GBP/USD	1.3149	0.82
USD/JPY	118.73	0.36
AUD/USD	0.7290	1.31
USD/CNH	6.3637	-0.28
USD/MYR	4.1980	-0.21
USD/SGD	1.3588	-0.51
Commodities		
WTI (\$/bbl)	95.04	-1.45
Brent (\$/bbl)	98.02	-1.89
Gold (\$/oz)	1,909.20	-1.06

Source: Bloomberg, HLBB Global Markets Research

central bank attempts to combat the US surging inflation. Fed Chair Jerome Powell expressed concerns over the “tight to an unhealthy level” labour market and its implication on inflation in his post meeting press conference. The impacts of the Russian invasion of Ukraine on the US economy were highly uncertain but may create additional upward pressure on inflation and weigh on economic activity.

- The Fed said that it will reduce its \$9billion asset holding in the coming meeting, as confirmed by Powell. Apart from that, the Fed also trimmed its median 2022 GDP growth to 2.8%, from 4.0% in the previous December forecasts, and maintained the outlook for 2023 and 2024 respectively at 2.2% and 2.0%. It projected the core PCE inflation to be higher at 4.1% in 2022, compared to 2.7% in the previous forecasts. The upward adjustment also extends to 2023 (+2.6%) and 2024 (+2.3%). The 2022 unemployment rate forecast was unrevised at 3.5% while the fed funds rate is projected at 1.9%, versus 0.9% prior. The Fed said that “with appropriate firming in the stance of monetary policy”, it “expects inflation to return to its 2.0% objective and the labour market to remain strong”.

US retail sales supported by higher gasoline sales receipts; builder sentiment weakened

- US retail sales rose 0.3% m/m in February. The modest performance in sales came following the upwardly revised 4.9% m/m growth in January but nonetheless highlighting a solid consumer demand. Sales were supported by higher gasoline sales (+5.3%) as gasoline prices crept up alongside the surge in global crude oil prices. Clothing, vehicles & parts, building materials and dining sales also picked up. A core retail sales gauge fell 1.2% m/m (Jan: +6.7%).
- The US import price index picked up at a slower pace of 1.4% m/m in February (Jan: +1.9%), but the 12-month rate remained high at 10.9% y/y (Jan: +10.7%) as the persistent global supply chain constraints continued to exert upward pressures on imported goods.
- The NAHB Housing Market Index slipped to a six-month low of 79 in March, from 81 in February. The weaker builder sentiment reflects the concerns over higher rates that may erode housing affordability.
- The MBA mortgage applications fell 1.2% w/w after the 8.5% gain previously as the higher mortgage rates made refinancing unattractive. The purchases index which tracked the applications to buy homes, picked up 0.7% w/w.

Japan's industrial output fell in January:

- Japan's January industrial production growth was revised upwards to reflect a smaller 0.8% m/m decline, from -1.3% in the initial estimates. This followed the 1.0% m/m drop in output in December as the supply chain constraints alongside the surge in Covid-19 cases curtailed manufacturing activity. On a year-on-year basis, output fell 0.5% (revised from -0.9%) after the 2.7% y/y growth in December.
- In a separate release, Japan's core machinery orders fell 2.0% m/m in January (Dec: +3.1%). Orders were however, higher by 5.1% y/y, unchanged from December (+5.1%).

New Zealand economy rebounded in 4Q21:

- The New Zealand economy expanded by 3.0% q/q in the final quarter of 2021, missing the consensus forecast of 3.3%. This followed the 3.6% contraction in the third quarter as economic activity rebounded after the Covid-19 restrictions were loosened in the country from the Alert 4 lockdown imposed in the third quarter. The services (+2.5% q/q) and manufacturing (+6.5% q/q) industries led the growth as the agricultural sector (-3.6% q/q) output fell. On a y/y basis, the 4Q GDP growth accelerated to 3.0%, from -0.2% y/y prior. The RBNZ is still expected to tighten policy this year, after raising the official cash rate to 1.0% last month.

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	0.25-0.50	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
17/03	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%
18/03	JP Natl CPI Ex Fresh Food YoY (Feb)	0.2%
	JP BOJ Policy Balance Rate (18 Mar)	-0.1%
	MA Exports YoY (Feb)	23.5%
	EZ Trade Balance SA (Jan)	-9.7b
	EZ Labour Costs YoY (4Q)	2.5%
	US Existing Home Sales MoM (Feb)	6.7%
	US Leading Index (Feb)	-0.3%

Source: Bloomberg

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