

19 December 2022

Global Markets Research

Daily Market Highlights

19 Dec: Stocks built on earlier losses on recession fear

US and European equities under pressure; mixed in Asia

DXY recaptured 104 handle; UST ended mixed

PMIs point to further weaknesses in December by and large

- Stocks fell on Friday, building on their year-end sell-off, as fears grow over a recession taking place as the Federal Reserve continues raising rates. The Dow Jones Industrial Average lost 0.9% d/d, the S&P 500 fell 1.1% d/d while Nasdaq Composite declined 1.0% d/d. Trading was especially volatile Friday with a large amount of options expiring.
- Over in Europe, Stoxx 600 closed 1.2% d/d lower, while FTSE 100 fell 1.3% d/d. The U.K.'s Games Workshop was a bright spot as European markets retreated on recession fears, rising 16.2% after the Warhammer-maker signed a TV deal with Amazon. In Asia, Nikkei 225 fell 1.9% d/d, leading losses in the region. The Hang Seng index gained 0.4% d/d while the Shanghai Composite Index posted a small 0.02% loss.
- Shares of Chinese technology companies fell in Asia trade after the US government announced a list of companies that will face restrictions over their efforts to help modernize China's military. These include Chinese artificial intelligence developer Cambricon Technologies' shares which fell 5.1% d/d, China Electronics Technology Group as well as Hangzhou Hikvision, the world's largest surveillance camera maker.
- US treasuries traded mixed, with gains in the front end and losses at the belly and longer end of the curve, steepening the curve. The 2-year Treasury yield last fell about 6bps to 4.18% while the 10s was up about 4bps to 3.48%, pulling back somewhat after climbing above the 3.50% level earlier in the day.
- The Dollar Index traded little changed, closing the week 0.1% d/d up at 104.70. EUR depreciated by 0.4% d/d to 1.0586, but we believe will be supported by expectations that ECB will keep rates fairly aggressive vis-a-vis other central banks going forward. JPY, on the other hand, strengthened 0.9% d/d to 136.60 as some leveraged dollar longs carried over were trimmed into the weekend. The Ringgit, meanwhile, weakened 0.2% d/d to 4.4245 against the USD, contrary to gains seen in the CNY and SGD.
- Oil fell by more than 2.0% d/d, swept up in a wider rout in global equities on fears of a looming recession, after central banks across Europe and US signalled they will continue to battle inflation aggressively. This more than outweighed the modest Strategic Petroleum Reserve purchase of 3m barrels for delivery in February.

Key Market Metrics

	Level	d/d (%)
Equities		
Dow Jones	32,920.46	-0.85
S&P 500	3,852.36	-1.11
NASDAQ	10,705.41	-0.97
Stoxx Eur 600	424.74	-1.20
FTSE 100	7,332.12	-1.27
Nikkei 225	27,527.12	-1.87
Hang Seng	19,450.67	0.42
Straits Times	3,240.81	-1.01
KLCI 30	1,478.54	0.78
FX		
Dollar Index	104.70	0.14
EUR/USD	1.0586	-0.40
GBP/USD	1.2148	-0.25
USD/JPY	136.60	-0.86
AUD/USD	0.6685	-0.27
USD/CNH	6.9774	-0.20
USD/MYR	4.4245	0.20
USD/SGD	1.3590	-0.15
Commodities		
WTI (\$/bbl)	74.29	-2.39
Brent (\$/bbl)	79.04	-2.67
Gold (\$/oz)	1,790.00	0.72
Copper (\$\$/MT)	8,266.50	-0.33
Aluminum(\$/MT)	2,375.00	-0.38
CPO (RM/tonne)	3,906.00	0.44

Source: Bloomberg, HLBB Global Markets Research

PMI services further weakened in the US; improvement in the EU, UK and Japan

- The S&P Global Flash US services index unexpectedly weakened to 44.4 Dec (consensus: 46.5 vs Nov: 46.2). The fall was the steepest in four months, and among the quickest in the series history (since October 2009), suggesting a steep and sharper downturn in the services sector. Of note, new business from abroad fell at the slowest rate since September and the rate of job creation was the second slowest since September 2021. On a positive note, service firms reported the slowest increase in selling prices for over two years.
- In Europe, the service sector malaise calmed, partly driven by signs of reduced fears over the cost of living squeeze and, in the financial service sector, reduced concerns over the tightening of financial conditions. As a result, the Eurozone services PMI rose from 48.5 to a four-month high of 49.1, indicative of only a modest contraction.
- The UK services PMI evened out after their patchy performance over the last couple of months and performed better in December at 50.0 (consensus: 48.5 vs Nov: 48.5). Nevertheless, the index was still blighted by high cost.
- Japan services index rose to 51.7 in December (Nov: 50.3) to signal a stronger expansion in services output in the final month of 2022. The boost in tourism volumes, largely supported by the National Travel Discount Programme, has reportedly encouraged recent service sector growth. Of note, some firms mentioned increasing output prices to take advantage of current demand conditions.
- The flash Australia services PMI index posted a reading of 46.9 in December, down from 47.6 in November, to indicate a third straight month of contraction. The overall level of business confidence inched up in the final month of the year but remained well below the series average.
- In New Zealand, the services index also posted a sharply lower reading of 53.7 in November (Oct: 57.1 revised). This lowest reading in seven months was dragged by declines in activity sales (-2.9pts), employment (-5.3pts), new orders/ business (-2.3pts), stocks (-1.1pts), and supplier deliveries (-4.7pts).

PMI manufacturing generally weakened: UK PMI at its lowest since May-20

- The US S&P Global flash manufacturing PMI unexpectedly worsened to 46.2 in December (Nov: 47.7). The downturn was the fastest since the initial lockdown period in 2020 and driven by subdued demand and a faster fall in output. Manufacturers also registered one of the sharpest declines in new orders since the 2008/09 global financial crisis.
- In Europe, the manufacturing PMI rose to its 3-month high of 47.8 in December (Nov: 47.1). The surprisingly smaller contraction was led by Germany and linked to a combination of improving supply conditions and reduced fears of energy constraints. As a result,
- Flash UK manufacturing PMI suffered another surprised sharp drop to its 31-month low at 44.7 (Nov: 46.5) as weak demand and damaged supply chains affected the delivery of raw materials and items such as electronic components. Without a strong economic wind behind them, manufacturers have started to doubt the need for their current headcounts and shed jobs at a quicker pace.
- The headline au Jibun Bank flash Japan manufacturing PMI dipped to 48.8 in December (Nov: 49.0) to signal the biggest contraction in the Japanese manufacturing sector since October 2020. Amid ongoing reports of muted customer demand, both output and new orders fell solidly, but at slightly softer rates than in November.
- The flash Australia manufacturing PMI retreated to 50.4 in December (Nov: 51.3). The fall in demand impacted on the level of business confidence and

buying activity among manufacturers, as well as softer price pressure with both input costs and output prices rising at slower rates.

Eurozone inflation slowed less than initially estimated at 10.1%; trade deficit narrowed on bigger fall in imports

- Eurozone inflation slowed less than initially estimated at +10.1% y/y in November (preliminary: 10.0% y/y; Oct: +10.6% y/y), supporting ECB's hawkish plan to fight inflation. Separately, Eurozone recorded a smaller trade deficit of €26.5bn in October (Sept: -€34.4bn), its smallest in four months as imports fell at a faster rate than exports.

UK retail sales surprisingly fell; consumer confidence improved slightly

- British retail sales slid unexpectedly in November, despite the World Cup and the Black Friday sales promotions, a potential indication of the stress felt by many households as the cost-of-living crisis eats into their finances. Retail sales dropped by 0.4% m/m in November (Oct: +0.9% upwardly revised). The Office for National Statistics (ONS) nevertheless added that some of the drop could reflect how the data did not include "Cyber Monday" which will be included in December's figures. Still, Friday's figures were consistent with other signs that consumers are struggling. Retail sales sustained a 5.9% y/y decline while consumer confidence remains in its all-time low.
- Earlier, market research firm GfK reported consumer confidence crept up to -42 in December (Nov: -44) but was still close to all-time low. The slight improvement was led by less negative sentiment on economic outlook as well as climate for major purchases.

Hong Kong unemployment rate improved slightly to 3.7%

- Hong Kong's unemployment rate eased to 3.7% in the Sept-Nov period, matching consensus estimate and improving from 3.8% in the Aug-Oct period. As it is, the near-term labour market outlook will depend on the pace of revival in domestic economic activities, especially with the opening of the border.

Singapore exports fell more than expected at -14.6%

- Singapore's non-oil domestic exports (NODX) contracted more than expected by 14.6% y/y in November (Oct: -6.1% y/y downwardly revised). This marks the second month of contraction with both electronic and non-electronic exports dropping. Specifically, shipment of the former plunged 20.2% y/y (Oct: -9.3% y/y). NODX to Singapore's top 10 markets shrank overall, led by mainland China, Hong Kong and Malaysia.

New Zealand Westpac consumer confidence slipped to record low in 4Q

- Westpac consumer confidence weakened sharply to a record low of 75.6 in 4Q (3Q: 87.6), as consumers turned less upbeat on both current as well as expected conditions, stoke by higher inflation, increased borrowing costs and falling house prices.

House View and Forecasts

FX	This Week	4Q-22	1Q-23	2Q-23	3Q-23
DXY	102-105	100.00	98.00	96.04	96.04
EUR/USD	1.05-1.08	1.08	1.10	1.11	1.11
GBP/USD	1.20-1.24	1.25	1.26	1.27	1.27
USD/JPY	135-138	133	130	128	128
AUD/USD	0.66-0.69	0.69	0.70	0.72	0.72
USD/MYR	4.38-4.44	4.36	4.31	4.28	4.28
USD/SGD	1.34-1.37	1.33	1.32	1.30	1.30

Rates, %	Current	4Q-22	1Q-23	2Q-23	3Q-23
Fed	4.25-4.50	4.25-4.50	4.75-5.00	4.75-5.00	4.75-5.00
ECB	2.50	2.50	3.00	3.00	3.00
BOE	3.50	3.50	4.00	4.00	4.00
BOJ	-0.10	-0.10	-0.10	-0.10	-0.10
RBA	3.10	3.10	3.35	3.35	3.35
BNM	2.75	2.75	3.00	3.00	3.00

Source: HLBB Global Markets Research

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Date	Events	Prior
19-Dec	MA Exports YoY (Nov)	15.00%
	EC Construction Output MoM (Oct)	0.10%
	US NAHB Housing Market Index (Dec)	33
20-Dec	NZ Exports NZD (Nov)	6.14b
	NZ ANZ Business Confidence (Dec)	-57.1
	AU RBA Minutes of Dec. Policy Meeting	
	CH 1-Year Loan Prime Rate	3.65%
	CH 5-Year Loan Prime Rate	4.30%
	HK CPI Composite YoY (Nov)	1.80%
	US Building Permits MoM (Nov)	-2.40%
	US Housing Starts MoM (Nov)	-4.20%
	EC Consumer Confidence (Dec P)	-23.9
	JN BOJ Policy Balance Rate	-0.10%

Source: Bloomberg

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