

Global Markets Research
Daily Market Highlights

27 Sep: Market rout continues amid recession fear

Equities extended declines; 10Y UK gilts jumped 42bps; UST spiked 24bps

DXY above 114; GBP weakened to a fresh 37-year low

PBoC reinstated risk reserve requirements for FX forward sales at 20%

- Global assets remained in a sea of red, as selling pressures showed no signs of abating. Continuous aggressive policy tightening has significantly heightened fear of a recession, with the latest Fed speaks from Collins, Mester, and Bostic all echoed the Fed's hawkish rhetoric, saying additional tightening is needed to combat inflation. Powell and other Fed speaks will add more noises in the week ahead. The BOE's claim of "policy inaction" before November was the last straw that broke the camel's back, disappointing some who had hoped for an emergency BOE hike, to tackle fallout from the UK's "mini budget".
- Equities saw extended declines globally. The three major US benchmark stock indices fell 0.6-1.1% d/d with the Dow closing below 30,000 for the first time in three months, dragged by financials and energy shares. Stoxx Eur 600 declined 0.4%, Nikkei 225 plunged 2.7%, Hang Seng (-0.4%), Straits Times (-1.4%), and KLCI (-0.8%) testing the 1,400 critical level soon. UK FTSE 100 however managed to eke out a small 0.03% gain after the selloff the preceding trading day.
- Selloffs in global bonds gained further traction. Yields of 10Y UK gilts jumped 42bps to 4.24%, another supersized increase resulting in a 75bps increase in just two trading days. UST curve shifted markedly lower by 13-24bps across the curve. The 2Y note yields climbed 14bps higher to 4.34%, while the 10Y note yields spiked 24bps to 3.92%.
- The FX markets were not spared either. The greenback continued to reign supreme, strengthening against all majors. The GBP plunged a further 1.6% to 1.0689 to a fresh 37-year low while the EUR pulled back further by 0.8% to 0.9609. JPY and AUD also weakened 1.0-1.1%. The Dollar Index jumped almost 1.0% d/d to 114.10, a fresh 20-year high, and looks set to head towards 120 eventually.
- Asian currencies continued to depreciate by and large. The KRW saw the biggest decline (-1.5%), followed by the THB (-1.1%). CNY saw more modest decline (-0.1%) amid intervention from PBoC. The CNY has been weakening steadily (~4.0%) in the past month and traded above the 7.00 handle in the last six trading days. The PBoC announced that it will reinstate the risk reserve requirements for FX forward sales at 20% effective 28-September. SGD weakened 0.5% to 1.4382 against the USD while USD/ MYR rallied to 4.6035 as at yesterday's close, just a tad shy of its intraday high of 4.6042

Key Market Metrics

| | Level | d/d (%) |
|--------------------|-----------|---------|
| Equities | | |
| Dow Jones | 29,260.81 | -1.11 |
| S&P 500 | 3,655.04 | -1.03 |
| NASDAQ | 10,802.92 | -0.60 |
| Stoxx Eur 600 | 388.75 | -0.42 |
| FTSE 100 | 7,020.95 | 0.03 |
| Nikkei 225 | 26,431.55 | -2.66 |
| Hang Seng | 17,855.14 | -0.44 |
| Straits Times | 3,181.97 | -1.40 |
| KLCI 30 | 1,413.04 | -0.84 |
| FX | | |
| Dollar Index | 114.10 | 0.95 |
| EUR/USD | 0.9609 | -0.81 |
| GBP/USD | 1.0689 | -1.57 |
| USD/JPY | 144.75 | 1.00 |
| AUD/USD | 0.6456 | -1.10 |
| USD/CNH | 7.1739 | 0.51 |
| USD/MYR | 4.6035 | 0.57 |
| USD/SGD | 1.4382 | 0.51 |
| Commodities | | |
| WTI (\$/bbl) | 76.34 | -3.89 |
| Brent (\$/bbl) | 83.94 | -3.13 |
| Gold (\$/oz) | 1,620.10 | -1.27 |
| Copper (\$\$/MT) | 7,292.00 | -2.05 |
| Aluminum(\$/MT) | 2,134.00 | -1.52 |
| CPO (RM/tonne) | 3,748.50 | -0.95 |

Source: Bloomberg, HLBB Global Markets Research

and was up 0.6% d/d, a fresh 24-year high and fast approaching the previous high of 4.7125 back in 1998 (intraday high of 4.88).

- Oil prices continued retreating on growth and demand concerns. Brent crude extended its decline, by 3.1% to \$83.94/ barrel while the WTI fell 3.9% d/d to \$76.34/ barrel.

Sharp pullback in US regional Fed activity indices:

- Contrary to the uptick in PMI manufacturing a day earlier, US Chicago Fed national activity index retreated more than expected to a neutral reading of 0.0 in August (Jul: 0.29) pointing to a stagnant economy as production and employment related indicators all slowed.
- Meanwhile, the Dallas Fed manufacturing index unexpectedly worsened to -17.2 in September (Aug: -12.9 and consensus: -9.0), marking its 5th straight month of contraction. Company outlook and new orders saw bigger declines, offsetting quicker gains in production. The 6-month outlook index also plunged to -22.4 (Aug: -8.8), a sign of softening confidence and economic activities going forward.

Japan composite PMI back into expansion in September:

- Jibun Bank composite PMIs rebounded back to expansionary levels at 50.9 in September (Aug: 49.4), proving August's contraction as just a blip. This was attributable to a turnaround in the services index (51.9 vs 49.5), and continued, albeit slower, expansion in PMI manufacturing (51.0 vs 51.5). New orders ticked higher while employment increased, a sign of improving outlook in the Japanese economy.

Singapore industrial production pointed to slower traction in 3Q:

- Industrial production grew at a slower pace of 0.5% y/y in August (Jul: +0.8% y/y revised) even as output rebounded more than expected to increase 2.0% m/m (Jul: -2.1% m/m). This marked its 3rd straight month of easing, and its lowest since a contraction back in September last year, adding to signs the Singapore economy is losing steam. Increases in biomedical and engineering was negated by declines in the production of chemical and electronics.

Extended declines in Hong Kong exports and imports painted a grim outlook:

- Exports fell more than expected by 14.3% y/y in August (Jul: -8.9%), marking its 4th straight month of contraction, as exports to China and the US both continued to decline, by 19.4% y/y and 7.7% y/y respectively. Meanwhile, imports also deepened its fall to 16.3% y/y (Jul: -10.2% y/y). Trade deficit halved to HKD13.3bn (Jul: HKD 27.6bn deficit) as imports fell at a bigger rate (-5.4% m/m) compared to exports (-2.0% m/m).

House View and Forecasts

| FX | This Week | 3Q-22 | 4Q-22 | 1Q-23 | 2Q-23 |
|---------|-----------|--------|--------|--------|--------|
| DXY | 110-115 | 106.00 | 105.00 | 103.00 | 102.00 |
| EUR/USD | 0.95-1.00 | 1.02 | 1.03 | 1.05 | 1.04 |
| GBP/USD | 1.05-1.10 | 1.21 | 1.22 | 1.24 | 1.23 |
| USD/JPY | 140-145 | 138.00 | 135.00 | 133.00 | 132.00 |
| AUD/USD | 0.64-0.68 | 0.67 | 0.69 | 0.70 | 0.70 |
| USD/MYR | 4.55-4.60 | 4.42 | 4.40 | 4.38 | 4.35 |
| USD/SGD | 1.42-1.45 | 1.40 | 1.38 | 1.37 | 1.36 |

| Rates, % | Current | 3Q-22 | 4Q-22 | 1Q-23 | 2Q-23 |
|----------|-----------|-----------|-----------|-----------|-----------|
| Fed | 2.25-2.50 | 3.00-3.25 | 4.25-4.50 | 4.25-4.50 | 4.25-4.50 |
| ECB | -0.50 | 1.25 | 2.75 | 2.75 | 2.75 |
| BOE | 1.75 | 2.25 | 3.25 | 3.25 | 3.25 |
| BOJ | -0.10 | -0.10 | -0.10 | -0.10 | -0.10 |
| RBA | 1.85 | 2.35 | 3.10 | 3.10 | 3.10 |
| BNM | 2.25 | 2.50 | 2.50 | 2.75 | 2.75 |

Source: HLBB Global Markets Research

Up Next

| Date | Events | Prior |
|-------|--|---------|
| 27/09 | JN PPI Services YoY (Aug) | 2.10% |
| | CH Industrial Profits YoY (Aug) | -- |
| | JN Machine Tool Orders YoY (Aug F) | 10.70% |
| | US Durable Goods Orders (Aug P) | -0.10% |
| | US FHFA House Price Index MoM (Jul) | 0.10% |
| | US S&P CoreLogic CS US HPI YoY NSA (Jul) | 17.96% |
| | US Conf. Board Consumer Confidence (Sep) | 103.2 |
| | US Richmond Fed Manufact. Index (Sep) | -8 |
| | US New Home Sales MoM (Aug) | -12.60% |
| 28/09 | AU Retail Sales MoM (Aug) | 1.30% |
| | JN Leading Index CI (Jul F) | 99.6 |
| | JN Coincident Index (Jul F) | 100.6 |
| | US MBA Mortgage Applications (23-Sept) | 3.8% |
| | US Pending Home Sales MoM (Aug) | -1.00% |
| | US Pending Home Sales NSA YoY (Aug) | -22.50% |

Source: Bloomberg

Hong Leong Bank Berhad

Fixed Income & Economic Research, Global
Markets

Level 8, Hong Leong Tower

6, Jalan Damanlela

Bukit Damansara

50490 Kuala Lumpur

Tel: 603-2081 1221

Fax: 603-2081 8936

HLMarkets@hibb.hongleong.com.my

DISCLAIMER

This report is for information purposes only and does not take into account the investment objectives, financial situation or particular needs of any particular recipient. The information contained herein does not constitute the provision of investment advice and is not intended as an offer or solicitation with respect to the purchase or sale of any of the financial instruments mentioned in this report and will not form the basis or a part of any contract or commitment whatsoever.

The information contained in this publication is derived from data obtained from sources believed by Hong Leong Bank Berhad (“HLBB”) to be reliable and in good faith, but no warranties or guarantees, representations are made by HLBB with regard to the accuracy, completeness or suitability of the data. Any opinions expressed reflect the current judgment of the authors of the report and do not necessarily represent the opinion of HLBB or any of the companies within the Hong Leong Bank Group (“HLB Group”). The opinions reflected herein may change without notice and the opinions do not necessarily correspond to the opinions of HLBB. HLBB does not have an obligation to amend, modify or update this report or to otherwise notify a reader or recipient thereof in the event that any matter stated herein, or any opinion, projection, forecast or estimate set forth herein, changes or subsequently becomes inaccurate.

HLB Group, their directors, employees and representatives do not have any responsibility or liability to any person or recipient (whether by reason of negligence, negligent misstatement or otherwise) arising from any statement, opinion or information, expressed or implied, arising out of, contained in or derived from or omission from the reports or matter.

Potential and actual conflict of interest may arise from the activities of HLB Group. HLB Group constitute a diversified financial services group. These entities engage in a wide range of commercial and investment banking, brokerage, funds management, hedging transactions and other activities for their own account or the account of others. In the ordinary course of their business, HLB Group may effect transactions for their own account or for the account of their customers and hold long or short positions in the financial instruments. HLB Group, in connection with its business activities, may possess or acquire material information about the financial instruments. Such activities and information may involve or have an effect on the financial instruments. HLB Group have no obligation to disclose such information about the financial instruments or their activities.

The past performance of financial instruments is not indicative of future results. Whilst every effort is made to ensure that statements of facts made in this report are accurate, all estimates, projections, forecasts, expressions of opinion and other subjective judgments contained in this report are based on assumptions considered to be reasonable as of the date of the document in which they are contained and must not be construed as a representation that the matters referred to therein will occur. Any projections or forecasts mentioned in this report may not be achieved due to multiple risk factors including without limitation market volatility, sector volatility, corporate actions, the unavailability of complete and accurate information. No assurance can be given that any opinion described herein would yield favourable investment results. Recipients who are not market professional or institutional investor customer of HLBB should seek the advice of their independent financial advisor prior to taking any investment decision based on the recommendations in this report.

HLBB may provide hyperlinks to websites of entities mentioned in this report, however the inclusion of a link does not imply that HLBB endorses, recommends or approves any material on the linked page or accessible from it. Such linked websites are accessed entirely at your own risk. HLBB does not accept responsibility whatsoever for any such material, nor for consequences of its use.

This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation. This report is for the use of the addressees only and may not be redistributed, reproduced or passed on to any other person or published, in part or in whole, for any purpose, without the prior, written consent of HLBB. The manner of distributing this report may be restricted by law or regulation in certain countries. Persons into whose possession this report may come are required to inform themselves about and to observe such restrictions. By accepting this report, a recipient hereof agrees to be bound by the foregoing limitations.