

18 August 2022

Global Markets Research

Daily Market Highlights

18 Aug: USD pared gains post FOMC minutes

FOMC minutes signalled possibility of slower Fed rate hike ahead

Stocks narrowed losses whilst UST yields pared gains post minutes release

RBNZ raised OCR by 50bps as expected; maintained hawkish policy stance

- Overnight US stocks closed on a softer note, as weak corporate earnings notably Target and Tencent from both ends of the world heightened concerns over slowing China and the US economy. FOMC minutes which reaffirmed expectations of slower rate hike pace going forward however helped narrow losses. The Dow Jones ended 0.5% lower at close while the S&P 500 lost 0.7%, dragged by broad declines across all sectors except energy. Tech-focus NASDAQ extended its decline by 0.4%.
- US treasury yields saw narrower gains after the release of FOMC minutes, but still settled the day between 3-10bps higher. 2Y UST yields rose 3bps to 3.29% whilst the 10s climbed 9bps to 2.90%, bear steepening the curve.
- The dollar traded firmer against most G10s, with the DXY printing a 0.1% gain to 106.57 at close, off its intraday high of 106.89. The USD registered the biggest gain against the AUD (+1.3%) and kiwi (+1.0%), followed by the JPY (+0.6%). The EUR traded rather flat at 1.0180 (+0.1%) while the sterling weakened 0.4% to 1.2048.
- Asian currencies mostly weakened against the USD earlier, led by SGD (-0.2%) and KRW (-0.2%). The MYR closed flat at 4.4670, after a day of tight rangetrading between 4.4620 and 4.4680. The CNY and THB were among the few gainers, eking out minor 0.1% and 0.03% gains against the greenback.
- Oil rebounded to increase between 1.4-1.8% amid lower US crude inventories. The WTI and Brent last settled at \$88.11 and \$93.65/ barrel respectively. Prospects of slowing demand which may prompt OPEC oil producers to cut output could keep oil prices supported in the near term.

FOMC minutes revealed policy makers' view on slowing rate hike pace "at some point"

- Minutes of the July FOMC Meeting showed consensus view among policy makers on the need to dial back the pace of rate hike at some point, with many participants acknowledging the risk of over-tightening whilst significant risk of entrenched inflation remains. Policy makers also commented there is a need to slow the pace of rate hike going forward to gauge the effects of earlier hikes on curbing inflation. Minutes showed that "as the stance of monetary policy tightened further, it likely would become appropriate at some point to slow the pace of policy rate increases while assessing the effects of cumulative policy adjustments on economic activity and inflation".
- This reaffirmed market as well as our expectations that the Fed could trim the pace of rate hike from 75bps to 50bps at its next meeting in September. Market pricing for a September hike has since pared back further to 60bps

Key Market Metrics

	Level	d/d (%)
Equities		
Dow Jones	33,980.32	-0.50
S&P 500	4,274.04	-0.72
NASDAQ	12,938.12	-1.25
Stoxx Eur 600	439.03	-0.91
FTSE 100	7,515.75	-0.27
Nikkei 225	29,222.77	1.23
Hang Seng	19,922.45	0.46
Straits Times	3,262.76	0.28
KLCI 30	1,518.16	-0.04
FX		
Dollar Index	106.57	0.07
EUR/USD	1.0180	0.09
GBP/USD	1.2048	-0.40
USD/JPY	135.05	0.62
AUD/USD	0.6934	-1.25
USD/CNH	6.7942	0.03
USD/MYR	4.4670	0.00
USD/SGD	1.3813	0.20
Commodities		
WTI (\$/bbl)	88.11	1.83
Brent (\$/bbl)	93.65	1.42
Gold (\$/oz)	1,766.50	-0.72
Copper (\$\$/MT)	7,924.50	-0.68
Aluminum (\$/MT)	2,411.00	0.79
CPO (RM/tonne)	4,241.50	-0.42

Source: Bloomberg, HLBB Global Markets Research

at time of writing. Markets will next look up to Jackson Hole symposium on 25-27 August for further clues on the Fed's next policy action.

US retail sales weaker than expected; mortgage applications declined:

- US retail sales stagnated in July while Jun's gain was revised lower to 0.8% m/m (from +1.0%), added to signs higher inflation, softer consumer confidence and slower growth prospects are dampening consumer spending. Retail sales ex-auto however surprised on the upside, registering a 0.4% m/m increase as lower gasoline prices offered some relieves, albeit easing from the 0.9% expansion in the preceding month.
- US MBA mortgage applications took a turn down and fell for the first time in three weeks, by 2.3% w/w for the week ended 12 Aug (prior +0.2%). This was due to extended decline in new purchases (-0.8%) and renewed contraction in refinancing (-5.4%).

Eurozone GDP moderated in 2Q:

- The Eurozone economy expanded at a more moderate pace of 0.6% q/q and 3.9% y/y in 2Q (1Q: +0.7% q/q and +4.0% y/y), still a commendable performance compared to its peers. The resiliency was due to mixed performances among its member countries, ranging between a contraction of 1.4% and expansion of 2.6%. Among the three key member economies, growth stagnated in Germany (0.0% vs +0.8% q/q), rebounded in France (+0.5% vs -0.2% q/q) and accelerated in Italy (+1.0% vs +0.1%). Despite the resiliency in 2Q, risks of a decelerating economy in the region remain as the energy crisis is expected to exert further upward pressure on inflation and downward pressure on growth.

UK CPI inflation accelerated to over 10.0%:

- The UK CPI inflation hit a fresh record of 10.1% y/y in July (June: +9.4%), consistent with the Bank of England's expectations that CPI will rise to just over 13% in 4Q22 as energy costs increased in the country following Russia's restriction of gas supplies to Europe. Prices rose across the board compared to a year ago, led by food and non-alcoholic drink, housing, utilities and fuels, transport and also restaurants & hotels. On a monthly basis, CPI rose 0.6% m/m in July (Jun: +0.8%).

Australia's wage growth still below 3% in 2Q22:

- Australia's wage growth held steadily at 0.7% q/q in the second quarter of 2022 (1Q22: +0.7%). The annual rate of wage growth accelerated to 2.6% y/y (1Q22: +2.4%), but considered weak versus the 3-4% y/y increase needed to achieve the RBA's inflation goal after excluding the current external price effect.
- The Westpac Leading Index six-month annualised growth rate increased to 0.63% in July, from 0.48% in June, indicating that the overall momentum in the economy remains above trend. Westpac cautioned that spending will slow nearing the final quarter as interest rates rise and high inflation sapped confidence.

Singapore's NODX growth eased in July:

- Singapore's non-oil domestic exports rose 1.4% m/m in July (Jun: +3.2%). Compared to the same month last year, NODX growth eased to 7.0% y/y (Jun: +8.5%) as exports to China fell by a whopping 21.3% and shipment to Japan also tumbled 15.3%.

RBNZ raised OCR by 50bps as expected:

- The Reserve Bank of New Zealand hiked the Official Cash Rates (OCR) by 50bps to 3.00% as expected, marking its third 50bp rate hike in a row. It reaffirmed its hawkish policy stance to continue tightening policy, citing high

core inflation and scarce labour resources. Importantly, the RBNZ also revised higher its inflation forecast to 5.8% (from 5.5% prior) and OCR forecasts to 4.0% (from 3.4% prior) at the end of this year, pointing to more rate hikes to come this year.

House View and Forecasts

FX	This Week	3Q-22	4Q-22	1Q-23	2Q-23
DXY	104-106	106.00	105.00	103.00	102.00
EUR/USD	1.02-1.04	1.02	1.03	1.05	1.04
GBP/USD	1.21-1.23	1.21	1.22	1.24	1.23
USD/JPY	130-133	138.00	135.00	133.00	132.00
AUD/USD	0.70-0.72	0.67	0.69	0.70	0.70
USD/MYR	4.44-4.48	4.42	4.40	4.38	4.35
USD/SGD	1.36-1.38	1.40	1.38	1.37	1.36

Rates, %	Current	3Q-22	4Q-22	1Q-23	2Q-23
Fed	2.25-2.50	2.50-2.75	3.00-3.25	3.00-3.25	3.00-3.25
ECB	-0.50	0.25	0.50	0.50	0.50
BOE	1.75	1.75	2.00	2.00	2.00
BOJ	-0.10	-0.10	-0.10	-0.10	-0.10
RBA	1.85	1.60	1.85	1.85	1.85
BNM	2.25	2.50	2.75	2.75	2.75

Source: HLBB Global Markets Research

Up Next

Date	Events	Prior
18/08	AU Employment Change (Jul)	88.4k
	AU Unemployment Rate (Jul)	3.5%
	EZ CPI Core YoY (Jul F)	4.0%
	US Philadelphia Fed Business Outlook (Aug)	-12.3
	US Initial Jobless Claims (13 Aug)	362k
	US Existing Home Sales MoM (Jul)	-5.4%
	US Leading Index (Jul)	-0.8%
19/08	NZ Trade Balance NZD (Jul)	-701m
	NZ Exports NZD (Jul)	6.42b
	UK GfK Consumer Confidence (Aug)	-41.0
	JP Natl CPI Ex Fresh Food YoY (Jul)	2.2%
	MA Exports YoY (Jul)	38.8%
	UK Retail Sales Inc Auto Fuel MoM (Jul)	-0.1%

Source: Bloomberg

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