

Global Markets Research
Daily Market Highlights

23 Sep: More rate hikes

BOE and several other central banks raised rates; trailing the Fed

Equities under pressure while global bond yields continued spiking

Rough ride in the FX space in a knee-jerk reaction to BOJ's intervention

- Global equities were sold off on Thursday as concerns over the Fed's aggressive policy path continued to unnerve investors, aggravated by central banks from both advanced and developing economies who joined the rate hike bandwagon. Following the 75bps Fed rate hike, other central banks which have raised their interest rates include BOE (+50bps as expected), SNB (+75bps as expected), BSP (+50bps as expected), Bank Indonesia (+50bps more than expected) and Taiwan (+12.5bps as expected). Vietnam also raised its benchmark refinancing rate by 100bps to 5.0%. BOJ was the only central bank to have kept their policy rates unchanged.
- The three benchmark US equity indices fell. The Dow slipped 0.4% while the broader S&P fell 0.8% led by consumer discretionary and financial stocks. Tech-heavy NASDAQ plummeted 1.4%. Major European stock indices were seen losing between 1.3-2.4% while stocks were generally sold off to the tune of 1.6% (Hang Seng) in Asia. Nikkei was down 0.6% while the Shanghai Composite fell 0.3%. Futures point to another day of lower opening in Asian markets today.
- Selloffs in global bonds made a quick return, pushing yields up again by and large. The UST curve bear steepened with the 2Y note yields rising at a smaller quantum (+8bps) to 4.13% compared to the 18bps jump in the 10Y note yields, to 3.72%. 10Y UK gilts spiked 18bps (after rising as much as 22bps) amid concern over supply surge when the BOE starts selling gilts accumulated under its QE programme earlier, at a pace of £10bn per quarter starting 3-October. The rest of the European sovereigns saw more modest increases of 4-9bps.
- The FX markets went through another choppy day as BOJ's intervention to support the JPY prompted some knee-jerk moves in the broader FX space. The JPY gapped down five big figures from an intraday high of 145.90 to 140.70 in late Asian trading yesterday as the BOJ intervened to support the JPY for the first time since 1998 during the Asian Financial Crisis, just a day after the central bank hinted on "stealth intervention". It was the first time since 1998 that USD/JPY has traded above 145. USD/JPY however bounced off the day-low and closed at 142.39 (-1.2%).
- DXY also saw similar volatility, gapping down from a high of 111.81 to 110.49 but eventually normalize to close out the day little changed at 111.26 (-0.06%). EUR last settled at 0.9836 (-0.01%), GBP at 1.1261 (-0.08%) while the Aussie traded stronger at 0.6645 (+0.23%). CHF (-1.2%) was the worst

Key Market Metrics

	Level	d/d (%)
Equities		
Dow Jones	30,076.68	-0.35
S&P 500	3,757.99	-0.84
NASDAQ	11,066.80	-1.37
Stoxx Eur 600	399.76	-1.79
FTSE 100	7,159.52	-1.08
Nikkei 225	27,153.83	-0.58
Hang Seng	18,147.95	-1.61
Straits Times	3,263.07	0.04
KLCI 30	1,439.16	-0.55
FX		
Dollar Index	111.26	-0.06
EUR/USD	0.9836	-0.01
GBP/USD	1.1261	-0.08
USD/JPY	142.39	-1.16
AUD/USD	0.6645	0.23
USD/CNH	7.0819	0.09
USD/MYR	4.5670	0.30
USD/SGD	1.4186	0.09
Commodities		
WTI (\$/bbl)	83.50	0.54
Brent (\$/bbl)	90.33	0.37
Gold (\$/oz)	1,669.80	-0.20
Copper (\$\$/MT)	7,684.00	0.33
Aluminum(\$/MT)	2,223.00	0.91
CPO (RM/tonne)	3,753.50	0.64

Source: Bloomberg, HLBB Global Markets Research

performing G10 currency yesterday as rate differentials with the US remained wide despite the 75bps hike by the SNB yesterday.

- Asian currencies remained under pressure, weakening between 0.1-1.2% d/d vs the greenback. KRW and IDR lost more than 1.0% while the CNY saw extended losses (-0.4%). The MYR weakened 0.3% to 4.5670, off the intraday high of 4.5708.
- Oil prices rebounded to clock in modest 0.4-0.5% gain on the back of a softer USD and as investors continued to weigh supply-demand dynamics. Brent crude rose 0.4% to \$90.33/ barrel while the WTI edged higher by 0.5% d/d to \$83.50/ barrel.

US initial jobless claim, leading index and Kansas City Fed manufacturing index all skewed to the negative side:

- Initial jobless claims ticked higher to 213k for the week ended 17-Sept (prior: 208k revised), but hovering near a 4-month low, pointing to a still healthy labour market. Continuing claims moderated to 1379k for the week ended 10-Sept (prior: 1401k). However, as pointed out by Fed Chair Powell, the labour market is expected to soften going forward as the Fed maintains its aggressive tightening stance to curb inflation.
- US leading index fell more than expected by 0.3% m/m in August, although this marked a smaller decline from the 0.5% contraction in July (revised from -0.4%). The leading index has been contracting for a good six months now, dragged by declines in average workweek, ISM new orders, building permits, and consumer expectations. On a year-on-year basis, the leading index contracted by 1.0% y/y (Jul: -0.1%), marking its first back-to-back contraction since Feb last year. This reaffirmed our expectations for a slower US economy ahead.
- US Kansas City Fed manufacturing activity tapered off to a reading of 1 in September, pulling back further from August level (3), and defied expectations for an improvement to 5. This was the lowest print since Jul-20, adding to signs of slower manufacturing activities.

Eurozone consumer confidence turned softer in September:

- Flash consumer confidence in the Eurozone weakened further to a record low at -28.8 in September (Aug: -25.0), worse than the -25.5 consensus estimate. Weakening growth prospects, and indeed rising odds of a recession in the region, soaring inflation and an energy crisis, are taking a toll on consumers.

BOE raised rate by 50bps as expected; likely keeping to the same pace in November:

- The BOE raised its bank rate by 50bps to 2.25% as expected, but in a seemingly split manner with 1/ 5/ 3 votes for 25bps, 50bps and 75bps respectively. There was no change to the language where policy makers said that “forceful” policy action may be appropriate. This leaves the door open for a bigger hike in the November meeting, depending on the involvement in inflationary pressure, including that from stronger demand. BOE expects weaker growth in 3Q and acknowledges that inflation would peak at just under 11%, instead of 13% projected earlier. This suggests the BOE may still maintain its quantum of the next hike at 50bps. The BOE will also start selling gilts at a rate of £10bn per quarter starting 3-October.

BOJ stood pat and struck a dovish tone:

- The BOJ maintained its policy rate at -0.1% and its yield target at 0.0% as widely expected. BOJ Governor Kuroda also struck a dovish tone, saying it remains ready to ease if needed, and that there may not be a need to change forward guidance for two to three years. He also dispelled prospects of a near term rate hike, going against the tide of global tightening. This drove the JPY past the 145 key handle after Kuroda's press briefing, eventually resulting in a stern intervention from BOJ to defend the JPY.
- Departmental store sales accelerated in August, growing at its fastest pace in three months, by 26.1% y/y (Jul: +9.6%). Sales at all major categories spanning from food, clothing, accessories, sundries and household goods quickened during the month, a sign of positive consumer spending.

Hong Kong CPI unexpectedly stabilized at 1.9% y/y in August:

- CPI unexpectedly stabilized at 1.9% y/y in August, against expectations for a pick-up to 2.0%. This marked its highest level since Dec-21 nonetheless. Underlying CPI which excludes the distortion from government subsidies softened to 1.8% y/y (Jul: +1.9%). Increases in utilities and food continued to offset the decline in housing.

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
23/09	AU S&P Global Australia PMI Services (Sep P)	50.2
	AU S&P Global Australia PMI Mfg (Sep P)	53.8
	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	
26/09	JN Jibun Bank Japan PMI Services (Sep P)	49.5
	JN Jibun Bank Japan PMI Mfg (Sep P)	51.5
	SI Industrial Production YoY (Aug)	0.60%
	HK Exports YoY (Aug)	-8.90%
	US Chicago Fed Nat Activity Index (Aug)	0.27
	US Dallas Fed Manf. Activity (Sep)	-12.9

Source: Bloomberg

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