27 January 2022

Global Markets Research

Daily Market Highlights

27-Jan: Fed firmed up March rate hike expectations

US Dollar, treasury yields soared after FOMC

Brent crude near $90/barrel on Russia-Ukraine tensions

New Zealand's 30Y high inflation bolsters case of more RBNZ rate hikes

- US stocks generally closed lower on Wednesday as volatile trading continued in the wake of the FOMC meeting and decision. Equities had a choppy morning session, moving steadily thereafter only to drop after the Fed confirmed speculations that it will start to raise rates in March. The Dow Jones fell 0.4% while the S&P 500 shed 0.2%. NASDAQ managed to close little changed (+0.02%) compared to the previous session.

- Treasuries yields soared in the bond market in response to the FOMC statement. Short-term yields jumped the most where the yield on the benchmark 2Y treasury notes surged 13.3bps to 1.15%; the 10Y UST yield climbed 9.5bps to 1.86%.

- The dollar appreciated across the board. The dollar index clocked in a 0.6% gain to 96.48. Among the G10 currencies, JPY and CHF recorded the biggest losses around 0.6%.

- USD/MYR traded on a muted note for the third consecutive session, closing virtually unchanged (+0.01%) at 4.1905 on Wednesday ahead of the FOMC meeting. The broad-based USD appreciation is likely to boost the pair today, risking a breach of 4.2000 resistance as investors responded to the hawkish FOMC statement.

- In the commodity market, gold prices were pressured by the strong USD, snapping a two-day winning streak to close at $1829.7/oz (-1.2%). Crude oil prices advanced further over the supply concerns stemming from the Russia-Ukraine tensions. Brent crude climbed 2.0% to $89.96/barrel, just a tad below $90. The US WTI also added 2.0% to $87.35/barrel.

Fed firmed up expectations of a March rate lift-off:

- The Federal Reserve kept the fed funds rate unchanged overnight and sent a firm signal that it will deliver its first pandemic rate hike in mid-March this year. It said in its latest FOMC statement that "with inflation well above 2.0% and a strong labour market, the Committee expects it will soon be appropriate to raise the target range for the federal funds rate". It will reduce its monthly pace of the asset purchase program, thus concluding the program in early March. "Beginning in February, the Committee will increase its holdings of Treasury securities by at least $20 billion per month and of agency mortgage-backed securities by at least $10 billion per month".
- The Fed pointed out that progress on vaccinations and an easing of supply constraints are expected to support continued gains in economic activity, employment and a reduction in inflation, but added that the risks to the economic outlook remain, including from new Covid variants.

Key Market Metrics

	Level	d/d (%)
Equities		
Dow Jones	34,168.09	-0.38
S&P 500	4,349.93	-0.15
NASDAQ	13,542.12	0.02
Stoxx 600	467.31	1.68
FTSE 100	7,469.78	1.33
Nikkei 225	27,011.33	-0.44
Hang Seng	24,289.90	0.19
Straits Times	3,271.57	0.73
KLCI 30	1,515.76	0.45
FX		
Dollar Index	96.48	0.55
EUR/USD	1.1240	-0.54
GBP/USD	1.3463	-0.28
USD/JPY	114.64	0.67
AUD/USD	0.7115	-0.50
USD/CNH	6.3355	0.07
USD/MYR	4.1905	0.01
USD/SGD	1.3470	0.20
Commodities		
WTI ($/bbl)	87.35	2.04
Brent ($/bbl)	89.96	2.00
Gold ($/oz)	1,829.70	-1.23

Source: Bloomberg, HLBB Global Markets Research

- Fed Chair Jerome Powell said in a press conference that both inflation and employment objectives have been met and "are calling for us to move steadily away from the very highly accommodative policies we put in place during the challenging economic conditions that the economy faced earlier in the pandemic".

US goods trade deficit rose to record high in December:

- The US goods trade deficit widened to a record high of $101b in December, from $98.0b previously, according to an advance report. This was driven by a 2.0% m/m surge in imports, reflecting strong consumer and business demand towards the end of last year, particularly in automotive vehicles, consumer goods and capital goods. The outweighed export growth as shipment of US goods to overseas markets rose 1.4% m/m during the said month.

US new home sales rose nearly 12% in December:

- New home sales beat expectations in December, picking up sharply by 11.9% m/m to a seasonally adjusted annual pace of 811k (Nov: 725k). Consensus estimate had expected sales to rise modestly by 2.2%. The upbeat data reflects solid housing demand but contradicts the faltering existing home sales in the same month (-4.6% m/m).
- Mortgage applications fell 7.1% w/w last week after rising by 2.3% previously. Refinancing applications declined by a whopping 12.6% as the surge in interest rates deterred refinancing activity; purchases applications fell 1.8%.

Singapore's industrial production rose more than expected:

- Singapore's industrial production rose more than expected by 4.3% m/m in December, versus the expected gain of 0.9% m/m, pointing to sustained momentum in the manufacturing industry amid the broad-based global demand recovery. November's IPI growth was revised higher to 2.3% m/m, from 1.8% previously. Compared to the same month last year, IPI was higher by 15.6% y/y (Nov: +14.1%), reflecting sharp gain in the volatile biomedical segments as well as that of transport engineering. Electronics output fell 2.9% y/y (Nov: +9.2%).

New Zealand's 30-year high inflation points to more OCR hikes:

- Inflation accelerated in New Zealand in the fourth quarter of 2021, in line with the global trend of surging prices stemming from the supply chain constraints. CPI rose 1.4% q/q in 4Q (3Q: +2.2%), slightly higher than the consensus estimate of 1.3% q/q. The y/y CPI rate accelerated to a three-decade high of 5.9%, up sharply from 4.9% previously while also beating the forecast of 5.7%. StatNZ said that the price increases were widespread with 10 out of 11 main groups in the CPI basket increasing this year; the main driver for the y/y inflation rate was the housing and household utilities group. The sharp increase in CPI bolsters the case for more rate hikes by the RBNZ which had twice raised the official cash rate (OCR) in the fourth quarter. The central bank has an inflation target of 1-3% midpoint.

House View and Forecasts

FX	This Week	1Q-22	2Q-22	3Q-22	4Q-22
DXY	94-96	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	0.72-0.73	0.72	0.72	0.74	0.75
USD/JPY	113-115	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

Policy Rate %	Current	1Q-22	2Q-22	3Q-22	4Q-22
Fed	0-0.25%	0-0.25	0.25-0.50	0.50-0.75	0.75-1.00
ECB	-0.50	-0.50	-0.50	-0.50	-0.50
BOE	0.25	0.25	0.50	0.50	0.75
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
27/01	AU Westpac Leading Index MoM (Dec)	0.12%
	CH Industrial Profits YoY (Dec)	9.0%
	JP Machine Tool Orders YoY (Dec F)	40.5%
	HK Exports YoY (Dec)	25.0%
	US Initial Jobless Claims (22 Jan)	286k
	US Durable Goods Orders (Dec P)	2.6%
	US Cap Goods Orders Nondef Ex Air (Dec P)	0.0%
	US GDP Annualized QoQ (4Q A)	2.3%
	US Pending Home Sales MoM (Dec)	-2.2%
28/01	US Kansas City Fed Manf. Activity (Jan)	24.0
	NZ ANZ Consumer Confidence MoM (Jan)	1.8%
	VN Markit Vietnam PMI Mfg (Jan)	52.5
	MA Exports YoY (Dec)	32.4%
	HK GDP YoY (4Q A)	5.4%
	EZ Economic Confidence (Jan)	115.3
	US Employment Cost Index (4Q)	1.3%
	US Personal Income (Dec)	0.4%
	US Personal Spending (Dec)	0.6%
	US PCE Core Deflator YoY (Dec)	4.7%
	US U. of Mich. Sentiment (Jan F)	68.8

Source: Bloomberg

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