

28 February 2022

Global Markets Research

Daily Market Highlights

28-Feb: Global markets in for roller-coaster ride

Volatility amid geopolitical jitters

Swift recovery in global equities; pullback in DXY and commodities

US core PCE ticked higher; gains in personal spending quickened but income stagnated

- The sentiment swing, and hence the volatility in the global financial markets was obvious, from knee jerk selloffs to swift recovery, all within a span of 48 hours last Thursday-Friday. Global equities made a swift return ending Friday in the green. US stock indices advanced 1.6-2.5% d/d on Friday while major European stock indices generally gained 3.0-4.0%. Safer government bonds were however a little mixed, remaining under pressure in Europe, mixed in Asia but recovered in the US. S&P had downgraded Russian bonds below investment grade last Friday. Volatility will continue to rule in the days or weeks ahead taking cue from Russia-Ukraine-West headlines.
- Over the weekend, a joint statement by the US, European Commission, France, Germany, Italy, UK and Canada called for a removal of some Russian banks from SWIFT, and restrictive measures on the Russia Central Bank, aiming at cripple Russian financial system. Sanctions were slapped on Russian individuals including President Putin; EU to finance weapons purchase to Ukraine and bar Russian planes from its air space; Germany made historic change to ship weapons to Ukraine; North Korea resumed its missile tests; while the closely scrutinized China attempted to distance itself from the standoff, asking all parties to exercise restraints to prevent a large-scale humanitarian crisis.
- The USD gave up prior session's gains, with the DXY falling 0.5% to 96.62 on the back of a quick revival in risk sentiments. The greenback weakened against most G10s, most notably against the Aussie (-0.9%) and EUR (-0.7%). The Dollar Index still clocked in a 0.6% gain for the week. Geopolitical headlines aside, Fed Chair Powell's testimony this week will likely shape USD performance.
- USD/MYR ended little changed (-0.07%) at 4.2025 on Friday, finding some sense of calm within 4.1950-4.20 for most part of the day. The pair however continued to stay above the 4.20 handle and the pair remains technically bullish, likely targeting 4.2080 next but upside likely capped at the 4.22. We expect slight bullishness to prevail for USD/MYR in the week ahead amid lingering geopolitical tensions, eyeing a range of 4.18-4.22. BNM is expected to extend its rate pause and neutral policy stance on 3-March given prevailing uncertainties.
- Commodity prices also retreated amid a return of calm after earlier knee jerk selloff. Global crude oil prices eased more than 1.0% with the Brent and WTI last settled at \$97.93 and \$91.59/ barrel respectively. Crude oil prices were down between 0.6% (WTI) and 4.7% (Brent) on a weekly basis. Gold prices fell nearly 2.0% back below the \$1,900 level to \$1887.60/ barrel on Friday, and recorded a weekly decline of 0.6%.

Key Market Metrics

	Level	d/d (%)
Equities		
Dow Jones	34,058.75	2.51
S&P 500	4,384.65	2.24
NASDAQ	13,694.62	1.64
Stoxx 600	453.53	3.32
FTSE 100	7,489.46	3.91
Nikkei 225	26,476.50	1.95
Hang Seng	22,767.18	-0.59
Straits Times	3,294.47	0.56
KLCI 30	1,591.72	1.13
FX		
Dollar Index	96.62	-0.54
EUR/USD	1.1268	0.68
GBP/USD	1.3409	0.22
USD/JPY	115.55	0.02
AUD/USD	0.7226	0.88
USD/CNH	6.3141	-0.14
USD/MYR	4.2023	-0.07
USD/SGD	1.3533	-0.15
Commodities		
WTI (\$/bbl)	91.59	-1.31
Brent (\$/bbl)	97.93	-1.16
Gold (\$/oz)	1,887.60	-1.95

Source: Bloomberg, HLBB Global Markets Research

US PCE core showed further uptick in inflation; personal spending accelerated even as income stagnated:

- PCE core picked up to increase 5.2% y/y in January as expected (Dec: +4.9%), as prolonged global supply chain disruption drove prices up to a four-decade high. However, the steady month-on-month gain of 0.5% offered some reprieves that inflation is plateauing, as observed in other countries' inflation indicators earlier. This should soften the case for aggressive tightening by policy makers.
- Personal spending rebounded more than expected to 2.1% m/m in January (Dec: -0.8% m/m) while real spending also saw a decent 1.5% rebound (Dec: -1.3%), thanks to a jump in spending on goods (+5.2%) and to a lesser extent, services (+0.5%) which were still recovering from the Omicron wave. This were rather commendable given the stagnant income coming off a 0.4% m/m in December. The easing momentum in income however, could suggest slowing spending ahead.
- In a separate release, durable goods orders chalked up faster expansion of 1.6% m/m in January (Dec: +1.2% revised from -0.7% m/m). Orders ex-transport however eased to 0.7% after gaining 0.9% in December. Contrary to tentative softness in consumer spending, investment spending appeared to be gathering speed, and should be supportive of GDP growth in 1Q.
- Pending home sales staged a surprised decline of 5.7% m/m in January (Dec: -2.3% revised) and also contracted more than expected by 9.1% y/y (Dec: -5.8%). This 3rd consecutive month of decline was the worst in 11 months dragged by low inventory, higher prices as well more expensive borrowing costs. This, coupled with weaknesses seen in other housing indicators and prospect of rising interest rates, will continue to impede recovery in the housing market.
- University of Michigan consumer sentiments softened for the second straight month to a decade low, albeit less than initially estimated to 62.8 in February final print (initial 61.7; Jan: 67.2) amid pullback in both the expectations index and current conditions following declines among households earning \$100k and above. 12-month inflation expectations held steady at 4.9% nonetheless, slightly lower than the 5.0% initially estimated. The survey attributed the lower sentiments to inflationary-triggered declines in personal finances, falling confidence on government's policies, and the most negative long term prospects of the economy in the last decade.

Confidence levels largely improved in the Eurozone; deteriorated in the UK:

- Eurozone economic confidence turned higher to 114.0 in February (Jan: 112.7), beating consensus estimate for an increase to 113.1. The uptick was uneven. Industrial (14.0 vs 13.9) and services (13.0 vs 9.1) confidence improved during the month, but consumer confidence deteriorated slightly from -8.5 to -8.8, its worst in 11 months, amid pessimism in current and future financial and economic outlook, as well as purchases/ spending plan.
- In the UK, GfK consumer confidence weakened sharply from -19 to -26 in February, its lowest since January last year and went against expectations for a slight improvement. This was dragged by sharp pullbacks in economic outlook over the next 12 months (-43 vs -32), personal finances outlook (-13 vs -2), and climate for major purchases (-15 vs -10), a sign consumer spending will soften in the months ahead.

Japan CPI continued to accelerate; uptick in leading index:

- Tokyo CPI quickened more than expected to 1.0% y/y in February (Jan: +0.6% revised), its highest since Dec-19 driven by higher food and utilities prices. Meanwhile, core CPI ex-fresh food picked up to 0.5% y/y (Jan: +0.2%), matching December's increase. However, core CPI ex-food and energy extended its decline, falling 1.1% y/y during the month (Jan: -1.2%). Supply-driven inflation is expected to remain, in expectation of further rally in energy prices as the Russia-Ukraine tension escalate.
- Leading index rose for the third consecutive month to 104.8 in December final reading (initial 104.3 and Nov: 103.9). pointing to further economic recovery ahead.

Coincident index however eased to 92.7 (initial 92.6 and Nov: 92.8). The increase in leading index was driven by gains in new job offers, machinery orders and higher commodity prices, in line with improvement seen in the labour market and business capex spending.

Singapore industrial production tapered off more than expected:

- Industrial production surprised on the downside, pulling back more than expected to increase only 2.0% y/y in January (Dec: +16.7% y/y revised), its lowest in four months. The decline is primarily due to the occasional big swing in the biomedical (-10.6% vs +90.5% y/y) and chemicals (-2.3% vs +1.2%) sectors which undergo production lines swap and maintenance and hopefully would not translate into a downtrend. The electronics sector turned around and eked out a minor 0.1% y/y increase, supported by the infocom/ consumer electronics, and other electronics modules. MOM, production unexpectedly contracted 10.7% (Dec: +3.0% m/m), its biggest drop since Oct-20.

House View and Forecasts

FX	This Week	1Q-22	2Q-22	3Q-22	4Q-22
DXY	96-98	96.15	96.40	96.30	96.30
EUR/USD	1.11-1.14	1.13	1.12	1.12	1.13
GBP/USD	1.32-1.35	1.34	1.33	1.35	1.36
AUD/USD	0.70-0.72	0.72	0.72	0.74	0.75
USD/JPY	114-116	115	116	115	114
USD/MYR	4.18-4.22	4.17	4.15	4.15	4.10
USD/SGD	1.35-1.36	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
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 MNI Chicago PMI (Feb)	65.2
	US Dallas Fed Manf. Activity (Feb)	2.0
01/03	MA Markit Malaysia PMI Mfg (Feb)	50.5
	VN Markit Vietnam PMI Mfg (Feb)	53.7
	JP Jibun Bank Japan PMI Mfg (Feb F)	52.9
	AU Home Loans Value MoM (Jan)	4.4%
	CN Manufacturing PMI (Feb)	50.1
	CN Non-manufacturing PMI (Feb)	51.1
	CN Caixin China PMI Mfg (Feb)	49.1
	AU RBA Cash Rate Target (36951)	0.1%
	EZ Markit Eurozone Manufacturing PMI (Feb F)	58.4
	UK Markit UK PMI Manufacturing SA (Feb F)	57.3
	US Markit US Manufacturing PMI (Feb F)	57.5
	US Construction Spending MoM (Jan)	0.2%
	US ISM Manufacturing (Feb)	57.6

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@hlbb.hongleong.com.my

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