24 November 2022

Global Markets Research

Daily Market Highlights

24 Nov: Stocks and bonds gained post-FOMC minutes

FOMC minutes reaffirmed a slower rate hike path, higher terminal rate

UST yields and Dollar Index slipped; NZD surged as RBNZ hiked 75bps

US, EU, and UK PMIs all in contraction territory

- US stocks rose in a choppy session as meeting minutes from the Federal Reserve showed that the central bank is looking to hand out smaller rate hikes in the coming months. The Dow Jones Industrial Average, specifically, advanced as much as 0.5% post the release of the minutes but narrowed gains to +0.3% at close. The S&P 500 gained 0.6% d/d while the Nasdaq Composite jumped 1.0% d/d. It should be noted the CBOE Volatility Index or VIX, which measures market expectations of 30-day volatility, closed at 20.5, lowest since August's stock market rally, suggesting the Fed's signal on readiness for a policy pivot was not unexpected.

- The Treasury yields ticked lower after the minutes were released, with the benchmark 10-year Treasury yield lower by 7bps at 3.69%, while the yield on the 2-year Treasury was down 5bps at 4.47%.

- The US dollar pulled back, with the Dollar Index down 1.1% d/d to 106.08. Euro strengthened 0.9% d/d against the greenback to 1.0397, while the pound gained 1.4% d/d to 1.2055. The JPY advanced 1.2% d/d to 139.60. The New Zealand dollar hit a three-month high, after the country's central bank lifted interest rates by a record 75bps. The kiwi strengthened 1.5% d/d against the Dollar. Ringgit, meanwhile, was relatively flat at 4.5753.

- Gold rose in response to the FOMC minutes, shooting up 0.3% d/d. Oil, on the other hand, tumbled as EU discussed a softer Russian price cap at $65-$70/barrel. EIA also reported that US gasoline stockpiles rose 3m barrels per day. WTI and Brent fell 3.7% d/d and 3.3% d/d respectively.

Most Fed officials saw slower pace of rate hikes; PMI weakened more than expected; new home sales staged a surprised rebound; initial jobless claims jumped

- Key highlight from the latest FOMC minutes include: 1) A substantial majority of participants judged that a slowing in the pace of rate increase would likely soon be appropriate. 2) Various officials viewed that the ultimate level of fed funds rate that would be necessary to achieve the committee's goals was somewhat higher than the had previously expected. 3) As officials discussed the effects of lags in monetary policy, a number of officials said a slower pace rate increase would allow central bankers to judge the progress on their goals but added that rates would continue rising to a sufficiently restrictive levels. Our house call is for the Fed fund rates to be increased by 50bps to 4.25%-4.50% by end 2022, and foresee downside risk to our terminal rate projection of 5.25-5.50%.

Key Market Metrics

	Level	d/d (%)
Equities		
Dow Jones	34,194.06	0.28
S&P 500	4,027.26	0.59
NASDAQ	11,285.32	0.99
Stoxx Eur 600	438.82	0.60
FTSE 100	7,465.24	0.17
Nikkei 225	28,115.74	0.61
Hang Seng	17,523.81	0.57
Straits Times	3,255.99	-0.11
KLCI 30	1,443.50	0.15
FX		
Dollar Index	106.08	-1.07
EUR/USD	1.0397	0.90
GBP/USD	1.2055	1.42
USD/JPY	139.60	-1.15
AUD/USD	0.6733	1.26
USD/CNH	7.1538	0.24
USD/MYR	4.5753	0.02
USD/SGD	1.3771	-0.05
Commodities		
WTI ($/bbl)	77.94	-3.72
Brent ($/bbl)	85.41	-3.34
Gold ($/oz)	1,745.60	0.33
Copper ($$/MT)	8,005.00	-0.10
Aluminum($/MT)	2,397.00	-1.32
CPO (RM/tonne)	3,964.00	3.04

Source: Bloomberg, HLBB Global Markets Research

- Business conditions worsened in November, with output and demand falling at faster rates. The headline flash US PMI Composite Output Index dipped to 46.3 in November from 48.2 in October. The rate of contraction was the sharpest since August and among the quickest since 2009. The preliminary manufacturing PMI pulled back sharply to 47.6 in November (Oct: 50.4), signalled a renewed decline in operating conditions at manufacturers. US Services PMI retreated further to 46.1 in November (Oct: 47.8). Excluding the initial pandemic phase, the rate of decline was the second-fastest on record. The survey showed that the impact of inflation and interest rates on customer disposable income had dented demand conditions.
- Initial claims jobless claims surged by 17k to a 3-month high of 240k in the week ended November 19 (prior 223k). Continuing claims also jumped 48k to 1551k for the week ended November 12 (prior 1503k). As it is, the list of tech companies announcing job cuts or hiring freeze has been increasing from Amazon to Meta and HP Inc. The latter said this week that it will eliminate 6k jobs.
- Final reading of University of Michigan consumer sentiment index showed a smaller than initially estimated pullback to 56.8 in November (Oct: 59.9 and preliminary 54.7), as both current conditions and expectations turned out better than expected. One-year inflation expectations softened more than initially expected to 4.9% (Oct: 5.0% and preliminary 5.1%) while longer term 5-10Y expectations picked up to 3.0% as initially estimated (Oct: 2.9%), a sign of lingering inflationary concerns.
- On a more positive note, durable goods orders for October more than doubled expectation, increasing 1.0% m/m (consensus: +0.4% m/m) and was 3x higher than September's +0.3% m/m. Ex-transportation orders rebounded more than expected by 0.5% m/m (Sept: -0.9% m/m). Non-defense, ex-aircraft orders, a proxy for business spending, also swung back to positive (+0.7% m/m vs -0.8% m/m).
- On the housing front, sales of new homes unexpectedly rebounded to increase 7.5% m/m to 632k in October (Sept: -11.0% m/m). MBA mortgage applications increased 2.2% w/w for the week ended November 18 (prior +2.7%), driven by both the refinancing and new purchases index, which rose 1.8% and 2,8% w/w respectively (prior -1.6% and 4.4%). Recent drops in mortgage rates appeared to have offered some support. The 30-year fixed-rate mortgage fell for the second week in a row to 6.67% and down by almost 50bps from the recent peak of 7.16%.

Eurozone preliminary PMIs remained contractionary despite upside surprises

- Preliminary PMI manufacturing showed a surprised pick-up to 47.3 in November (Oct: 46.4), against expectation for a moderation to 46.0. Services PMI meanwhile managed to hold on to a 48.6 print in November, also beating expectations for a moderation to 48.0. Despite this upside surprises, both manufacturing and services activities remained contractionary, for the 5th and 4th straight month respectively, adding to odds of a recession in the Eurozone economy. However, the PMI data also bring some tentative good news. Supply constraints are showing signs of easing and price pressures are showing signs of cooling

UK preliminary PMIs held steady in November; new orders fell the most since January 2021

- Preliminary PMI manufacturing and services indices were seen holding steady at 46.2 and 48.8 respectively in November, against consensus for further moderation. Manufacturing activities continued to decline at a faster pace than service sector activity. Despite the steady headlines, new orders decreased at the fastest pace for almost two years as squeezed client budgets continued to hit demand in both the manufacturing and service sectors. On a more positive note, business expectations for the year ahead rebounded from the 30-month low seen in October.

RBNZ: higher interest rates necessary

- The Reserve Bank of New Zealand raised the Official Cash Rate (OCR) by 75bps from 3.50% to 4.25% at its latest monetary policy meeting. The decision was within expectation as demand in the New Zealand economy has remained resilient, while worker shortages are increasing wages and contributing to high domestic inflation. Global developments are also adding to inflation through the increase in commodity and energy prices. Policy makers added that the current inflation of +7.2% is too high and will remain elevated on the back of persistent or 'core' inflation as well as expectations of future inflation.

Singapore CPI eased for the first time in 8 months to 6.7% y/y in October

- CPI-All Items inflation also eased to 6.7% y/y in October (Sept: +7.5% y/y) as prices for private transport eased, alongside the moderation in core inflation. Core-inflation softened slightly to 5.1% y/y in in October from 5.3% % y/y in September. The moderation in core inflation was driven by smaller increases in the prices of electricity & gas, retail & other goods and services.
- Going forward, both MAS and MTI expect core inflation to stay elevated in the next few quarters before slowing in 2H of 2023. CPI is expected to average around 6.0% y/y, and core inflation at 4.0% y/y in 2022. In 2023, headline and core inflation are projected to average 5.5%–6.5% and 3.5%–4.5%, respectively, taking into account impact from the transitory increase from higher GST. There is upside risk to this forecast, stemming from fresh shocks to global commodity prices and more persistent-than-expected external inflation. With the moderation in prices and the slower GDP growth in 3Q, this will give leeway for policy makers to pause its monetary tightening path going forward

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
24-Nov	JN Jibun Bank Japan PMI Services (Nov P)	53.2
	JN Jibun Bank Japan PMI Mfg (Nov P)	50.7
	JN Leading Index CI (Sep F)	94.4
25-Nov	NZ ANZ Consumer Confidence Index (Nov)	85.4
	NZ Retail Sales Ex Inflation QoQ (3Q)	-2.30%
	JN PPI Services YoY (Oct)	2.10%

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MA CPI YoY (Oct)	4.50%
SI Industrial Production YoY (Oct)	0.90%

Source: Bloomberg

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