21 Dec: BOJ's policy pivot unnerved markets

BOJ's tightening pivot sent ripples through global financial markets

Global equities ended mixed while sovereign bond yields continued to march higher

DXY broke below 104s; JPY gapped down six big figures to 131s

- US stocks snapped a four-day losing streak to settle the day higher after a day of volatile trade gyrating between small gains and losses. The three major US benchmark stock indices edged up between 0.01-0.3% on the day. The Dow gained 0.3%, S&P500 rose 0.1%, while the NASDAQ eked out a minute gain of 0.01% a tech stocks remained under pressure somewhat following hawkish central bank rhetoric last week. European stocks traded mixed while Asian stocks remained in a sea of red in general. Futures are pointing to a mixed opening in Asia market this morning.

- Global sovereign bonds remained under pressure. US treasuries added 2-11bps across the curve save for the 2Y where yields settled little changed at 4.25%. The 10Y UST yields added a further 10bps to 3.68%, its highest in three weeks. Yields on the 10Y UK gilts also stage further increase to 3.58% (+9bps), as upcoming higher BOE debt sale heightened supply concerns.

- The Dollar Index came under further pressure, losing 0.7% d/d to 103.97, breaking below the 104 levels again for the first time in four days. The JPY led advances with a 3.8% gain to 131.73, down six big figures from 137s prior to BOJ's announcement. USD/ JPY hit an intraday low of 130.58 before recouping some lost ground to close above 131s. EUR and GBP also firmed up by 0.2% and 0.3% while commodity currencies AUD and NZD lost 0.3% d/d. Major Asian currencies also traded on a firmer note vs the USD, led by KRW (+0.8%) and CNH (+0.4%). The MYR bucked the trend and weakened marginally by 0.1% to 4.4340, marking its 4th straight day of losing streak.

- On the commodity front, oil settled mixed with gains in WTI but losses in Brent. WTI edged up 0.5% to $76.02/ barrel while Brent slipped 0.5% to $79.68/ barrel. Gold jumped 1.7% d/d to $1827.70/oz amid flight to safety bids after BOJ's tightening move.

BOJ adjusted yield curve control and doubled JGB target range ceiling to 0.5%; a sign of policy tightening

- BOJ maintained its policy balance rate and 10Y JGB yield target unchanged at -0.10% and 0.00% respectively. It however adjusted its yield curve control (YCC) and doubled its 10Y JGB trading range from the current 25bps to 50bps, offering more flexibility to its monetary policy. The central bank also pledged to increase its monthly bond purchases to ¥9 trillion in January-March. While today's policy tweaks is a tightening move, BOJ Governor Kuroda stressed that this is not the beginning of an exit path, and merely a move to improve the working of the financial markets, which markets were not convinced. He also mentioned that he does not see the need to expand its YCC target further.

Key Market Metrics

	Level	d/d (%)
Equities		
Dow Jones	32,849.74	0.28
S&P 500	3,821.62	0.10
NASDAQ	10,547.11	0.01
Stoxx Eur 600	424.18	-0.40
FTSE 100	7,370.62	0.13
Nikkei 225	26,568.03	-2.46
Hang Seng	19,094.80	-1.33
Straits Times	3,253.97	-0.08
KLCI 30	1,467.32	-0.66
FX		
Dollar Index	103.97	-0.66
EUR/USD	1.0624	0.16
GBP/USD	1.2183	0.28
USD/JPY	131.73	-3.78
AUD/USD	0.6678	-0.33
USD/CNH	6.9614	-0.35
USD/MYR	4.4340	0.09
USD/SGD	1.3515	-0.25
Commodities		
WTI ($/bbl)	76.02	0.46
Brent ($/bbl)	79.68	-0.52
Gold ($/oz)	1,827.70	1.72
Copper ($$/MT)	8,373.00	1.12
Aluminum($/MT)	2,371.50	0.06
CPO (RM/tonne)	3,916.00	-0.20

Source: Bloomberg, HL Bank

China kept lending rates unchanged as expected; odds of a cut remain

- The PBoC kept its 1Y and 5Y loan prime rate unchanged at 3.65% and 4.30% respectively, as expected, rates it has held steady since August. Despite the pause, we are of the view that odds of a rate cut going forward has risen given the prevailing headwinds faced by the China economy, as the country continued to struggle with an exit from the pandemic and its aftermath.

RBA minutes signalled future policy moves will be data dependent; Westpac leading index points to softer growth outlook ahead

- RBA minutes of the December policy meeting sounded hawkish in our view, saying that the RBA could resume larger interest rate increases in 2023 if inflation remains stubbornly high. The minutes showed that the RBA board members are prepared to consider a range of options, including raising the cash rate by more than 25bps, or keeping it unchanged at the current 3.10%, acknowledging time lags in the operation of policy. The minutes showed the RBA struck a middle ground to raise rates by 25bps at the last meeting, after having considered a pause and 50bps hike. We maintain our view for a further 25bps hike at the next RBA meeting in February next year.
- Westpac leading index saw a bigger decline of 0.13% m/m in November, as October's decline was revised to a small 0.02% increase. 6-month annualized growth remained negative for a 4th straight month, and was the worst in the current losing streak, a sign of continued weakening growth outlook ahead.

US housing starts fell less than expected but building permits tumbled more than expected

- Housing starts posted a much smaller decline of 0.5% m/m in November (Oct: -2.1% upwardly revised), driven by a rebound in multifamily starts which helped cushioned the bigger decline in single family starts.
- The positivity was however offset by the unexpected steeper fall in building permits to its worst since Apr-20 (-21.6% m/m), at the start of the pandemic, mirroring the fall in home builders' sentiments released by NAHB yesterday. Forward looking permits fell 11.2% m/m in November (Oct: -3.3% downwardly revised from -2.4%), suggesting slower starts ahead as higher borrowing costs and entrenched inflation dampened housing affordability and demand.

Eurozone consumer confidence improved but remained near record low

- Consumer confidence turned a tad less pessimistic to -22.2 in December (Nov: -23.9), marking a 3rd straight month of improvement although remaining at record low levels. This, coupled with recent indicators, points to tentative signs of stabilization in economic activities in the region although it did little to assuage recession fear.

New Zealand business and consumer confidence plunged to record low; trade deficit narrowed as exports jumped

- ANZ business confidence and outlook both deteriorated sharply in December. The outlook index plunged to -25.6 in December (Nov: -13.7) while the business confidence index tumbled to -70.2 in December (Nov: -57.1). The activity outlook index was the lowest since Jun-20 while the confidence index was the lowest on record. In a separate release this morning, ANZ consumer confidence also tumbled 8.6% m/m to a historical low of 73.8 in December (Nov: -5.5% to 80.7). The RBNZ's aggressive 75bps rate hike, rising cost and falling house prices all served to dampen confidence and heightened recessionary fear.
- Trade deficit narrowed to NZD1.86bn in November (Oct: -NZD2.30bn), as exports rose at a much faster pace of 12.0% m/m vis-à-vis the 3.4% m/m

increase in imports (Oct: +0.6% and -2.0% m/m respectively). Exports to China, Japan and the US increased on the month but shipment to Australia fell.

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	130-138	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: HL Bank

Up Next

Date	Events	Prior
21-Dec	US MBA Mortgage Applications (16-Dec)	3.2%
	US Existing Home Sales MoM (Nov)	-5.90%
	US Conf. Board Consumer Confidence (Dec)	100.2
22-Dec	JN Leading Index CI (Oct F)	99.0
	MA Foreign Reserves (42339)	$109.7bn
	UK GDP YoY (3Q F)	2.40%
	US Chicago Fed Nat Activity Index (Nov)	-0.05
	US GDP Annualized QoQ (3Q T)	2.90%
	US Core PCE QoQ (3Q T)	4.60%
	US Initial Jobless Claims (17-Dec)	211k
	US Leading Index (Nov)	-0.80%

Source: Bloomberg

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