22 September 2022

Global Markets Research

Daily Market Highlights

22 Sep: Aggressive Fed heightened growth concerns

The Fed raised rates by 75bps and lifted terminal rate sizeably to 4.6%
Powell reiterated commitment to fight inflation while engineering a slowdown
US stocks fell while bonds traded mix; DXY continued its march higher to 111s

- US equities ended in the red after a rough ride post FOMC announcement. The benchmark US stock indices traded interestingly, plunging in a knee-jerk reaction to the Fed's 75bps hike but subsequently rebounded as Fed Chair Powell's press conference began but lost its lustre again to end at the day lows. The three benchmark US stock indices shed 1.7-1.8% on the day with losses across the board led by communication services and materials shares.

- Earlier, European stocks advanced ahead of the FOMC announcement but Asian stocks were sold off. Futures are pointing to broadly lower opening in Asian markets this morning.

- Selloffs in global bonds took a breather, pushing yields back from multiyear high. UST however reacted mixed to the Fed's move and policy guidance. Yields was seen climbing higher initially but retreated after Fed Chair Powell's press conference reiterating future rate hike path to fend off inflation. Benchmark 2Y note yields jumped 8bps to 4.05% while the 10s lost 3bps to 3.53%, further widening the yield curve inversion to -52bps.

- The DXY also saw similar choppiness post FOMC but extended its rally overall, hitting an intraday high of 111.58 before pulling back somewhat to a 111.37 close, up 1.1% d/d. The USD traded stronger against all G10s, the most vs the SEK (+1.6%). The EUR fell 1.3% to a two decade-low of 0.9837 while the sterling weakened close to 1.0% at 1.1270, its lowest since 1985. AUD shed 0.9% to 0.6630 while the JPY lost 0.2% to 144.06.

- Asian currencies remained under pressure, weakening between 0.01-0.9% d/d vs the greenback. CNY saw extended losses while the MYR managed to regain some lost ground, being the only currency that strengthened among its peers in late hours trading, by 0.1% to a 4.5535 close, a sharp pullback from an intraday high of 4.5693.

- Oil prices continued to see declines amid demand fear as the Fed continued to ramp up its policy tightening and engineered a slowdown. Brent crude fell 1.0% to $89.99/ barrel while the WTI declined 1.4% d/d to $83.05/ barrel.

The Fed hiked 75bps as expected and signalled 125bps hikes by end-2022:

- The FOMC committee voted unanimously to raise the Fed Funds Target Rate by 75bps as widely expected to 3.00-3.25%, defying some chatters earlier for a 100bps hike. This brought about a total 300bps increase since the rate hike

Key Market Metrics

	Level	d/d (%)
Equities		
Dow Jones	30,183.78	-1.70
S&P 500	3,789.93	-1.71
NASDAQ	11,220.19	-1.79
Stoxx Eur 600	407.05	0.90
FTSE 100	7,237.64	0.63
Nikkei 225	27,313.13	-1.36
Hang Seng	18,444.62	-1.79
Straits Times	3,261.79	-0.16
KLCI 30	1,447.18	-0.95
FX		
Dollar Index	111.32	1.01
EUR/USD	0.9837	-1.34
GBP/USD	1.1270	-0.98
USD/JPY	144.06	0.22
AUD/USD	0.6630	-0.88
USD/CNH	7.0752	0.64
USD/MYR	4.5535	-0.12
USD/SGD	1.4173	0.52
Commodities		
WTI ($/bbl)	83.05	-1.35
Brent ($/bbl)	90.00	-0.96
Gold ($/oz)	1,673.10	0.60
Copper ($$/MT)	7,659.00	-0.84
Aluminum($/MT)	2,203.00	-2.31
CPO (RM/tonne)	3,703.00	-1.08

Source: Bloomberg, HLBB Global Markets Research

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cycle began in March this year, in the sequence of 25bps in March, 50bps in May, and 75bps each in June, July, and now September.

- Looking ahead, a total of 18 out of 19 participants expects rates to be raised above 4.0% by year end. The Fed projects rates to reach 4.4% by the end of this year, up a full percentage point from prior projection of 3.4%. This implies room for a further 125bps in the next two meetings before the year ends, likely in the sequence of 75bps in November and 50bps in December in our view. The Fed also projects further increase in the rates to a so-called terminal rate of 4.6% (up from 3.8% previously) in 2023 before rate cuts to 3.9% in 2024. The long term median rates remained unchanged at 2.5%.
- Fed Chair Powell reiterated the Fed's commitment to bring down inflation, saying that inflation has not eased despite some supply-side healings. He further guided that the Fed is ready to raise rates into restrictive territory, bringing real yields back to positive levels across the entire yield curve, even if this means engineering a sustained period of below trend growth. Powell also highlighted there will likely be some softening in job market condition and correction in the housing market.
- In its latest economic projection, this year's growth was revised substantially lower to a mere 0.2%, down a massive 1.5ppt from June's projection of 1.7%. Real GDP growth has also been revised down to 1.2% (-0.5ppt) and 1.7% (-0.2ppt) over 2023-2024. Recovery in the labour market may not be as solid as that projected in June, with the unemployment rate expected to ticked slightly up to 3.8% in 2022 (+0.1ppt), 4.4% (+0.5ppt) in 2023 and 4.4% in 2024 (+0.3ppt). Meanwhile, the keenly watched core PCE was being revised higher by 0.2ppt and 0.4ppt for this and next year, to 4.5% and 3.1% respectively.

US housing data showed mixed signals:

- Existing home sales fell at a slower than expected pace of 0.4% m/m to 4.80m units in August (Jul: -5.7% m/m), marking its 7th straight month of decline and the longest losing streak since 2007. Higher mortgage rates and elevated home prices are curbing demand for housing. Median house prices rose 7.7% y/y (Jul: +10.8%) and 30Y mortgage rates surged to a 14-year high at 6.25%, up from July's 6.01% and doubling from last year's levels. Properties took a longer time to sell (average of 16 days compared to 14 days in July), a sign of a softer housing market.
- Weekly MBA mortgage applications however rebounded to increase 3.8% for the week ended 16-Sept (prior: -1.2%), snapping five straight weeks of losses. This was led by a strong turnaround in refinancing (+10.4% vs -4.2%) and reinforced by further gains in new purchases (+1.0% vs +0.2%).

New Zealand trade deficit widened; consumers turned less pessimistic:

- Trade deficit widened to NZ$2.45bn in August, up substantially from the NZ$1.4bn deficit a month ago as exports fell 13.7% m/m while imports increased 2.2% m/m. Exports to China, Japan and EU declined, wiping out gains to the US and Australia.
- Westpac consumer confidence showed a marked improvement to 87.6 in 3Q, from the record low of 78.7 in 2Q. It however remained below the 100 threshold signalling prevailing pessimism for the fourth straight quarter as households struggled with higher inflation and increase in borrowing costs.

House View and Forecasts

FX	This Week	3Q-22	4Q-22	1Q-23	2Q-23
DXY	108-112	106.00	105.00	103.00	102.00
EUR/USD	0.99-1.01	1.02	1.03	1.05	1.04
GBP/USD	1.14-1.17	1.21	1.22	1.24	1.23
USD/JPY	140-145	138.00	135.00	133.00	132.00
AUD/USD	0.66-0.68	0.67	0.69	0.70	0.70
USD/MYR	4.50-4.55	4.42	4.40	4.38	4.35
USD/SGD	1.40-1.42	1.40	1.38	1.37	1.36

Rates, %	Current	3Q-22	4Q-22	1Q-23	2Q-23
Fed	2.25-2.50	3.00-3.25	4.25-4.50	4.25-4.50	4.25-4.50
ECB	-0.50	1.25	2.75	2.75	2.75
BOE	1.75	2.25	3.25	3.25	3.25
BOJ	-0.10	-0.10	-0.10	-0.10	-0.10
RBA	1.85	2.35	3.10	3.10	3.10
BNM	2.25	2.50	2.50	2.75	2.75

Source: HLBB Global Markets Research

Up Next

Date	Events	Prior
22/09	JN Nationwide Dept Sales YoY (Aug)	9.60%
	HK CPI Composite YoY (Aug)	1.90%
	UK Bank of England Bank Rate	1.75%
	US Initial Jobless Claims (17 Sept)	213k
	US Leading Index (Aug)	-0.40%
	EC Consumer Confidence (Sep P)	-24.9
	US Kansas City Fed Manf. Activity (Sep)	3
	JN BOJ Policy Balance Rate	-0.10%
23/09	AU S&P Global Australia PMI Services (Sep P)	50.2
	AU S&P Global Australia PMI Mfg (Sep P)	53.8
	UK GfK Consumer Confidence (Sep)	-44
	MA CPI YoY (Aug)	4.40%
	SI CPI YoY (Aug)	7.00%
	MA Foreign Reserves (15 Sept)	$108.2b
	EC S&P Global Eurozone Manufacturing PMI (Sep P)	49.6
	EC S&P Global Eurozone Services PMI (Sep P)	49.8
	UK S&P Global/CIPS UK Manufacturing PMI (Sep P)	47.3
	UK S&P Global/CIPS UK Services PMI (Sep P)	50.9
	US S&P Global US Manufacturing PMI (Sep P)	51.5
	US S&P Global US Services PMI (Sep P)	43.7

Source: Bloomberg

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