

26 May 2022

**Global Markets Research**
**Daily Market Highlights**

# 26-May: Fed minutes points to two more 50bp hikes

**US stocks rebounded; treasury yields little changed after FOMC minutes**
**Dollar appreciated against most G10 currencies; NZD pared post-RBNZ gains**
**US durable goods orders recorded softer growth**

- US stocks closed higher overnight and bonds little changed as the latest FOMC minutes confirmed the view that the Fed will deliver half-point rate hikes in the next two meetings to tackle inflation and gave no indication that it would go beyond this measure i.e., turning more hawkish in the near term.
- The Dow Jones rose 0.6% while the S&P 500 picked up nearly 1.0%. NASDAQ rebounded by 1.5% after the previous tech selloff. Stocks were up in Europe on the same day and recorded mixed performances in Asia.
- Treasury yields moved between 0 to -2bps across the curve overnight with the benchmark 10Y UST yield unchanged at 2.75% as the market digested the latest Fed minutes.
- The dollar appreciated against most G10 currencies. NZD pared back early gains to close slightly higher (+0.1%) after the RBNZ's hawkish 50bp rate hike, as expected. The dollar index snapped a two-day losing streak, adding 0.2% to 102.06.
- USD/MYR ended Wednesday's session virtually unchanged at 4.3945. The rebound in USD strength and a cautious sentiment are expected to keep the pair supported above 4.3900 as talks of recessions continue to dominate the global markets.
- Gold erased recent gains, shedding 1.0% to \$1846.30/oz amid a rebound in the greenback. Oil benchmarks rose as the EIA crude inventory fell by over 1million barrels last week. The US WTI picked up 0.5% to \$110.33/barrel after falling two sessions while Brent crude advanced 0.4% to \$114.03/barrel, its fifth consecutive gain.

**FOMC minutes confirmed a couple more 50bps hike:**

- One of the key takeaways of the 03-04 May FOMC minutes is that officials saw 50 basis point increases in the Fed Funds Rates as appropriate at the next couple of meetings, meaning that two more 50bp hikes are likely happening in June and July, following the first 50bp hike in the May meeting.
- Many officials judged that "expediting the removal of policy accommodation" would leave the Fed "well positioned later this year to assess the effects of policy firming and the extent to which economic developments warranted policy adjustments". This indicates that, by swiftly delivering several 50bp hikes, the Fed could revert to more conservative 25bp hikes or a pause as the US economic momentum may have slowed then. Officials agreed that the US economic outlook is highly uncertain and that policy decisions should be data dependent. The Fed's current priority is to move "expeditiously" to a more neutral stance and a "restrictive" stance may well become appropriate. The Fed did not discuss any

**Key Market Metrics**

	Level	d/d (%)
<b>Equities</b>		
Dow Jones	32,120.28	0.60
S&P 500	3,978.73	0.95
NASDAQ	11,434.74	1.51
Stoxx 600	434.31	0.63
FTSE 100	7,522.75	0.51
Nikkei 225	26,677.80	-0.26
Hang Seng	20,171.27	0.29
Straits Times	3,179.58	-0.48
KLCI 30	1,535.56	0.28
<b>FX</b>		
Dollar Index	102.06	0.20
EUR/USD	1.0681	-0.51
GBP/USD	1.2574	0.34
USD/JPY	127.32	0.39
AUD/USD	0.7091	-0.21
USD/CNH	6.7127	0.83
USD/MYR	4.3945	-0.05
USD/SGD	1.3758	0.28
<b>Commodities</b>		
WTI (\$/bbl)	110.33	0.51
Brent (\$/bbl)	114.03	0.41
Gold (\$/oz)	1,846.30	-1.02

Source: Bloomberg, HLBB Global Markets Research

75bp hike. The market currently expects policy rates to be at 2.50-2.75% at the end of the year, matching the Fed's guidance.

#### US mortgage applications fell last week; durable goods orders rose at slower pace:

- Mortgage applications fell 1.2% w/w for the week ended 20 May, extending from the sharper 11.0% w/w decline prior. Refinancing applications fell 4.0% w/w and was 75% lower compared to a year ago. Applications for home purchase were unchanged. Higher interest rates continued to make refinancing unattractive (the 30Y fixed rate contract rate fell to 5.46% but remained above the levels for the past two year). Meanwhile, purchase applications were also affected by the general slowdown in home sales amid the lack of inventory and higher house prices.
- An advance report showed that orders of durable goods in the US rose at a slower but still decent pace of 0.4% m/m in April, compared to consensus forecast and March reading of 0.6% m/m, pointing to steady manufacturing demand. Shipment of these goods, however, rose a mere 0.1% m/m (Mar: +1.4%), indicating some challenges in order fulfilment.
- The core durable goods orders, a gauge of capital expenditure, also posted a modest increase of 0.3% m/m, but this was after a much steeper 1.1% m/m increase in the previous month, suggesting that business sentiment remains relatively solid.

#### RBNZ raised OCR by 50bps and signalled more hikes to come:

- The RBNZ raised the official cash rate (OCR) by 50bps to 2.00% as expected and reaffirmed its commitment to tighten monetary conditions to ensure CPI inflation returns to the 1.0-3.0% target range. Yesterday's move marked its second 50bp hike in a row, ever since it began to tighten policy since October 2021 last year. It said that "a larger and earlier increase in the OCR reduces the risk of inflation becoming persistent, while also providing more policy flexibility ahead in light of the highly uncertain global economic environment".
- In terms of local economic assessment, RBNZ said New Zealand's "underlying strength remains in the economy, supported by a strong labour market, sound household balance sheets, continued fiscal support, and a strong terms of trade". It also added that headwinds are strong such as the decline in asset prices.
- The RBNZ revised its OCR outlook, as it projects OCR to increase all the way to 3.9% through June 2023 before RBNZ hits the pause button. In the February projections, the OCR was supposed to only increase until 3.3% all the way through December 2023.

#### Malaysia's CPI inflation picked up in April:

- Malaysia's headline CPI rate ticked higher for the first time in five months, but remained very moderate at 2.3% y/y in April (Mar: +2.2%), within the market expectations but below ours. The higher inflation print was driven by the faster increase in the prices of food, transport, restaurants & hotels, as well as recreation services & culture. While there was no big shift in the latest inflation readings, the 7th consecutive acceleration in core CPI and 6th back-to-back pickup in services CPI reaffirmed the case of ongoing build-up in price pressure in the system.

#### House View and Forecasts

FX	This Week	2Q-22	3Q-22	4Q-22	1Q-23
DXY	101-104	106.00	108.00	105.00	103.00
EUR/USD	1.04-1.07	1.02	1.00	1.01	1.03
GBP/USD	1.22-1.26	1.21	1.20	1.22	1.24
AUD/USD	0.69-0.71	0.69	0.68	0.69	0.70
USD/JPY	126-130	133.00	135.00	133.00	132.00
USD/MYR	4.36-4.41	4.38	4.40	4.38	4.35
USD/SGD	1.37-1.39	1.39	1.40	1.38	1.37

Rates, %	Current	2Q-22	3Q-22	4Q-22	1Q-23
Fed	0.75-1.00	1.25-1.50	2.00-2.25	2.50-2.75	2.50-2.75
ECB	-0.50	-0.50	-0.50	-0.25	-0.25
BOE	1.00	1.25	1.25	1.25	1.25
RBA	0.35	0.50	0.75	1.00	1.25
BOJ	-0.10	-0.10	-0.10	-0.10	-0.10
BNM	2.00	2.00	2.50	2.50	2.75

Source: HLBB Global Markets Research

## Up Next

Date	Events	Prior
26/05	SG Industrial Production YoY (Apr)	3.4%
	HK Exports YoY (Apr)	-8.9%
	US GDP Annualized QoQ (1Q S)	-1.4%
	US Initial Jobless Claims (21 May)	218k
	US Pending Home Sales MoM (Apr)	-1.2%
	US Kansas City Fed Manf. Activity (May)	25.0
27/05	NZ ANZ Consumer Confidence MoM (May)	8.3%
	CN Industrial Profits YoY (Apr)	--
	AU Retail Sales MoM (Apr)	1.6%
	US Advance Goods Trade Balance (Apr)	-\$127.1b
	US Wholesale Inventories MoM (Apr P)	2.3%
	US Personal Income (Apr)	0.5%
	US Personal Spending (Apr)	1.1%
	US PCE Core Deflator YoY (Apr)	5.2%
	US U. of Mich. Sentiment (May F)	59.1

Source: Bloomberg

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