25 February 2022

25-Feb: Global markets rout deepened

Flight to safety bids amid Russia's military attack on Ukraine
Biden's added sanctions on Russian banks helped save US equities
DXY rallied above 97.0; oil just shy of $100/ barrel

- Russia's military attack on Ukraine during early Asian trading hours yesterday rocked global financial markets and spurred a bout of flight to safety. European government bond yields generally plunged by over 10bps when news first broke but managed to recover somewhat to clock a 2-12bps increase. Losses in European equities pushed near 4.0% while Asian stocks were battered down by 1.0-5.0% at close.

- US equities also suffered severe selloff, falling as much as 3.5% in early hours. In what we deemed as knee jerk and surprising shortlived than expected, markets made a swift return with the three benchmark US stock indices closing in the green, after President Biden announced stiffer sanctions against five major Russian banks but stopped short of any sanctions on Russian crude supplies, hence helping oil to ease below $100/ barrel again. The Dow added 0.3% d/d, the S&P500 advanced 1.5% while the NASDAQ settled with an impressive 3.3% gain. Futures point to a mixed start in Asia session today.

- UST yields fell in the wake of lingering haven demand but was off their lows, shedding only 2-4bps across the curve. The 2Y note yields lost 2bps to 1.58% while the 10s slipped 3bps to 1.97%, bouncing back from a 1.84% low.

- The USD advanced and strengthened considerably against all G10s and Asian currencies, the most against the GBP and NZD (-1.2%). EUR weakened 1.0% d/d back below the 1.12 handle at 1.1193, while the JPY shed 0.5% to 115.53. The Aussie also changed two big figures and lost 1.0% to 0.7162. The Dollar Index surged to an intraday high of 97.74 before paring gains to 97.09 on Thursday's close (+0.9%), its highest level in a month.

- USD/MYR jumped and broke the 4.20 key psychological level on Thursday, driven by Russia's attack on Ukraine. The pair went as high as 4.2077 in intraday trading before retreating somewhat to a 4.2050 close (+0.5%). Technicals have turned slightly bullish targeting 4.2080 and 4.2130 next but upside likely capped at the 4.22 levels. We expect slight bullishness to prevail for USD/MYR today amid lingering geopolitical uncertainties and cautiousness ahead of the weekend, but further up move will likely be limited following the recovery in risk sentiments and narrowing USD strength in late US trading.

- On the commodity front, Brent crude and WTI surged pass $100/ barrel in Asia trading before narrowing gains going into late US trading session tracking the recovery in US equities. Brent crude settled the day 2.5% higher at $99.30/ barrel while the WTI added 1.3% to $93.25/ barrel at close. Similarly, safe haven gold rallied to a high of $1976.50/ oz in a kneejerk reaction after news broke on Russia's attack on Ukraine, but this was completely reversed with gold clocking in a 0.3% decline to $1905.20/oz on Thursday's close.

Key Market Metrics

	Level	d/d (%)
Equities		
Dow Jones	33,223.83	0.28
S&P 500	4,288.70	1.50
NASDAQ	13,473.58	3.34
Stoxx 600	438.96	-3.28
FTSE 100	7,207.38	-3.88
Nikkei 225	25,970.82	-1.81
Hang Seng	22,901.56	-3.21
Straits Times	3,276.06	-3.45
KLCI 30	1,573.89	-0.77
FX		
Dollar Index	97.09	0.93
EUR/USD	1.1193	-1.01
GBP/USD	1.3372	-1.27
USD/JPY	115.53	0.45
AUD/USD	0.7162	-1.00
USD/CNH	6.3232	0.18
USD/MYR	4.2052	0.50
USD/SGD	1.3557	0.71
Commodities		
WTI ($/bbl)	93.25	1.25
Brent ($/bbl)	99.30	2.54
Gold ($/oz)	1,905.20	-0.27

Source: Bloomberg, HLBB Global Markets Research

Positive US GDP and jobless claims data; bigger than expected decline in new home sales:

- Second reading of 4Q GDP was revised a notch higher to 7.0% q/q as expected, from the first estimate of 6.9%, indicating quickening growth from 3Q's +2.3% q/q. The slightly higher second reading was due to an upward revision in gross private investment (+33.5% vs +32.0%) which offset the slower growth seen in personal consumption (+3.1% vs +3.3%). YOY, the US economy expanded 5.6% in the final quarter of 2021, bringing full year 2021 growth to 5.8%.
- Initial jobless claims fell more than expected by 17k to 232k for the week ended 19-Feb (prior 249k), remaining below 300k in the last five months. This, coupled with the moderation in continuing claims to 1476k for the week ended 12-Feb (prior 1588k), reaffirmed continuous solid recovery in the US labour market post Omicron wave.
- Regional economic activities improved, and pointed to continuous recovery. Chicago Fed national activity index jumped to 0.69 in January, as December's decline was revised up to a small 0.07 gain. More than half of the 85 indicators showed improvement comprising mainly production indicators (+0.29 vs -0.10). In a separate release, Kansas City Fed manufacturing activity picked up more than expected to 29 in February (Jan: 24), its highest in 10 months spurred by broad-based improvement in new orders, production employment and raw material prices.
- On the contrary, new home sales contracted at a bigger than expected pace of 4.5% m/m to 801k in January, snapping two straight months of over 12.0% growth, as higher mortgage rates dampened demand.

Bigger than expected moderation in Malaysia CPI:

- Headline Consumer Price Index (CPI) tapered off for the second straight month, at a bigger than expected magnitude to 2.3% y/y in January (Jan: +3.2% y/y), as further pick-up in food inflation was offset by smaller increases in the prices of transport and utilities.
- There were also added signs underlying price pressure is building up, with the spike in core CPI to a 29-month high at 1.6% y/y (Dec: +1.1%). Services CPI also gained traction, rising at a faster pace of 1.2% y/y (Dec: +0.9%), its fastest since Oct-20.
- We expect CPI to trend lower before picking up again in 2Q and 3Q, based on our revised projection amid sharply higher global crude oil prices. Ongoing Russia-Ukraine debacle has pushed Brent crude oil prices above $100/ barrel and we see rooms for further rally in the near term. This could potentially spell upside to our full year CPI forecast of 2.0%, closer to 2021's level of 2.5% should global oil prices stay elevated. This suggests negative interest rates will prevail longer than initially expected, prompting BNM to normalize to narrow the gap. That said, no change to our view for an OPR pause in at least 1H2022 as we believe growth will still take precedence over inflation.

Slower exports growth in Hong Kong:

- Exports growth moderated for a 2nd straight month to a 4-month low at 18.4% y/y in January (Dec: +24.8%), primarily due to slower exports growth to China (+10.9% vs +20.8%). Exports to the rest of the major markets including the US, Japan, and Taiwan however saw quicker growth momentum.
- Meanwhile, imports decelerated at an even faster pace from 19.3% y/y to 9.6% y/y, its slowest since Nov-20, hampered by slower imports growth from most importing countries notably China and declines from Japan and the US as Hong Kong grappled with rising Covid cases.
- Both exports (-6.1%) and imports (-13.3%) contracted for the first time in three months on a m/m basis, helping reverse the trade deficit position to a surplus of HKD6.6bn in January (Dec: -HKD32.8bn).

- Exports outlook remains dim going forward in the midst of a slowing China economy and prolonged supply disruption, with the worrying Covid situation serving as another potential blow.

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
25/02	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
28/02	JP Retail Sales MoM (Jan)	-1.2%
	JP Industrial Production MoM (Jan P)	-1.0%
	NZ ANZ Business Confidence (Feb)	-23.2
	AU Retail Sales MoM (Jan)	-4.40%
	US Advance Goods Trade Balance (Jan)	-$100.5b
	US MNI Chicago PMI (Feb)	65.2
	US Dallas Fed Manf. Activity (Feb)	2.0

Source: Bloomberg

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