28 October 2022

Global Markets Research

Daily Market Highlights

28 Oct: Dow closed higher on better-than expected GDP

NASDAQ tumbled as META tank

UST curve bull steepened

DXY rebounded amid upbeat 3Q US GDP and dovish ECB hike

- The Dow climbed 0.6% d/d for its fifth day of wins as shares of Caterpillar, McDonald's and Honeywell led the index higher after the companies reported better-than-expected earnings. The divergence, nevertheless, continued for the second day with the S&P 500 closing down 0.6% d/d, while the Nasdaq Composite lost 1.6% d/d, as a rout in Meta (-24.6% d/d) and other tech stocks weighed on the index. Over in Europe, Stoxx 600 were flat as investors digested a slew of corporate earnings and the European Central Bank's latest monetary policy decision. Credit Suisse's shares fell more than 18.6% through the day after the bank announced a large 3Q loss.

- US treasury yields slid on Thursday after the latest U.S. GDP report showed some signs that inflationary pressures could be easing. The yield on the 10-year Treasury dipped 8 basis points to 3.92%. The policy-sensitive 2-year Treasury yield was down 13 basis points at 4.27%.

- Dollar Index were up slightly by 0.8% d/d to 110.59. The EUR weakened 1.2% d/d against the USD in the wake of a dovish ECB hike that spurred expectations of slower pace of rate increases ahead. Over in Asia, KRW led most emerging Asian amidst Fed pivot expectations and the Bank of Korea announcing more measures to stabilise short term money markets. KRW gained 0.6% d/d, while JPY appreciated slightly by 0.1% d/d while investors await Bank of Japan's monetary policy meeting today. MYR, on the other hand, weakened 0.1% d/d against the USD to 4.7177.

- Brent crude settled up 1.3% d/d to $96.96 a barrel. Similarly, U.S. West Texas Intermediate (WTI) crude gained 1.3% d/d to $89.08 a barrel, extending the previous day's rally as optimism over record U.S. crude exports and signs that recession fears are abating outweighed concern over slack demand in China. Gold prices eased by 0.2% d/d as a rise in the U.S. dollar offset support for the precious metal from expectations the Federal Reserve will slow its interest rate hikes after a policy meeting next week.

US GDP rebounded to +2.6%, core PCE eased to 4.5% in 3Q

- Real GDP rebounded more than expected in 3Q advance estimate, increasing 2.6% q/q after decreasing 0.6% q/q in 2Q. The upturn primarily reflected a smaller decrease in private inventory investment, an acceleration in non-residential fixed investment, and an upturn in federal government spending that were partly offset by a larger decrease in

Key Market Metrics

	Level	d/d (%)
Equities		
Dow Jones	32,033.28	0.61
S&P 500	3,807.30	-0.61
NASDAQ	10,792.67	-1.63
Stoxx Eur 600	410.19	-0.03
FTSE 100	7,073.69	0.25
Nikkei 225	27,345.24	-0.32
Hang Seng	15,427.94	0.72
Straits Times	3,015.24	0.23
KLCI 30	1,454.09	-0.06
FX		
Dollar Index	110.59	0.81
EUR/USD	0.9964	-1.16
GBP/USD	1.1565	-0.52
USD/JPY	146.29	-0.05
AUD/USD	0.6452	-0.69
USD/CNH	7.2525	0.90
USD/MYR	4.7177	0.08
USD/SGD	1.4092	0.25
Commodities		
WTI ($/bbl)	89.08	1.33
Brent ($/bbl)	96.96	1.33
Gold ($/oz)	1,660.70	-0.20
Copper ($$/MT)	7,764.50	-0.35
Aluminum($/MT)	2,287.50	-2.03
CPO (RM/tonne)	3,956.00	-1.80

Source: Bloomberg, HLBB Global Markets Research residential fixed investment and a deceleration in consumer spending (3Q: +1.4% q/q vs 2Q: +2.0% q/q). Specifically, we noted that the latter personal saving rate, was a shade lower at 3.3% for the quarter (2Q: 3.4%). In terms of prices, the core PCE eased to +4.5% q/q as expected (2Q: +4.7% q/q).

- Initial jobless claims, a proxy for layoffs, increased less than expected to a seasonally adjusted 217,000 for the week ending October 22 from 214,000 the week before. Claims are up from earlier this year but remain near their pre pandemic 2019 weekly average of 218,000. Continuing claims, a proxy for the number of people seeking continuing unemployment benefits, increased to 1.44m in the week ended Oct. 15 from 1.38m a week earlier.
- New orders for U.S. manufactured durable goods picked up less than expected by +0.4% m/m in September (Aug: +0.2%). Excluding a jump in orders for transportation equipment, durable goods orders unexpectedly fell by 0.5% m/m after coming in unchanged in August. Ex-transportation orders were expected to edge up by 0.2% m/m.
- New orders for U.S.-made capital goods, meanwhile, unexpectedly fell in September, suggesting a loss of momentum in business spending on equipment at the end of 3Q. Orders for non-defense capital goods excluding aircraft, a closely watched proxy for business spending plans, dropped 0.7% m/m after increasing 0.8% m/m in August. Core capital goods shipments, used to calculate equipment spending in GDP, slipped 0.5% m/m after advancing 0.2% in August.
- Kansas City Fed, meanwhile, reported that its manufacturing activity declined in October, and expectations for future activity also decreased. The composite index slipped to -7, the lowest reading since May 2020, and down from 1 in September and 3 in August. The monthly index of raw materials prices slowed and continued to decrease compared to a year ago. Finished goods price indexes decreased slightly m/m and y/y. Expectations for future raw materials and finished goods prices slowed moderately. The slower pace in factory growth was driven by decreased activity in computer and electronic, wood, primary metals, and plastics and rubber manufacturing.

ECB raised rates by 75bps; offered hints of slower increases ahead

- As expected, the European Central Bank (ECB) raised the three key rates by 75bps in its latest monetary policy meeting, its third consecutive increase for the year. Accordingly, the rates on the main refinancing operations, marginal lending facility and the deposit facility will be increased to 2.00%, 2.25% and 1.50% respectively, wef from 2 November. The central bank reiterated that inflation remains far too high and will stay above the target of 2.0% for an extended period. However, ECB President Lagarde painted a gloomy economic outlook, and commented that “substantial progress” has been made in withdrawing stimulus. While it reaffirmed that borrowing costs will be raised, it dropped the language of “over the next several meetings”, essentially hinting at a policy pivot closely tracking first the RBA, and BOC.
- The Governing Council also decided to change the terms and conditions of the third series of targeted longer-term refinancing operations (TLTRO III) and adjust the interest rates applicable to TLTRO III from 23 November 2022 and to offer banks additional voluntary early repayment dates. Finally, in order to align the remuneration of minimum reserves held by credit institutions with the Eurosystem more closely with money market conditions, the Governing Council decided to set the remuneration of

minimum reserves at the ECB's deposit facility rate.

Australia export prices fell, but import prices were up

- Export price index fell less than expected by 3.6% q/q in 3Q (2Q: +10.1% q/q), but was up 25.9% y/y. Import price index, on the other hand, tapered off at a much slower than expected pace to +3.0% q/q (2Q: +4.3% q/q) and rose 19.3% y/y. The main contributors to the fall in export prices were metalliferous ores and metal scrap (-16.9%) and non-ferrous metals (-12.7%) which were affected by demand from China, while prices for coal, coke and briquettes (-6.2%) were weakened by global steel demand. The increase in import prices, meanwhile, were mainly driven by higher input costs, including high energy prices as well as the depreciation of AUD.

China industrial profits dipped 2.3%

- Industrial profits in China shrank 2.3% y/y for the period Jan-Sept as Covid disruptions and property slump continued to drag on corporate bottom lines. This is compared to -2.1% y/y in the first 8 months. Accordingly, firms were affected by high cost, increasingly complicated environment, while some businesses face operational challenges. Auto manufacturing profits, meanwhile, jumped 47% m/m due to recovered supply chains and an increase in demand.

House View and Forecasts

FX	This Week	4Q-22	1Q-23	2Q-23	3Q-23
DXY	111-115	115.00	112.70	110.45	110.00
EUR/USD	0.96-0.99	0.95	0.97	0.98	0.98
GBP/USD	1.10-1.15	1.10	1.10	1.11	1.12
USD/JPY	148-153	147.00	146.00	145.00	144.00
AUD/USD	0.61-0.64	0.62	0.63	0.64	0.64
USD/MYR	4.70-4.75	4.68	4.64	4.62	4.60
USD/SGD	1.42-1.44	1.45	1.44	1.42	1.40

Rates, %	Current	4Q-22	1Q-23	2Q-23	3Q-23
Fed	3.00-3.25	4.25-4.50	4.25-4.50	4.25-4.50	4.25-4.50
ECB	1.25	2.75	2.75	2.75	2.75
BOE	2.25	3.25	3.25	3.25	3.25
BOJ	-0.10	-0.10	-0.10	-0.10	-0.10
RBA	2.60	3.10	3.10	3.10	3.10
BNM	2.50	2.75	3.00	3.00	3.00

Source: HLBB Global Markets Research

Up Next

Date	Events	Prior
28-Oct	NZ ANZ Consumer Confidence Index (Oct)	85.4
	NZ ANZ Consumer Confidence MoM (Oct)	0.00%
	JN Tokyo CPI YoY (Oct)	2.80%
	JN Tokyo CPI Ex-Fresh Food YoY (Oct)	2.80%
	JN Jobless Rate (Sep)	2.50%
	JN Job-To-Applicant Ratio (Sep)	1.32
	AU PPI YoY (3Q)	5.60%
	EC Economic Confidence (Oct)	93.7
	EC Industrial Confidence (Oct)	-0.4
	EC Services Confidence (Oct)	4.9
	EC Consumer Confidence (Oct F)	-27.6
	US Employment Cost Index (3Q)	1.30%
	US Personal Income (Sep)	0.30%
	US Personal Spending (Sep)	0.40%
	US Real Personal Spending (Sep)	0.10%
	US Pending Home Sales MoM (Sep)	-2.00%
	US U. of Mich. Sentiment (Oct F)	59.8
	JN BOJ Policy Balance Rate	-0.10%
31-Oct	JN Industrial Production MoM (Sep P)	3.40%
	JN Retail Sales MoM (Sep)	1.40%
	AU Melbourne Institute Inflation MoM (Oct)	0.50%
	AU Retail Sales MoM (Sep)	0.60%
	AU Private Sector Credit MoM (Sep)	0.80%
	CH Composite PMI (Oct)	50.9
	JN Consumer Confidence Index (Oct)	30.8
	JN Housing Starts YoY (Sep)	4.60%
	HK GDP YoY (3Q A)	-1.30%
	UK Net Consumer Credit (Sep)	1.1b
	UK Consumer Credit YoY (Sep)	7.00%
	EC CPI Estimate YoY (Oct)	10.00%
	EC GDP SA YoY (3Q A)	4.10%
	US MNI Chicago PMI (Oct)	45.7
	US Dallas Fed Manf. Activity (Oct)	-17.2

Source: Bloomberg

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