17 November 2022

Global Markets Research

Daily Market Highlights

17 Nov: Dampened Fed pivot hopes pressured equities

Hawkish Fed speaks and downbeat Target's sales weighed on stocks and bond yields

Stronger-than-expected US retail sales dashed Fed pivot hopes

UK inflation showed no signs of abating; hitting a 14-year high at 11.1%

- The S&P 500 fell as investors weighed a gloomy holiday quarter update from Target that pressured retail stocks. The broad market S&P500 index was down by 0.8% d/d and the Nasdaq Composite shed 1.5% d/d. The Dow Jones Industrial Average wrestled with the flat line at -0.1% d/d. Those moves came after Target reported a decline in sales as families deal with high inflation heading into the biggest shopping season of the year for retailers. Target plunged 13.1% d/d. Stocks also fell after strong retail sales target dimmed hopes for a Fed pivot while New York Fed President John Williams bruised sentiment saying that central bank should avoid incorporating financial stability risks into its consideration. San Francisco Fed President Daily, meanwhile, also stressed that a pause is off the table.

- European markets closed lower on Wednesday as political instability gripped the region after a missile hit Polish territory, raising tensions between Russia and NATO. Stoxx Eur 600 closed down 1.0%, while FTSE 100 dipped 0.3% d/d. Shares in the Asia-Pacific were also mostly lower as world leaders gathered in Bali, Indonesia, for a second day of the Group of 20 summit. The Nikkei 225 reversed earlier losses to close 0.1% higher. In Hong Kong, the Hang Seng index closed -0.5% d/d.

- The benchmark 10-year U.S. Treasury yield dipped as markets digested better-than-expected retail sales data. The yield on the 10-year note was 8bps lower at 3.69%. The yield on the 2-year Treasury, on the other hand, was 3bps higher at 4.36%. Yield curve inversion, with the 2/10 spread standing at -67bps currently, continued to warn of a recession.

- The euro pulled higher against the dollar as concerns about a missile strike in Poland eased but the dollar gained some support from stronger-than-expected US retail sales data. Both the euro and sterling were 0.4% d/d stronger. The dollar was nevertheless, stronger by 0.2%d/d against the yen and 0.3% d/d against Ringgit. The Dollar Index closed the day marginally lower by 0.1% d/d at 106.28.

- Oil prices settled lower after Russian oil shipments via the Druzhba pipeline to Hungary restarted. Brent fell 1.1% d/d, while the West Texas Intermediate (WTI) slid 1.5% d/d. The market later recovered some losses after the Energy Information Administration reported that US crude inventories fell by 5.4m barrels last week. Gold, meanwhile, wavered near a 3-month high, largely unchanged at -0.1% d/d.

Key Market Metrics

	Level	d/d (%)
Equities		
Dow Jones	33,553.83	-0.12
S&P 500	3,958.79	-0.83
NASDAQ	11,183.66	-1.54
Stoxx Eur 600	430.17	-0.98
FTSE 100	7,351.19	-0.25
Nikkei 225	28,028.30	0.14
Hang Seng	18,256.48	-0.47
Straits Times	3,266.17	-0.28
KLCI 30	1,448.38	-0.15
FX		
Dollar Index	106.28	-0.12
EUR/USD	1.0395	0.44
GBP/USD	1.1914	0.41
USD/JPY	139.50	0.16
AUD/USD	0.6741	-0.22
USD/CNH	7.1078	0.84
USD/MYR	4.5448	0.25
USD/SGD	1.3702	-0.04
Commodities		
WTI ($/bbl)	85.59	-1.53
Brent ($/bbl)	92.86	-1.07
Gold ($/oz)	1,775.80	-0.06
Copper ($$/MT)	8,293.50	-0.99
Aluminum($/MT)	2,412.00	-0.94
CPO (RM/tonne)	4,009.50	-0.34

Source: Bloomberg, HLBB Global Markets Research

US indicators were mixed; retail sales and mortgage applications improved; builder confidence, manufacturing output worsened, export and import prices reaffirmed peaked inflation

- Retail sales posted the biggest increase in 8 months in October, indicating demand for goods is broadly holding up despite decades-high inflation and a worsening economic outlook. Sales climbed 1.3% m/m after stagnating in September and was better than the +1.0% m/m gain. 9 of 13 retail categories rose, including auto dealers, grocery stores and restaurants.
- Manufacturing production barely rose in October and output in the prior two months was not as strong as initially thought, suggesting that manufacturing was rapidly losing momentum amid higher interest rates. Manufacturing output edged up 0.1% m/m, a shade lower than consensus estimate's 0.2% m/m. Data for September and August were revised lower to show production at factories rising 0.2% m/m (earlier estimate: +0.4% m/m) and 0.1% m/m (earlier estimate: +0.4% m/m) respectively. While output at auto plants rose 2.0% m/m, there were also increases in the output of electrical equipment, appliances and components as well as aerospace and miscellaneous transportation equipment. These were, nevertheless offset by declines in construction supplies and materials. In tandem with this, capacity utilization decreased 0.2ppts to 79.9%. This is 0.3ppts above its long-run (1972–2021) average.
- Mortgage rates decreased for the week ended November 11. The 30-year fixed rate saw the largest single-week decline since July 2022, dropping to 6.9%. As a result, mortgage applications rebounded to increase 2.7% w/w, driven by a 4.0% w/w rise in purchase applications. Refinance activity remained depressed, down 2.0% w/w and 88.0% y/y.
- The National Association of Home Builders (NAHB)/Wells Fargo Housing Market Index (HMI)Builder confidence in the market for newly built single-family homes posted its 11th straight monthly decline in November, dropping five points to 33 and below consensus' 36. This is the lowest confidence reading since June 2012, with the exception of the onset of the pandemic in the spring of 2020. All three HMI components posted declines in November. As it is, higher interest rates have significantly weakened demand for new homes as buyer traffic is becoming increasingly scarce. Even as home prices moderate, building costs, labor and materials, have yet to follow.
- Business inventories increased moderately in September, suggesting that businesses were becoming more cautious about ordering more merchandise as higher borrowing costs slow demand. Business inventories increased 0.4% after rising 0.9% in August and was below consensus estimate of 0.5% m/m. Retail inventories excluding autos, which go into the calculation of GDP, slipped 0.1% as estimated last month. Business sales, meanwhile, rose 0.2% m/m after gaining 0.3% in August. At September's sales pace, it would take 1.33 months for businesses to clear shelves, unchanged from August.
- Prices for US imports declined at a slower pace of 0.2% m/m in October, after falling 1.1% m/m the previous month, led by lower prices for fuel and consumer goods. On a y/y basis, prices increased 4.2%, the smallest increase since February 2021. Similarly, export prices decreased 0.3% m/m following a 1.5% decline in September, led by lower prices for both agricultural and non-agricultural exports in October each contributed to the overall decline. Despite the recent decreases, prices were up 6.9% y/y.

UK inflation showed no signs of abating; hitting a 14-year high at 11.1%

- The Consumer Prices Index rose by 11.1% y/y in October, accelerating from +10.1% y/y in the prior month and was higher than consensus' +10.7% y/y. Despite the introduction of the government's Energy Price Guarantee, gas and electricity prices made the largest upward contribution to the change inflation rates between September and October 2022. Rising food prices also made a large upward contribution to change with transport (principally motor fuels and second-hand car prices) making the largest, partially offsetting, downward contribution to the change in the rates.

- Producer input and output prices, on the other hand, decelerated to +19.2% y/y (September: +20.8% y/y) and +14.8% y/y (September: +16.3% y/y) respectively for October. Inputs of metals, crude oil and chemicals all provided downward contributions to the change in the annual rate of input inflation, more than offsetting the slightly by positive contributions from fuel and food.

China new home price fell most in 7 years before sector rescue

- China's home prices fell the most in seven years in October, underscoring the depths of the downturn that prompted policy makers to bail out the sector. New-home prices in 70 cities, excluding state-subsidized housing, fell 0.37% last month from September, a 14th straight decline, The existing-home market fared worse, down 0.47%, the steepest decline since 2014. Just a recap, regulators recently issued a 16-point plan including allowing developers to extend bank loans and trust borrowings, while "quality" property developers were allowed greater access to money homebuyers pay in advance for new homes.

Japan machinery orders fell 4.6% m/m

- Core machinery orders, excluding volatile ones for ships and those from electric power companies, decreased 4.6% m/m in September. Economists had expected orders to edge up by 0.7% m/m after the previous month's -5.8% m/m. For 3Q, orders dipped 1.6% q/q but is forecasted to rise by 3.6% q/q in 4Q.

Australia wages jumped 1.0% in 3Q, biggest gain in a decade

- Australian wages boasted the largest rise in a decade in 3Q as a super-tight labour market finally made itself felt. The wage price index rose 1.0% q/q, topping forecasts of a 0.9% increase and the largest gain since early 2012. Annual pay picked up to 3.1% from 2.6%, the fastest pace since 2013. The acceleration in wages in the third quarter was partly due to a sharp 4.7% increase in the minimum wage, which was itself awarded as a buffer against inflation.
- The Westpac-Melbourne Institute Leading Index of Economic Activity was 97.60 in October, down from 97.65 in September. The six-month annualised growth rate of the Leading Index also fell and is sizably negative. Consequently, this suggests that the Australian economy will grow at a below-trend pace in the next 3 to 9 months. Three components account for the 2.38ppt swing: the yield spread, commodity prices and aggregate monthly hours worked.

House View and Forecasts

FX	This Week	4Q-22	1Q-23	2Q-23	3Q-23
DXY	105-110	115.00	112.70	110.45	110.00
EUR/USD	0.99-1.04	0.95	0.97	0.98	0.98
GBP/USD	1.13-1.19	1.10	1.10	1.11	1.12
USD/JPY	138-145	147.00	146.00	145.00	144.00
AUD/USD	0.64-0.68	0.62	0.63	0.64	0.64
USD/MYR	4.50-4.62	4.68	4.64	4.62	4.60
USD/SGD	1.37-1.40	1.45	1.44	1.42	1.40

Rates, %	Current	4Q-22	1Q-23	2Q-23	3Q-23
Fed	3.75-4.00	4.25-4.50	5.25-5.50	5.25-5.50	5.25-5.50
ECB	2.00	2.75	2.75	2.75	2.75
BOE	3.00	3.25	3.25	3.25	3.25

BOJ	-0.10	-0.10	-0.10	-0.10	-0.10
RBA	2.85	3.10	3.10	3.10	3.10
BNM	2.75	2.75	3.00	3.00	3.00

Source: HLBB Global Markets Research

Up Next

Date	Events	Prior
17-Nov	NZ PPI Input QoQ (3Q)	3.10%
	NZ PPI Output QoQ (3Q)	2.40%
	JN Exports YoY (Oct)	28.90%
	SI Non-oil Domestic Exports SA MoM (Oct)	-4.00%
	AU Unemployment Rate (Oct)	3.50%
	MA Exports YoY (Oct)	30.10%
	HK Unemployment Rate SA (Oct)	3.90%
	EC Construction Output MoM (Sep)	-0.60%
	EC CPI MoM (Oct F)	1.50%
	US Housing Starts (Oct)	1439k
	US Building Permits (Oct)	1564k
	US Philadelphia Fed Business Outlook (Nov)	-8.7
	US Initial Jobless Claims	225k
	US Continuing Claims	1493k
18-Nov	US Kansas City Fed Manf. Activity (Nov)	-7
	JN Natl CPI YoY (Oct)	3.00%
	UK GfK Consumer Confidence (Nov)	-47
	UK Retail Sales Inc Auto Fuel MoM (Oct)	-1.40%
	US Existing Home Sales MoM (Oct)	-1.50%
	US Leading Index (Oct)	-0.40%

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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