17 October 2022

Global Markets Research

Daily Market Highlights

17 Oct: Dow closes 400 points lower to end a wild week

U.S. 10-year yield tops 4%; DXY rallied back above 113s

Oil slumped as recession fears outweighed production cuts

China's no let-up stands on zero-Covid policy and tech battle to roil markets today

- Stocks slumped Friday, capping off a volatile week of trading, as investors digested inflation expectations. The Dow Jones Industrial Average fell 1.3% d/d, while the S&P 500 shed 2.4% d/d. The tech-heavy Nasdaq Composite plunged 3.1% d/d, weighed down by losses in Tesla and Lucid Motors. Stocks also fell to session lows after a consumer survey from the University of Michigan showed inflation expectations were increasing. European markets, meanwhile, closed higher on Friday, but off session highs, after the U.K. government "U-turned" on some of its controversial fiscal policies and the country's Finance Minister, Kwasi Kwarteng, was fired. The pan-European Stoxx 600 was up 0.6% d/d while the FTSE 100 inched a 0.1% gain. Asia stocks, meanwhile, echoed Wall Street's rally the previous day, with Hang Seng gaining 1.2% d/d, while the Nikkei was up 3.3% d/d.

- We expect Asian markets to open lower today. China's statement/ tone out of its annual Party Congress over the weekend sent more chills to the markets. President Xi warned of "dangerous storms" ahead, and pledged to stand its ground in developing strategically important technology in what is seen as upping its tension with the US. Markets did not get any relief from the much-watched Covid policy, as President Xi offered no clues on any let-up in its zero-Covid policy nor any exit path.

- At the same time, bond yields spiked, with the rate on the 10-year U.S. Treasury topping 4.00% for the second time in two days as investors reacted to higher inflation expectations. The yield on the 10-year Treasury rose 8bps to 4.02%. The 2-year Treasury yield rose 3bps to 4.50%. UK gilts also ticked up following reports that the government would reverse course yet again on part of its economic plan, supporting yields. U.K. 30-yield rose 23bps to 4.76% following the speech by Prime Minister Liz Truss. Gilts had dipped earlier in the day on reports of a possible U-turn on Truss' tax plans.

- The dollar strengthened against most G-10 majors, with the Dollar Index gaining 0.8% d/d to 113.31. The Dollar appreciated 0.6% d/d against Euro, 1.4% against GBP, 1.6% d/d against AUD, 0.6% against yuan and 0.2% against MYR. The yen remained marginally softer by 1.1% d/d as BOJ's Kurada reiterated easing pledge.

- Oil prices fell on Friday, pushing the commodity to its worst week since Aug. 5 as worries about a global recession hitting demand outweighed production cuts from OPEC+. West Texas Intermediate crude settled down 3.9% d/d at US$85.61/barrel. Brent crude also slumped, falling 3.11% to

Key Market Metrics

	Level	d/d (%)
Equities		
Dow Jones	29,634.83	-1.34
S&P 500	3,583.07	-2.37
NASDAQ	10,321.39	-3.08
Stoxx Eur 600	391.31	0.56
FTSE 100	6,858.79	0.12
Nikkei 225	27,090.76	3.25
Hang Seng	16,587.69	1.21
Straits Times	3,039.61	-0.03
KLCI 30	1,382.47	0.66
FX		
Dollar Index	113.31	0.84
EUR/USD	0.9722	-0.55
GBP/USD	1.1172	-1.36
USD/JPY	148.67	1.05
AUD/USD	0.6199	-1.57
USD/CNH	7.2203	0.60
USD/MYR	4.7048	0.24
USD/SGD	1.4260	-0.33
Commodities		
WTI ($/bbl)	85.61	-3.93
Brent ($/bbl)	91.63	-3.11
Gold ($/oz)	1,641.70	-1.69
Copper ($$/MT)	7,538.50	-0.46
Aluminum($/MT)	2,306.00	-2.27
CPO (RM/tonne)	3,631.50	-0.06

Source: Bloomberg, HLBB Global Markets Research

US$91.63/barrel. Expectations of Fed rate hikes also drove gold prices down by 1.7% d/d to US$1,641.70/barrel

US Consumer sentiment and sales were relatively flat:

- University of Michigan's consumer sentiment edged up more than expected to 59.8 in October (Sept: 58.6 and consensus estimate: 58.8), amid a 23% improvement in current buying conditions for durables owing to an easing in supply constraints. Sentiment is now 9.8 points above the all-time low reached in June, but this improvement remains tentative, as the expectations index declined to 56.2. Continued uncertainty over the future trajectory of prices, economies, and financial markets around the world indicate a bumpy road ahead for consumers.
- Seasonally adjusted retail sale, meanwhile, were unexpectedly flat at US$684.0bn in September, easing from the 0.4% m/m increase in August and below consensus forecast of +0.2% m/m, as households cut back on purchases of motor vehicles and other big-ticket items like electronics and appliances amid stubbornly high inflation and rapidly rising interest rates. Retail sales increased 8.2% y/y. The data also showed that sales are slowing as spending shifts back to services. Sales at auto dealerships slipped 0.4%, receipts at service stations dropped 1.4%. Furniture store sales fell 0.7%, while those at building material and garden equipment retailers decreased 0.4%. Receipts at electronics and appliance stores declined 0.8%. There were also decreases in sales at hobby, musical instrument and book stores, a sign that consumers were pulling back on discretionary spending. But sales at clothing and general merchandise stores rose as did those of online and mail-order retailers. Receipts at bars and restaurants, the only services category in the retail sales report, increased 0.5%.
- U.S. import prices decreased 1.2% m/m in September, after declining 1.1% m/m the previous month, as lower fuel and nonfuel prices contributed to the drop in prices. Prices for import fuel fell 7.5%, the largest 1-month declines since December 2021. Prices for U.S. exports, meanwhile, fell 0.8% m/m following a 1.7% drop previously. Lower agricultural and nonagricultural price contributed to the decline.

Eurozone saw record trade deficit amid soaring energy prices:

- The euro zone posted in August its largest trade deficit since it expanded to 19 countries in 2015, as high energy prices boosted its import bill. Euro's balance for trade in goods was in the red by nearly €51bn (Jul: -€34bn), as exports fell 1.9% m/m while imports grew 4.7% m/m. Specifically, energy imports have risen by 154% in the period between January and August to €543.8bn.
- The seasonally adjusted PMI for September was 52.0, 2.8 points lower than August, and the lowest level of activity since June. The two key sub-index values of Production (52.0) and New Orders (48.4) both fell back from August, with the latter moving back into contraction for the second time in 13 months. Conversely, Finished Stocks (55.0) was at its highest point since July 2021, while Deliveries (54.5) experienced a further lift from August. Manufacturers have continued with a more negative mindset, with the proportion of negative comments at 61.5% for September (August: 53.6% in August) as labour shortages, decreased demand and cost pressures impacted manufacturers.

China's consumer inflation edges up to near 2.5-year high, but factory-gate prices continue to ease

- China's producer price index (PPI), rose by 0.9% in September, down from a rise of 2.3% in August as international crude oil and other commodity prices continued to fall. Inflation rate, on the other hand, rose to highest level in almost two and a half years at +2.8% y/y (August: 2.5% y/y). Food prices in China rose by 8.8% y/y (August: +6.1% y/y), while non-food prices grew 1.5% y/y, down from a reading of 1.7% in August. In September, all regions and departments continued to coordinate efforts to prevent and control the pandemic and promote economic and social development, and took a variety of measures to stabilise the prices of important goods for people's livelihoods, with the consumer market running generally smoothly.

House View and Forecasts

FX	This Week	4Q-22	1Q-23	2Q-23	3Q-23
DXY	111-115	115.00	112.70	110.45	110.00
EUR/USD	0.95-1.00	0.95	0.97	0.98	0.98
GBP/USD	1.10-1.15	1.10	1.10	1.11	1.12
USD/JPY	146-150	147.00	146.00	145.00	144.00
AUD/USD	0.60-0.64	0.62	0.63	0.64	0.64
USD/MYR	4.65-4.72	4.68	4.64	4.62	4.60
USD/SGD	1.42-1.44	1.45	1.44	1.42	1.40

Rates, %	Current	4Q-22	1Q-23	2Q-23	3Q-23
Fed	3.00-3.25	4.25-4.50	4.25-4.50	4.25-4.50	4.25-4.50
ECB	1.25	2.75	2.75	2.75	2.75
BOE	2.25	3.25	3.25	3.25	3.25
BOJ	-0.10	-0.10	-0.10	-0.10	-0.10
RBA	2.60	3.10	3.10	3.10	3.10
BNM	2.50	2.75	3.00	3.00	3.00

Source: HLBB Global Markets Research

Up Next

Date	Events	Prior
17-Oct	NZ Performance Services Index (Sep)	58.6
	UK Rightmove House Prices MoM (Oct)	0.70%
	SI Non-oil Domestic Exports SA MoM (Sep)	-3.90%
	SI Electronic Exports YoY (Sep)	-4.50%
	JN Tertiary Industry Index MoM (Aug)	-0.60%
	JN Industrial Production MoM (Aug F)	2.70%
	JN Capacity Utilization MoM (Aug)	2.40%
	US Empire Manufacturing (Oct)	-1.5
18-Oct	NZ CPI QoQ (3Q)	1.70%
	CH Industrial Production YoY (Sep)	4.20%
	CH GDP YoY (3Q)	0.40%
	CH Retail Sales YoY (Sep)	5.40%
	CH Fixed Assets Ex Rural YTD YoY (Sep)	5.80%
	CH Surveyed Jobless Rate (Sep)	5.30%
	EC ZEW Survey Expectations (Oct)	-60.7
	US Industrial Production MoM (Sep)	-0.20%
	US Capacity Utilization (Sep)	80.00%
	US Manufacturing (SIC) Production (Sep)	0.10%
	US NAHB Housing Market Index (Oct)	46
18-24 Oct	UK CBI Trends Total Orders (Oct)	-2

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

DISCLAIMER

This report is for information purposes only and does not take into account the investment objectives, financial situation or particular needs of any particular recipient. The information contained herein does not constitute the provision of investment advice and is not intended as an offer or solicitation with respect to the purchase or sale of any of the financial instruments mentioned in this report and will not form the basis or a part of any contract or commitment whatsoever.

The information contained in this publication is derived from data obtained from sources believed by Hong Leong Bank Berhad ("HLBB") to be reliable and in good faith, but no warranties or guarantees, representations are made by HLBB with regard to the accuracy, completeness or suitability of the data. Any opinions expressed reflect the current judgment of the authors of the report and do not necessarily represent the opinion of HLBB or any of the companies within the Hong Leong Bank Group ("HLB Group"). The opinions reflected herein may change without notice and the opinions do not necessarily correspond to the opinions of HLBB. HLBB does not have an obligation to amend, modify or update this report or to otherwise notify a reader or recipient thereof in the event that any matter stated herein, or any opinion, projection, forecast or estimate set forth herein, changes or subsequently becomes inaccurate.

HLB Group, their directors, employees and representatives do not have any responsibility or liability to any person or recipient (whether by reason of negligence, negligent misstatement or otherwise) arising from any statement, opinion or information, expressed or implied, arising out of, contained in or derived from or omission from the reports or matter.

Potential and actual conflict of interest may arise from the activities of HLB Group. HLB Group constitute a diversified financial services group. These entities engage in a wide range of commercial and investment banking, brokerage, funds management, hedging transactions and other activities for their own account or the account of others. In the ordinary course of their business, HLB Group may effect transactions for their own account or for the account of their customers and hold long or short positions in the financial instruments. HLB Group, in connection with its business activities, may possess or acquire material information about the financial instruments. Such activities and information may involve or have an effect on the financial instruments. HLB Group have no obligation to disclose such information about the financial instruments or their activities.

The past performance of financial instruments is not indicative of future results. Whilst every effort is made to ensure that statements of facts made in this report are accurate, all estimates, projections, forecasts, expressions of opinion and other subjective judgments contained in this report are based on assumptions considered to be reasonable as of the date of the document in which they are contained and must not be construed as a representation that the matters referred to therein will occur. Any projections or forecasts mentioned in this report may not be achieved due to multiple risk factors including without limitation market volatility, sector volatility, corporate actions, the unavailability of complete and accurate information. No assurance can be given that any opinion described herein would yield favourable investment results. Recipients who are not market professional or institutional investor customer of HLBB should seek the advice of their independent financial advisor prior to taking any investment decision based on the recommendations in this report.

HLBB may provide hyperlinks to websites of entities mentioned in this report, however the inclusion of a link does not imply that HLBB endorses, recommends or approves any material on the linked page or accessible from it. Such linked websites are accessed entirely at your own risk. HLBB does not accept responsibility whatsoever for any such material, nor for consequences of its use.

This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation. This report is for the use of the addressees only and may not be redistributed, reproduced or passed on to any other person or published, in part or in whole, for any purpose, without the prior, written consent of HLBB. The manner of distributing this report may be restricted by law or regulation in certain countries. Persons into whose possession this report may come are required to inform themselves about and to observe such restrictions. By accepting this report, a recipient hereof agrees to be bound by the foregoing limitations.