28 January 2022

Global Markets Research

Daily Market Highlights

28-Jan: Dollar soared on rate hike expectations

US equities pressured by prospects of steeper Fed rate hike
Short-term yields rose alongside the greenback
US 4Q GDP growth beat estimates at 6.9% q/q annualised rate

- The selloff in US equities extended to Thursday despite the upbeat 4Q US GDP growth as investors digested the prospects of a larger-than-expected rate hike by the Federal Reserve in March. The Dow Jones gave up earlier gains to close little changed (-0.02%); the S&P 500 dropped 0.5% and NASDAQ recorded the steepest losses of 1.4%. iPhone maker Apple posted record quarterly results even though the supply chain issue impeded sales; CEO Tim Cook said that constraints are easing.

- In the bond market, short term yields continued to climb while the medium-to-long term yields experienced reversals. The yield on the benchmark 2Y treasury notes rose another 3.8bps to 1.19%; while the 10Y UST yield slumped 6.5bps to 1.80%.

- The dollar strength persisted into Thursday where the USD appreciated against all G10 and Asian currencies. The Aussie and kiwi dollar recorded the sharpest losses in the G10 basket. The dollar index soared 0.8% to 97.26, extending the gaining streak to four days.

- USD/MYR retreated from the daily high of 4.2070 to close 0.1% higher at 4.1955. The broad-based USD strength is expected to be supportive of USD/MYR, as the pair may reattempt to break above 4.2000; amid pre-weekend and festivity related factors.

- In the commodity market, the strong USD exerted more pressure on gold prices; futures plunged 2.0% to a three-week low of $1793.10/oz. Crude oil prices slipped amid the USD strength and driven by some profit taking activities, Brent crude settled 0.7% lower at $89.34 and WTI fell 0.9% to $86.61/barrel.

US 4Q GDP grew more than expected; initial jobless claims fell for the first time in four weeks:

- The US economy expanded at a 6.9% q/q annualised rate in the fourth quarter of 2021, beating the consensus estimate of 5.5%. Growth accelerated from 2.3% q/q in the third quarter, powered by inventory accumulation which contributed a whopping 4.9ppts as companies repleted stocks amid the rampant supply chain challenge. Personal consumptions which grew 3.3% q/q added only 2.25ppts reflecting consumer spending in the services sector. For the full year 2021, the US economy grew by 5.7%, turning around from the pandemic-driven 3.4% contraction in 2020 and marked its steepest gain since 1984.
- In a separate note, initial jobless claims fell to 260k last week, from the upwardly revised 290k prior. The 30k decline in first-time unemployment benefits came after three consecutive weekly gains, suggesting that the Omicron-related disruptions on the job market are easing.

Key Market Metrics

	Level	d/d (%)
Equities		
Dow Jones	34,160.78	-0.02
S&P 500	4,326.51	-0.54
NASDAQ	13,352.78	-1.40
Stoxx 600	470.33	0.65
FTSE 100	7,554.31	1.13
Nikkei 225	26,170.30	-3.11
Hang Seng	23,807.00	-1.99
Straits Times	3,260.03	-0.35
KLCI 30	1,515.99	0.02
FX		
Dollar Index	97.26	0.81
EUR/USD	1.1145	-0.85
GBP/USD	1.3383	-0.59
USD/JPY	115.37	0.64
AUD/USD	0.7033	-1.15
USD/CNH	6.3685	0.52
USD/MYR	4.1955	0.12
USD/SGD	1.3528	0.43
Commodities		
WTI ($/bbl)	86.61	-0.85
Brent ($/bbl)	89.34	-0.69
Gold ($/oz)	1,793.10	-2.00

Source: Bloomberg, HLBB Global Markets Research

US durable goods orders, pending home sales dropped in December:

- The US durable goods orders recorded its first decline in three months in December; orders for durable goods fell 0.9% m/m (Nov: +3.2%), reflecting a 5.8% fall in capital goods. The narrower non-defence ex-aircrafts orders, seen as the core capital orders, were unchanged compared to the previous month, as businesses held back from larger investment in the final month of 2021.
- The Kansas City Fed Manufacturing Activity Index rose to 24.0 in January (Dec: 22.0), driven by higher output; the surge in orders backlogs (+18pts) and the much weaker shipment indicator (-8pts) indicate that the supply chain bottlenecks remain a challenge faced by manufacturers.
- Pending home sales, which tracks the contracts signed for existing homes purchases in the US, dropped 3.8% m/m in December, larger than the expected decline of 0.4%. This followed a 2.3% m/m decline in November and was the steepest fall in eight months. The limited housing supply at year-end might be the main reason holding back potential buyers.

Japan's machine tools orders fell in December:

- Japan's machine tools orders fell 4.2% m/m in December (Nov: -2.6%). The back-to-back decline was driven by lower foreign orders (-7.7% m/m). Orders from the EU, US and Asia-ex China were down towards the year end whereas orders from China rose for the second consecutive month. Domestic orders rose 2.4% m/m, considered a modest recovery from the 0.6% and 12.6% declines in the previous two months. On a y/y basis, total machine tools orders were higher by 40.6% (Nov: +64.0%) as the low base effect faded.

China recorded record industrial profits in 2021:

- China's industrial profit growth slowed for the second consecutive month to 4.2% y/y in December, from 9.0% in the previous month. This reflects easing in producer price inflation towards the end of the year. For the full year of 2021, profits rose 34.3% (2020: +4.1%) to 8.7 trillion yuan, its highest level on the series' record dating back to the year 2000. Profit growth is expected to moderate in 2022 as cost pressures softened and the overall economic growth slowed down.

Hong Kong's trade data remained strong ahead of Lunar New Year:

- Hong Kong's export growth beat expectations in December at 24.8% y/y, extending from the 25.0% y/y gain in November, supported by still-solid Chinese demand ahead of the Lunar New Year. Imports rose 19.3% y/y (Nov: +20.0 %) also a solid reading that reflects festivity-related demand.

Australia's Westpac leading index remained negative:

- Australia's Westpac Leading Index's six-month annualised growth rate rose to -0.15% in December, from -0.19 in November. Westpac said that the index remained in the slightly negative territory, which is consistent with the high degree of uncertainty around the near-term outlook as the strong reopening forces in 4Q were impacted by the spread of the Omicron variant.

New Zealand's consumer confidence weakened in January:

- The ANZ Consumer Confidence Index ticked slightly lower (-0.6% m/m) in January to 97.7, after the 1.8% climb in December. The index remained below its long-term average of 120, attributed to a slightly weaker 1-year-ahead outlook, although more consumers (14% versus 12% prior) saw improvement in their personal finances in the year ahead. The proportion of consumers thinking it is a good time to buy a major household item fell to -4 (prior: 0). ANZ said that households' budgets are under "cost of living pressure" amid surging inflation.

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
28/01	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
31/01	JP Retail Sales MoM (Dec)	1.3%
	JP Industrial Production MoM (Dec P)	7.0%
	JP Retail Sales YoY (Dec)	1.9%
	HK Retail Sales Value YoY (Dec)	7.1%
	EZ GDP SA QoQ (4Q A)	2.2%
	US MNI Chicago PMI (Jan)	64.3
	US Dallas Fed Manf. Activity (Jan)	8.1

Source: Bloomberg

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