19 January 2022

## Global Markets Research

## Daily Market Highlights

# 19-Jan: Sell-off in US equities & bonds

### Markets priced in a more aggressive Fed rate hike in March

### USD surged alongside higher crude oil prices

### BOJ sees higher inflation but would not tighten policy

- US markets reopened on Tuesday following the long weekend, only to suffer a deeper selloff; stocks had fallen for two consecutive weeks since the new year. US equities plunged on Tuesday and treasury yields soared amid rising speculations that the Federal Reserve may deliver a bigger than expected rate hike in March. The Dow Jones shed 543pts or 1.5% overnight while the S&P 500 lost 1.8%, driven by a broad-based selloff that pressured technology and financials shares the most. NASDAQ recorded the steepest losses of 2.6%.

- Treasury yields shot up overnight as traders now predict an even more aggressive rate hike by the Fed. The money market now priced in a more than 25-basis-point hike in March. Yields rose across the curve, climbing 7.6 to 10 bps; the benchmark 10Y UST yield surged to a two-year high of 1.87% (+8.9bps while the yield on the 2Y notes closed above 1.0% for the first time since late February 2020, before the global pandemic.

- The dollar strengthened against most major currencies except JPY and CAD as both were flat. EUR/USD dipped 0.7% to 1.1325; The dollar index rose for the third consecutive session, adding 0.5% to 95.73.

- USD/MYR closed 0.1% higher at 4.1825 on Monday before the Thaipusam holiday on Tuesday. We are neutral to slightly bullish on the pair despite the broad USD strength, expecting investors to stay side-lined ahead of tomorrow's BNM MPC meeting where we are expecting a pause and continuous neutral rhetoric.

- Gold prices edged lower modestly (-0.2%) to $1812.4/oz amid the USD strength. Meanwhile, crude oil prices jumped on rising geopolitical tensions; Brent crude gained 1.2% to $87.51/barrel, its highest level since early October 2014; the same went to the US WTI futures, which climbed 1.9% to $85.43/barrel.

**Bank of Japan adjusted inflation forecast; Kuroda ruled out policy normalisation:**

- The Bank of Japan kept its ultra-loose monetary policy setting unchanged as expected but revised upwards its 2022 growth and inflation outlook.
- The real GDP growth for fiscal year 2022 was adjusted higher to 3.8%, from 2.9% while the CPI ex-fresh food (its main inflation gauge) was revised to 1.1%, from 0.9% prior. BOJ attributed the more positive growth outlook to government's measures and a recovery in production to catch up with demand while higher inflation would be driven by higher commodity prices. It said that the y/y CPI ex-fresh food rate is likely to "increase in positive territory for the time being" and is expected to stay around 1% toward the end of the projection period, indicating that it began to see Japan steering out of the deflationary period.
- While it expected the Japanese economy to recover as the Covid related services disruption and waning supply chain constraints effect, it still maintained that risks

**Key Market Metrics**

| | Level | d/d (%) |
|---|---|---|
| **Equities** | | |
| Dow Jones | 35,368.47 | -1.51 |
| S&P 500 | 4,577.11 | -1.84 |
| NASDAQ | 14,506.90 | -2.60 |
| Stoxx 600 | 479.79 | -0.97 |
| FTSE 100 | 7,563.55 | -0.63 |
| Nikkei 225 | 28,257.25 | -0.27 |
| Hang Seng | 24,112.78 | -0.43 |
| Straits Times | 3,280.05 | -0.24 |
| KLCI 30 | 1,542.92 | -0.80 |
| **FX** | | |
| Dollar Index | 95.73 | 0.50 |
| EUR/USD | 1.1325 | -0.73 |
| GBP/USD | 1.3596 | -0.37 |
| USD/JPY | 114.61 | -0.02 |
| AUD/USD | 0.7185 | -0.44 |
| USD/CNH | 6.3606 | 0.15 |
| USD/MYR* | 4.1825 | 0.11 |
| USD/SGD | 1.3505 | 0.16 |
| **Commodities** | | |
| WTI ($/bbl) | 85.43 | 1.90 |
| Brent ($/bbl) | 87.51 | 1.19 |
| Gold ($/oz) | 1,812.40 | -0.20 |

*Last price for 17 January 2022

*Source: Bloomberg, HLBB Global Markets Research* to economic activity are skewed to the downside for the time being, mainly due to the impact of the pandemic.

- Governor Haruhiko Kuroda said at the post-meeting press conference that they expect long and short-term rates to remain at current low levels or fall even lower, ending speculations that the BOJ may raise rates, confirming the expected policy divergence between Japan and other major economies such as the US and UK.

**New York's manufacturing activity affected by Covid; homebuilding confidence stayed solid:**

- The New York Fed Empire State Manufacturing Index turned negative at -0.7 in January, a steep decline from 31.9 in December. Manufacturing conditions deteriorated this month, driven by the sharp declines in the gauge of new orders (-5.0 vs 27.1 prior) as well as shipment (1.0 vs 27.1 prior) as the Omicron variant spread across the state.
- The NAHB Housing Market Index slipped to 83 in January, from 84 prior; this indicates little change in the solid homebuilder confidence. The index had now stayed at 83-84 from Nov-Jan period as builders continued to see strong single-family home sales at present, but expected a softer future sale and prospective buyer's traffic.

**Strong UK job numbers set stage for February hike:**

- The UK unemployment rate fell further to 4.1% in the three months to November, lower than the consensus estimate and October reading of 4.2% and is approaching its pre-pandemic level of 4.0%.
- The economy added 60k new jobs in the same period, missing the forecast of 125k and representing a slowdown from the 149k gains previously. The latest set of readings showed that the ending of the government's furlough scheme in September (which was carried out gradually over months) did not trigger a drastic shock on the strengthening labour market conditions.
- A more dated report showed that jobless claims fell further, albeit more moderately, by 43.3k in December (Nov: -95.1k), adding to signs of a firmer job market. This could lead the BOE to deliver its second rate hike in February. The BOE had hiked the benchmark Bank Rate once in mid-December, from 0.1% to 0.25%. Focus shifts to today's CPI data.

**German investor confidence jumped in January:**

- German investor confidence soared in the first month of 2022, reflecting expectations that Germany and the broader Eurozone may embark on a recovery this year after the Omicron waves die down. The ZEW Expectations Index for Germany surged to 51.7 in January (Dec: 29.9), up nearly 22pts; however, the current situation gauge slipped to -10.4 (Dec: -7.4), as the government tightened Covid restrictions. Similarly, the expectations index for the Eurozone surged by almost 23pts and the current condition index ticked lower down the negative territory.

**Japan's industrial production surged in November:**

- Industrial production rose 7.0% m/m in November (Oct: +7.8%) according to a final reading, down from the flash estimate of 7.2% m/m. This translates to a y/y growth rate of 5.1% (Nov: -4.1%), versus initial estimate of 5.4% y/y. Nonetheless, the overall report remains super upbeat, as Japanese manufacturers ramped up output following the lifting of the National State of Emergency in late September.

**Further increase in New Zealand's card spending:**

- New Zealand's card spending continued to pick up in December as Covid restrictions eased and consumers shopped for the holidays season. Total card spending rose 1.9% m/m in December, extending from the 8.9% growth in

November. Spending on services jumped 16.6% m/m (Nov: +12.8%) while retail spending rose 0.4% m/m (Nov: +9.5%).

## House View and Forecasts

| FX | This Week | 1Q-22 | 2Q-22 | 3Q-22 | 4Q-22 |
|---|---|---|---|---|---|
| DXY | 94-96 | 96.15 | 96.40 | 96.30 | 96.30 |
| EUR/USD | 1.13-1.15 | 1.13 | 1.12 | 1.12 | 1.13 |
| GBP/USD | 1.36-1.38 | 1.34 | 1.33 | 1.35 | 1.36 |
| AUD/USD | 0.72-0.73 | 0.72 | 0.72 | 0.74 | 0.75 |
| USD/JPY | 114-115 | 115 | 116 | 115 | 114 |
| USD/MYR | 4.16-4.21 | 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 | 0.25 | 0.25 | 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 |
|---|---|---|
| 19/01 | AU Westpac Consumer Conf Index (Jan) | 104.3 |
| | UK CPI YoY (Dec) | 5.1% |
| | US MBA Mortgage Applications (14 Jan) | 1.4% |
| | US Building Permits MoM (Dec) | 3.6% |
| | US Housing Starts MoM (Dec) | 11.8% |
| 20/01 | JP Trade Balance (Dec) | -¥954.8b |
| | JP Exports YoY (Dec) | 20.5% |
| | UK RICS House Price Balance (Dec) | 71% |
| | AU Employment Change (Dec) | 366.1k |
| | AU Unemployment Rate (Dec) | 4.6% |
| | CN 1-Year Loan Prime Rate (20 Jan) | 3.8% |
| | MA BNM Overnight Policy Rate (20 Jan) | 1.8% |
| | HK CPI Composite YoY (Dec) | 1.8% |
| | EZ CPI YoY (Dec F) | 4.9% |
| | US Initial Jobless Claims (15 Jan) | 230k |
| | US Philadelphia Fed Business Outlook (Jan) | 15.4 |
| | US Existing Home Sales MoM (Dec) | 1.9% |

*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 favorable 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.