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Global Markets Research

Daily Market Highlights

21 Nov: Hawkish Fed talks sent Treasury yields up

DXY and stock markets ticked up as investors assessed tougher Fed language

UK expects inflation to peak in 4Q22 and recession to begin in 3Q22

China targeting 5.0% growth for 2022-2023

- The major averages ticked higher on Friday to end the day on an upbeat note as investors assessed tougher language from Federal Reserve speakers and pored over the latest earnings reports. The Dow rose 0.6% d/d, while the S&P 500 climbed 0.5% d/d. Nasdaq finished just 0.01% above the flat line. Boston Federal Reserve President Susan Collins expressed confidence that policymakers can tame inflation without doing too much damage to employment, while St. Louis Fed President James Bullard said that “the policy rate is not yet in a zone that may be considered sufficiently restrictive.”
- Lashed by the hawkish talks, the yield on the benchmark 10-year Treasury traded 6bps higher at 3.83%, while the 30-year Treasury yield traded up 5bps up at 3.93%. The yield of the 2-year surged 8bps to 4.53%.
- In tandem with this, the Dollar Index also gained 0.2% d/d to 106.93 on Friday, strengthening 0.4% d/d against Euro and 0.1% d/d against yen. Sterling reversed the loss on Thursday where investors were left unimpressed by the UK government’s latest budget. Sterling closed Friday 0.2% stronger vis-à-vis the greenback as investors brushed off a weak reading of UK retail sales. Ringgit, on the other hand, weakened 0.3% d/d against the USD on the last trading day before 15th General Election. We expect MYR to trade on a weaker note today, probably back to 4.60-4.65 this week in the midst of uncertainties surrounding a hung parliament post GE15 outcome.
- Oil dropped by approximately 2.0% d/d due to concern about weakened demand in China. Brent was down by 2.4% d/d, while the West Texas Intermediate (WTI) fell 1.9% d/d. Gold prices also dipped 0.5% d/d.

Weaker than expected housing and manufacturing indicators in the US

- Housing starts continued to decline in October as builders saw pullback in single-family projects. Starts fell more than expected by 4.2% m/m to 1.43m in September (Aug: -1.3% revised), with single family homebuilding dropping the lowest since May 2020. Building permits, a proxy for future construction, also fell 2.4% m/m to 1.53m. Although better than consensus estimate’s -3.2% m/m, this is a reversal from previous month’s 1.4% gain.
- Separately, existing-home sales faded for the ninth month in a row to 4.43m. This was worse than September’s 4.71m but was slightly above consensus at 4.40m. Sales fell 5.9% m/m and 28.4% y/y. The median existing-home sales price rose to \$379,100, an increase of 6.6% y/y. The inventory of

Key Market Metrics

	Level	d/d (%)
Equities		
Dow Jones	33,745.69	0.59
S&P 500	3,965.34	0.48
NASDAQ	11,146.06	0.01
Stoxx Eur 600	433.33	1.16
FTSE 100	7,385.52	0.53
Nikkei 225	27,899.77	-0.11
Hang Seng	17,992.54	-0.29
Straits Times	3,272.23	-0.42
KLCI 30	1,449.32	0.06
FX		
Dollar Index	106.93	0.22
EUR/USD	1.0325	-0.36
GBP/USD	1.1890	0.22
USD/JPY	140.37	0.12
AUD/USD	0.6673	-0.18
USD/CNH	7.1264	-0.30
USD/MYR	4.5562	0.25
USD/SGD	1.3759	0.10
Commodities		
WTI (\$/bbl)	80.08	-1.91
Brent (\$/bbl)	87.62	-2.41
Gold (\$/oz)	1,754.40	-0.49
Copper (\$\$/MT)	8,076.00	-0.42
Aluminum(\$/MT)	2,430.00	1.63
CPO (RM/tonne)	3,974.50	-0.87

Source: Bloomberg, HLBB Global Markets Research
*KLCI 30 and USD/MYR closing as of 17th November

unsold existing homes slipped for the third consecutive month to 1.22m or the equivalent of 3.3 months' supply at the current monthly sales pace.

- In the manufacturing sector, Kansas City Fed Manufacturing Index improved more than expected to -6 in November (Oct: -7), as volume of new orders improved to -12 from -16 last month.
- The diffusion index for Philadelphia Business Outlook Survey, on the other hand, fell from a reading of -8.7 last month to -19.4 in November (consensus: -6.0), suggesting continued contraction in the region's manufacturing sector. The indicators for current activity and new orders remained negative, and the shipments index remained positive but low. The firms continued to indicate overall increases in prices paid and received. The survey's future indexes improved but continued to suggest that firms expect overall declines over the next six months.
- In the week ending November 12, initial claims stood at 222k, a decrease of 4k w/w, while the previous week's level was revised up to 226k. Continuing claims for the week ending November 5, meanwhile, jumped 13k to 1507k, up from +7k the prior week.
- The Conference Board Leading Economic Index (LEI) decreased by 0.8% to 114.9 in October, following a decline of 0.5% in September and consensus estimate's -0.4%. As it is, the LEI is now down 3.2% over the six-month period between April and October 2022, a reversal from its 0.5% growth over the previous six months. The downturn reflects consumers' worsening outlook amid high inflation and rising interest rates, as well as declining prospects for housing construction and manufacturing. With the contraction in LEI for the 8th month, this suggest that the economy is possibly in a recession.

Euro inflation accelerated to 10.6% y/y driven by energy

- Eurozone inflation accelerated to +10.6 % y/y in October, up from 9.9% y/y the prior month but a shade lower than consensus' +10.7% y/y. Energy registered the highest inflation for the month at +41.5% y/y (September: +40.7% y/y), followed by food, alcohol & tobacco (+13.1% y/y vs 11.8% y/y in September), non-energy industrial goods (+6.1% y/y vs +5.5% y/y in September) and services (stable at +4.3% y/y).

UK expects inflation to peak in 4Q22 and recession to begin in 3Q22

- The key highlights from the latest Autumn budget include: 1) Reducing the income tax additional rate threshold from £150,000 to £125,140, increasing taxes for those on high incomes. 2) For businesses, the government will implement the OECD Pillar 2 rules, to deliver a global minimum corporate tax rate of 15%. 3) The Energy Profits Levy will be increased by 10ppts to 35% and extended to the end of March 2028, and a new, temporary 45% Electricity Generator Levy will be applied on the extraordinary returns being made by electricity generators. 4) Package of targeted support to help with business rates costs worth £13.6bn over the next 5 years. 5) The Energy Price Guarantee (EPG) will be maintained through the winter, limiting typical energy bills to £2,500 per year. From April 2023 the EPG will rise to £3,000.
- In terms of the economy, the government expects inflation to peak at 11.1% in Q4 2022 (2022: +9.1%), before softening to +7.4% in 2023 and +0.6% in 2024. In the labour market, nominal earnings is set to rise by 5.9% in 2022 and 4.2% in 2023, while unemployment rate to rise slightly from 3.7% in 2022 to 4.1% in 2023 and 4.9% in 2024. The government expects house prices to fall by 9.0% back to around Q3 2021 levels between Q4 2022 and Q3 2024. Driven by falling consumption, the government is expecting a recession starting in Q3 2022, with output falling 2.1%. The economy is set to grow +4.2% in 2022, -1.4% in 2023 and 1.3% in 2024.
- Retail sales volumes rebounded to +0.6% m/m in October following a fall of 1.5% m/m in September (which was affected by the additional bank holiday

for the State Funeral) and came above street estimate of +0.5% m/m. Increases were seen in all of the main sectors apart from food stores, where sales volumes fell by 1.0% m/m and 4.1% below their pre-COVID levels in February 2020. Automotive fuel sales volumes rose by 3.3% m/m, while non-store retailing (predominantly online retailers) sales volumes rose by 1.8% m/m.

- According to GfK's monthly barometer, UK consumer confidence rose three points to -44 in November, up from -47 in October and consensus estimate of -46. All five of GfK's gauges of household economic and financial confidence improved during the period. Despite the slight rise in confidence, it remained close to its record-low levels amid soaring inflation and a looming recession and likely only reflects the change in new prime minister.

China targeting 5% growth for 2022-2023

- According to People Bank of China (PBOC) Advisor Lui Shijin, China should strive for 5.0% average GP growth in 2022-2023 and that the urgent priority now is to get growth back to normal. He also added that favourable conditions are increasing after recent property and COVID policy announcement measures.
- In order to stem a bond sell off, PBOC provided a net 9bn yuan of 7-day liquidity via its open market operation on Friday, adding to the 123bn yuan on Thursday. The overnight repurchase rate, a gauge for short-term interbank borrowing costs fell 32bps to 1.35% as of 11 local time, its biggest decline in 2 weeks.
- China issued capital rules for foreign investors in bond market, aimed to further expand the country's bond market and facilitate foreign institutional investors in the market wef 2023. According to PBOC, the regulation will optimize forex risk management policies and expand forex hedging channels.
- Inbound foreign directly investment (FDI) rose 14.4% y/y to 1.09tn yuan for the period Jan-Oct, outpacing outbound non-financial FDI which rose 10.3% y/y to 627.bn yuan.

Japan's trade deficit driven wider by weak yen as imports surge, inflation hit 40-year high

- Japan's trade deficit widened in October as the country's import bill continued to rocket upward, fuelled by a historic slide in the yen that has already helped push the economy back into reverse. The trade gap grew to 2.16 trillion yen from 2.09 trillion yen previously. The balance has now been negative for 15 straight months, the longest streak since 2015. Imports grew at the fastest pace since 1980 as the yen inflated already elevated commodity prices. The 53.5% y/y gain was led by buying of crude oil, liquid natural gas and coal. Exports gained 25.3% y/y, driven by cars and semiconductor part and weaker than forecast by economists (+29.3% y/y).
- Consumer price index (CPI), which excludes volatile fresh food prices but includes energy, rose 3.6% y/y vs a 3.5% rise expected by economists, and accelerating from the prior month's 3.0% y/y gain. The jump marked the fastest gain since February 1982. After the release, BOJ Governor Haruhiko Kuroda reiterated a pledge to maintain monetary stimulus to support a fragile economy facing still weak inflation and reeling from the COVID downturn. Kuroda added that global commodity costs account for half the factors for price hikes and that cost-push inflation would not last long.

Australia unemployment surprising dropped

- Australia's jobless rate unexpectedly fell to 3.4% in October, the lowest since 1974 as full-time employment underpinned strong hiring. Employment

advanced by 32,200, more than double forecast of 15,000. Together with the strong wage growth reported recently, this confirms that labour market is tight and reinforces expectations of RBA rate hikes.

Hong Kong unemployment rate eased to 3.8%

- Hong Kong unemployment rate eased from 3.9% in July-September to 3.8% in August-October, with distinct decreases observed in the decoration, repair and maintenance for buildings sector; retail sector; and food and beverage service activities sector. Moving forward, outlook for the labour market will depend on the performance of domestic economic activities. The tightened financial conditions will continue to constrain demand, but this will be supported as long as anti-epidemic measures are suitably relaxed.

Singapore NODX contracted more than expected by 5.6% y/y in October

- Singapore's non-oil domestic exports (NODX) declined in October from a high base a year ago, with both electronics and non-electronics registering contraction. On a y/y basis, NODX declined by 5.6% y/y (consensus: -1.7% y/y) after the 3.1% y/y growth in September (Oct: -3.7% m/m and Sept: -3.9% m/m). Electronic NODX declined by 9.3% y/y, following the 10.6% y/y contraction the previous month. Pharmaceuticals (-34.7% y/y), nonmonetary gold (-45.5% y/y) and petrochemicals (-18.4% y/y) contributed the most to the decline in non-electronic NODX.

Malaysia exports growth tapered off more than expected to 15.0% y/y in October

- Exports expanded at slower than expected pace for the second straight month, by 15.0% y/y in October (Sept: +30.1% y/y), marking its 15th straight month of double-digit growth pace nonetheless. Similar to the preceding month, the moderation was broad-based across all key export categories (except crude petroleum) and the top three key export markets. Shipment of manufacturing goods grew slower by 12.6% while agriculture products contracted 7.0% y/y in October (Sept: +28.7% and +8.0%). Mining exports meanwhile sustained a 85.9% y/y increase during the month (Sept: +89.0%), boosted by crude petroleum (+103.4%) and LNG (+127.8% y/y).
- Meanwhile, imports growth continued to outpace exports growth for the 10th straight month, increasing at a still hefty pace of 29.2% y/y in October (Sept: +32.8% y/y). Imports of intermediate goods and consumption goods continued to see softer growth (+25.9% and +21.7% y/y), signalling some moderation in domestic demand and exports growth going forward. On the contrary, imports of capital goods continued to accelerate for the 2nd straight month, increasing 41.9% y/y in October (Sept: +28.8% y/y), signalling continuous growth in investment.
- The sharper and broad-based pullback in both the exports and imports trajectory implied softening growth outlook ahead as the major economies are at the brim of falling into recession.

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	1.00-1.05	0.95	0.97	0.98	0.98
GBP/USD	1.16-1.20	1.10	1.10	1.11	1.12
USD/JPY	137-142	147.00	146.00	145.00	144.00
AUD/USD	0.65-0.68	0.62	0.63	0.64	0.64
USD/MYR	4.55-4.65	4.68	4.64	4.62	4.60
USD/SGD	1.36-1.39	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
21-Nov	HK CPI Composite YoY (Oct)	4.40%
	US Chicago Fed Nat Activity Index (Oct)	0.1
	CH 1-Year Loan Prime Rate	3.65%
	CH 5-Year Loan Prime Rate	4.30%
22-Nov	NZ Trade Balance NZD (Oct)	-1615m
	NZ Exports NZD (Oct)	6.03b
	MA Foreign Reserves	--
	EC ECB Current Account SA (Sep)	-26.3b
	EC Consumer Confidence (Nov P)	-27.6
	US Richmond Fed Manufact. Index (Nov)	-10

Source: Bloomberg

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