

24 February 2022

Global Markets Research

Daily Market Highlights

24-Feb: More sanctions against Russia

Continued selloffs in US equities and bonds amid lingering geopolitical tensions

Firmer DXY and haven currencies; NZD outperformed amid RBNZ hawkish hike

Tentative signs of easing underlying inflation ex-energy

- Rout in the global financial markets continued to deepen as the standoff between Russia and the US continued to intensify. President Biden expanded the sanctions against Russia to Nord Stream 2 pipeline and warned that sanctions could be scaled up. A cyberattack on several Ukraine government and bank websites also added fuel to fire.
- Equities remained largely in a sea of red and even safer government bonds remained under pressure by and large. The US benchmark stock indices fell between 1.4-2.6% d/d with the tech-heavy NASDAQ falling the most. Stocks also fell earlier in Europe save for the tiny gain in the FTSE 100 while the Asian markets traded mixed.
- Government bonds remained under pressure. Overall UST yields climbed higher between 3-6bps. The curve however bear steepened as the front end 2Y note yields added 2bps to 1.60% while the 10s rose 5bps to 1.99%. In Europe, yields on the 10Y UK gilts rose 1bps while the German bunds shed 1.5bps.
- The USD traded mixed against the G10 currencies again, weaker against the commodity (NZD, CAD, AUD) and haven (CHF, JPY) currencies. The Dollar Index inched up again to 96.21 (+0.2%), holding above the 96 big figure for a fourth straight day and keeping the USD in a slight bullish tone. The NZD outperformed all the G10s, spurred by a hawkish RBNZ who raised rates for a third straight meeting and laid down an aggressive rate hike guidance.
- USD/MYR closed 0.02% lower at 4.1840 on Wednesday, amid an even tighter trading range of 4.1820-4.1860 (prior 4.1815 – 4.1870). The MYR has been surprisingly resilient in the wake of current market rout, likely supported by the rally in global oil prices. We maintain a neutral to bullish outlook on USD/MYR this week, taking into account the potential escalation of Russia-Ukraine confrontation that may weigh on emerging market currencies. We continue to eye a range of 4.17-4.20.
- On the commodity front, Brent crude continued its upward move, rising a further 0.4% to \$97.20/barrel amid ongoing supply concerns. WTI however fell 0.1% to \$92.23/ barrel after the US said it is considering tapping its oil reserves to stem the rally in oil prices. Gold advanced 0.2% to \$1910.20/oz supported by haven demand.

Key Market Metrics

	Level	d/d (%)
Equities		
Dow Jones	33,131.76	-1.38
S&P 500	4,225.50	-1.84
NASDAQ	13,037.49	-2.57
Stoxx 600	453.86	-0.28
FTSE 100	7,498.18	0.05
Nikkei 225	26,449.61	-1.71
Hang Seng	23,660.28	0.60
Straits Times	3,393.00	-0.22
KLCI 30	1,586.14	0.58
FX		
Dollar Index	96.22	0.20
EUR/USD	1.1307	-0.16
GBP/USD	1.3544	-0.30
USD/JPY	115.01	-0.06
AUD/USD	0.7234	0.21
USD/CNH	6.3121	-0.19
USD/MYR	4.1842	-0.02
USD/SGD	1.3461	0.04
Commodities		
WTI (\$/bbl)	92.23	-0.13
Brent (\$/bbl)	97.04	0.21
Gold (\$/oz)	1,910.20	0.15

Source: Bloomberg, HLBB Global Markets Research

RBNZ hawkish hike boosted the kiwi:

- RBNZ raised its OCR by 25bps for a third straight meeting, to 1.00% as widely expected. The central bank has also decided to begin its quantitative tightening exercise in July, by selling down its holdings in government bonds at NZ\$5bn a year and stopping reinvestment upon maturities.
- RBNZ has also raised its end-2023 OCR projection to 3.25%, 75bps higher than the previous projection of 2.50%, suggesting plans for further hikes totalling 225bps over the next 22 months, a very bullish stance in our view given prevailing growth and inflation outlook, likely compounded by imminent economic fallout if interest rate rises too fast. Indeed, policy makers considered the option of a 50bps hike at the latest meeting, indicating a bigger than the usual quarter-point hike should not be discounted in future meetings.

US mortgage applications fell amid continuous increase in borrowing costs:

- The decline in US mortgage applications deepened to 13.1% w/w for the week ended 18-Feb (prior: -5.4% w/w). This marked its first three consecutive week of decline since Apr-21, and the biggest fall since Apr-20. The broad-based declines in new purchases (-10.1%) and refinancing (-15.6%) was due to continuous increase in mortgage rates. This, coupled with higher home prices and supply shortages, is expected to adversely impact the housing market going forward. The 30-year fixed loan rate extended its move higher to 4.06%, the highest since Jul-19.

Eurozone CPI rose at record pace but core CPI eased:

- Final CPI reading in the Eurozone confirmed a pick-up to a record 5.1% y/y in January (Dec: +5.0% y/y) due to a surge in energy prices (+28.8% vs +25.9%). On the contrary, CPI eased slightly to +0.3% m/m (Dec: +0.4% m/m) while core CPI increased at a softer pace of 2.3% y/y (Dec: +2.6% y/y). CPI ex-energy also eased to 2.5% y/y during the month (Dec: +2.8%) while services CPI moderated to 2.3% y/y (Dec: +2.4%), indicating softening non-energy related inflation and suggesting the ECB could afford to hold rates unchanged for longer.

Softer than expected increase in Singapore CPI:

- Headline CPI unexpectedly held steady at 4.0% y/y in January while core CPI picked up at a slower than expected pace to 2.4% y/y (Dec: +2.1%), somewhat soothing inflationary concerns. Faster increases in food (+2.6% vs +2.1% y/y) and housing & utilities (+4.1% vs +3.4% y/y), were offset by smaller increases in transport (+12.7% vs +13.7%) and other categories as well as declines in clothing & footwear (-4.4%), communication (-2.0%), and miscellaneous goods & services (-0.2%).

Hong Kong 4Q GDP grew 4.8% y/y as initially estimated:

- The Hong Kong economy expanded by 4.8% y/y in 4Q (3Q: +5.5%), its slowest quarter in 2021 as new virus wave and slowdown in the China economy dampened growth. The slowdown was broad-based. Household spending growth moderated to 5.8% y/y (3Q: +6.8%), growth in government spending eased to 4.1% (3Q: +5.0%) while the increase in investment came to a near halt at 0.1% (+13.1%). Exports and imports largely softened except for services exports (+6.9% vs +5.4% y/y).
- Full year 2021 GDP rebounded to increase 6.4% y/y, after contracting 6.1% in 2020. 2022 growth is expected to normalize to 2.0-3.5%, much dependable on the involvement of the pandemic.

Modest wage growth in Australia supports the case for an RBA pause:

- Wage price index grew at a slightly faster pace of 0.7% q/q in 4Q as expected (3Q: +0.6% q/q). On an annual basis, the increase came in slightly smaller than

expected at 2.3% y/y (3Q: +2.2% and consensus +2.4%), suggesting inflation will likely remain well within the RBA inflation target of 2.0-3.0%. This should allow the RBA to adopt a wait and see approach in its policy decision.

House View and Forecasts

FX	This Week	1Q-22	2Q-22	3Q-22	4Q-22
DXY	95-97	96.15	96.40	96.30	96.30
EUR/USD	1.13-1.15	1.13	1.12	1.12	1.13
GBP/USD	1.35-1.37	1.34	1.33	1.35	1.36
AUD/USD	0.71-0.73	0.72	0.72	0.74	0.75
USD/JPY	114-116	115	116	115	114
USD/MYR	4.17-4.20	4.17	4.15	4.15	4.10
USD/SGD	1.34-1.35	1.35	1.34	1.34	1.33

Rates, %	Current	1Q-22	2Q-22	3Q-22	4Q-22
Fed	0.00-0.25	0.25-0.50	0.75-1.00	1.25-1.50	1.25-1.50
ECB	-0.50	-0.50	-0.50	-0.50	-0.50
BOE	0.50	0.75	1.00	1.00	1.00
RBA	0.10	0.10	0.10	0.10	0.25
BOJ	-0.10	-0.10	-0.10	-0.10	-0.10
BNM	1.75	1.75	1.75	1.75	2.00

Source: HLBB Global Markets Research

Up Next

Date	Events	Prior
24/02	MA CPI YoY (Jan)	3.2%
	HK Exports YoY (Jan)	24.8%
	US Chicago Fed Nat Activity Index (Jan)	-0.15
	US Initial Jobless Claims (19 Feb)	248k
	US GDP Annualized QoQ (4Q S)	6.9%
	US New Home Sales MoM (Jan)	11.9%
25/02	US Kansas City Fed Manf. Activity (Feb)	24.0
	NZ Retail Sales Ex Inflation QoQ (4Q)	-8.1%
	UK GfK Consumer Confidence (Feb)	-19.0
	SG Industrial Production YoY (Jan)	15.6%
	EZ Economic Confidence (Feb)	112.7
	US Personal Income MoM (Jan)	0.3%
	US Durable Goods Orders (Jan P)	-0.7%
	US Personal Spending Mom (Jan)	-0.6%
	US Cap Goods Orders Nondef Ex Air (Jan P)	0.3%
	US Cap Goods Ship Nondef Ex Air (Jan P)	1.3%
	US PCE Core Deflator YoY (Jan)	4.9%
	US Pending Home Sales MoM (Jan)	-3.8%
	US U. of Mich. Sentiment (Feb F)	61.7

Source: Bloomberg

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