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Global Markets Research

Daily Market Highlights

20 Oct: Stocks snapped winning streaks

Treasury yields hit multi-year peaks on inflation and recession risks

Fed Beige Book showed greater pessimism amid concerns over slowing demand

UK inflation hit fresh 40-year high; room for further spike

- Wall Street struggled to extend its rally amid a sharp rise in Treasury yields, ending a two-day winning streak. The Nasdaq Composite lost 0.9% d/d, the S&P 500 ticked down 0.7% d/d, while the Dow Jones Industrial Average slipped 0.3% d/d. Even bright earnings spots like Netflix and United Airlines were not able to enthuse investors while Tesla missed earnings estimates on the back of disappointing sales. Similarly, European stocks also closed lower snapping a four-day winning streak, as worries about rising inflation and economic slowdown hurt sentiment. European Stoxx 600 drifted down 0.5% d/d, while FTSE 100 ended 0.2% d/d down.

- Treasury yields rose sharply as concerns over a recession spread among investors spurred by global inflation, further exacerbated by corporate deal hedging flows as well as a poorly received 20-year bond auction. The yield on the 10-year Treasury climbed almost 13bps to 4.13%. The policy-sensitive 2-year Treasury yield rose by 13bps to 4.56%. UK bonds, meanwhile, rallied across the curve on signals that the Bank of England may have pulled off its plan to revive active bond sales without triggering more market turmoil. The yield on the 30-year gilts, which will be exempted from the sale, closed below 4.00%. Shorter note yields gained as well, with the 2 and 5-year yields gaining 10bps and 2bps respectively.

- The Dollar tracked the rise in Treasury yields, with the DXY gaining by 0.8% d/d to 112.98. This was partly buoyed by a record low offshore yuan. GBP traded 0.9% weaker, reversing its earlier gain after Prime Minister Truss fired its Home Secretary as well as report on the UK treasury bond losses. Yen weakened further to the 150-level at 149.90, raising intervention risks. Ringgit, meanwhile, was largely unchanged, depreciating 0.1% d/d to 4.7205. YTD, Ringgit has depreciated by 11.7%.

- Oil prices, meanwhile, rose as traders shrugged off Biden's remarks about taming energy prices. The West Texas Intermediate and Brent rose 3.3% d/d and 2.6% d/d to $85.55/barrel and $92.41/barrel respectively. Gold, on other hand, fell 1.3% d/d to $1,627.50/oz as treasury yields and the Dollar surged on expectations that Fed will continue with its aggressive rate hikes.

US housing starts came in below expectation; mortgage applications in 4th month of decline

- The speed and level to which rates have climbed this year have greatly reduced refinance activity and exacerbated existing affordability challenges in the purchase market. Residential housing activity ranging from housing

Key Market Metrics

	Level	d/d (%)
Equities		
Dow Jones	30,423.81	-0.33
S&P 500	3,695.16	-0.67
NASDAQ	10,680.51	-0.85
Stoxx Eur 600	397.73	-0.53
FTSE 100	6,924.99	-0.17
Nikkei 225	27,257.38	0.37
Hang Seng	16,511.28	-2.38
Straits Times	3,022.80	-0.10
KLCI 30	1,415.10	1.05
FX		
Dollar Index	112.98	0.76
EUR/USD	0.9773	-0.86
GBP/USD	1.1219	-0.89
USD/JPY	149.90	0.43
AUD/USD	0.6270	-0.62
USD/CNH	7.2683	0.61
USD/MYR	4.7205	0.11
USD/SGD	1.4250	0.30
Commodities		
WTI ($/bbl)	85.55	3.30
Brent ($/bbl)	92.41	2.64
Gold ($/oz)	1,627.50	-1.30
Copper ($$/MT)	7,386.50	-0.46
Aluminum($/MT)	2,170.50	-1.03
CPO (RM/tonne)	3,863.50	3.89

Source: Bloomberg, HLBB Global Markets Research starts to home sales have been on downward trends coinciding with the rise in rates. As a result, new US home construction declined in September and permit applications for single-family dwellings fell. Residential starts decreased 8.1% m/m to a 1.44m annualised rate in September. This is below consensus estimate of 1.46m as single-family homebuilding dropped to an annualised 892,000, the slowest since May 2020. Applications to build, a proxy for future construction, meanwhile, rose 1.4% m/m to an annualised 1.56m, above consensus estimate of 1.53m.

- Mortgage applications are also now into their fourth month of declines, dropping to the lowest level since 1997, as the 30-year fixed mortgage rate hit 6.94%, the highest level since 2002. Mortgage applications fell 4.5% w/w for the week ending October 14, with the Refinance Index falling 7% w/w and the Purchase Index decreasing 4% w/w,
- In its latest Beige Book, the Federal Reserve noted that economic activities expanded modestly on net since the previous report. Retail spending was relatively flat, reflecting lower discretionary spending, and auto dealers noted sustained sluggishness in sales stemming from limited inventories, high vehicle prices, and rising interest rates. Manufacturing activity held steady or expanded due to easing in supply chain disruptions. All in, outlook grew more pessimistic amidst growing concerns about weakening demand. Employment, meanwhile, continued to rise at a modest to moderate pace. Labor market conditions remained tight. Price growth remained elevated, though some easing was noted. Looking ahead, expectations were for price increases to generally moderate.

Euro area escaped double-digit inflation by a whisker at +9.9% y/y

- The euro area annual inflation rate was 9.9% in September 2022, up from 9.1% in August. In September, the highest contribution to the annual euro area inflation rate came from energy (+4.19ppts), followed by food, alcohol & tobacco (+2.47ppts), services (+1.80ppts) and non-energy industrial goods (+1.47 ppts). Going forward, the region may not be able to escape from a double digit inflation given the energy crisis confronting the region.
- Eurozone construction output dropped 0.6% m/m in August, reversing a 0.3% rise in July. On a y/y basis, output growth, nevertheless, accelerated to +2.3% y/y from +1.5% y/y previously.

UK Inflation hit 40-year high; offering no let-up in price risk

- The biggest jump in food prices since 1980 pushed British inflation back into double digits last month, matching a 40-year high hit in July in a new blow for households grappling with a cost-of-living crisis. The consumer price index (CPI) jumped 10.1% y/y, slightly above consensus estimate's +10.0% y/y and after a 9.9% rise in August. Food prices rose by 14.8% from a year ago, also the strongest increase in more than 40 years. Furniture and household goods were another driver, rising 10.7%y/y. These rises were partially offset by continuing falls in the costs of petrol, with airline prices falling by more than usual for this time of year, and second-hand car prices also rising less steeply than the large increases seen last year. In a statement, Chancellor of the Exchequer Jeremy Hunt said that the government will prioritise help for the most vulnerable.
- There were also signs of stickier inflation at the wholesale level. Producer prices output, measuring the cost of goods leaving factories, rose 15.9% y/y for the same month. That was slower than the previous month but slightly above expectations. Raw material prices rose 20%, also above expectations.

- Retail price index, meanwhile, rose to 347.6, up from 335.2 in the previous month and was slightly higher than consensus estimate of 347.0.
- House Price Index, rose 13.6% y/y in September, slower than the downward revision to August's +15.5% y/y.

Hong Kong cuts property tax, eases visa rules to attract talent

- Chief executive John Lee announced that Hong Kong is cutting property taxes and easing visa rules for non-permanent residents (PRs) to attract global talent to and revive the city as an international financial hub. The rule will refund extra stamp duties that non-PR property buyers have to pay after they have stayed in the city for 7 years. Once they have become PR, property buyers can apply for refunds of 2 separate stamp duties, each fixed at 15%. In terms of visa plan, he also unveiled a visa plan that will include a program for people who bring in at least HK$2.5m annually as well as recent graduates of top 100 universities.

Australia Leading Index tumbled

- The six-month annualised growth rate in the Westpac-Melbourne Institute Leading Index, which indicates the likely pace of economic activity relative 3 to 9 months into the future, fell to –1.15% in September, down from –0.33% in August. The main components driving the deterioration were a rapid narrowing in the yield spread following aggressive RBA rate hikes (-0.83ppts), softening global commodity prices in AUD terms (–0.79ppts), an end to the large reopening rebound boost to aggregate monthly hours worked (–0.52ppts), a sell-off in equity markets that has weighed on the S&P/ASX 200 (–0.32ppts) and a slowing in the global growth pulse evident in softer US industrial production (–0.17ppts). The reading is the weakest since the pandemic first hit in 2020 and is in line with Westpac's forecast that economic growth will slow from 3.4% in 2022 to 1.0% in 2023, as highlighted by a sharp slowdown in consumer spending. The slowdown is likely to intensify through 2023 as rising interest rates and a softening labour market take their toll.

Malaysia maintained slower, but still double-digit growth for exports

- Malaysia's exports remained strong in September, albeit at a slower pace of 30.1% y/y (August: +48.1% y/y). This was matched by a deceleration in imports at +33.0% y/y (August: +68.3% y/y). Singapore and China were the main export destinations, accounting for 28.5% of exports. Exports to Singapore rose 29.1% y/y, while exports to China rose +8.0% y/y. By product, exports to electronics and electrical goods remained strong at +39.8% y/y, while exports of petroleum product surged 83.3% y/y. Imports of intermediate goods, capital goods and consumption goods, meanwhile, rose by 35.1% y/y, 30.5% y/y and 28.2% y/y respectively.

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	4.68-4.75	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
20/10	JN Trade Balance (Sep)	-¥2817.3b
	AU NAB Business Confidence (3Q)	5
	AU Unemployment Rate (Sep)	3.50%
	CH 1-Year Loan Prime Rate	3.65%
	CH 5-Year Loan Prime Rate	4.30%
	JN Tokyo Condominiums for Sale YoY (Sep)	-40.10%
	EC ECB Current Account SA (Aug)	-19.9b
	HK Unemployment Rate SA (Sep)	4.10%
	US Initial Jobless Claims	228k
	US Philadelphia Fed Business Outlook (Oct)	-9.9
	US Existing Home Sales MoM (Sep)	-0.40%
	US Leading Index (Sep)	-0.30%
21/10	NZ Trade Balance NZD (Sep)	-2447m
	UK GfK Consumer Confidence (Oct)	-49
	JN Natl CPI YoY (Sep)	3.00%
	MA CPI YoY (Sep)	4.70%
	UK Retail Sales Inc Auto Fuel MoM (Sep)	-1.60%
	MA Foreign Reserves	$106.1b
	HK CPI Composite YoY (Sep)	1.90%
	EC Consumer Confidence (Oct P)	-28.8

Source: Bloomberg

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