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Global Markets Research

Daily Market Highlights

29 Aug: Hawkish Powell prompted market selloffs

Selloffs in US stocks and treasuries after Powell signalled forceful policy tightening

DXY advanced against all G10s

ECB policymakers toyed the idea of a 75bps rate hike discussion

- US stocks collapsed on Friday after Fed Chair Jerome Powell reassured the markets that the central bank intends to contain inflation via continuous policy tightening. The Dow Jones plummeted over 1000pts or 3.0%, the S&P 500 fell 3.4% and NASDAQ was down by 3.9%. Earlier, European stocks fell whilst Asian stocks advanced.
- In the lead-up to Powell's Jackson Hole speech, investors had been torn between the possibilities of hawkish remarks (as signalled by some Fed officials) and chances of a dovish tilt by the Fed Chair as the US economic data weakened.
- Powell said that "Restoring price stability will likely require maintaining a restrictive policy stance for some time. The historical record cautions strongly against prematurely loosening policy". He acknowledged that the Fed's move will "bring some pain to households and businesses" but such are "the unfortunate costs of reducing inflation".
- Treasury yields up to the 10Y sector rose between 2-5bps after Fed Powell delivered a hawkish testimony at Jackson Hole and as sources revealed ECB policymakers would be considering a 75bps rate hike. On the contrary, the long-tenured bond yields added 3-5bps. The benchmark 10Y UST yield added 2bps to 3.04%, remaining above the 3.0% level, while the 2Y note yields climbed 3bps up to 3.40%.
- The dollar index rebounded and clinched a 0.3% gain to 108.80 as of last Friday's close, as the greenback bounced back up from intraday losses (a low of 107.59) amid hawkish Fed rhetoric of forceful policy tightening to bring down inflation. The USD strengthened against all G10s and was mixed against the Asian currencies in earlier hours prior to Fed Chair Powell's speech. Commodity currencies lost the most – NZD (-1.5%), AUD (-1.2%) whilst the EUR was relatively unscathed with just a minute 0.1% decline as the ECB tracks the Fed's hawkish stance. The sterling slipped 0.7% while the JPY lost 0.8%. In the Asia space, KRW outperformed with a 0.3% increase while the MYR advanced 0.1% against the USD to 4.4665. The SGD lost 0.4% to 1.3939 whilst the CNH fell 0.6%.
- Oil rebounded after prior's momentary drop on Saudi's hint on production cut. Brent crude rose 1.7% to \$100.99/barrel while WTI increased 0.6% to \$93.06/barrel.

Key Market Metrics

	Level	d/d (%)
Equities		
Dow Jones	32,283.40	-3.03
S&P 500	4,057.66	-3.37
NASDAQ	12,141.71	-3.94
Stoxx Eur 600	426.09	-1.68
FTSE 100	7,427.31	-0.70
Nikkei 225	28,641.38	0.57
Hang Seng	20,170.04	1.01
Straits Times	3,249.53	0.05
KLCI 30	1,500.29	0.32
FX		
Dollar Index	108.80	0.31
EUR/USD	0.9966	-0.09
GBP/USD	1.1744	-0.74
USD/JPY	137.64	0.84
AUD/USD	0.6897	-1.20
USD/CNH	6.8947	0.63
USD/MYR	4.4663	-0.12
USD/SGD	1.3939	0.38
Commodities		
WTI (\$/bbl)	93.06	0.58
Brent (\$/bbl)	100.99	1.66
Gold (\$/oz)	1,740.60	-1.20
Copper (\$\$/MT)	8,160.50	0.39
Aluminum (\$/MT)	2,493.50	2.47
CPO (RM/tonne)	4,276.00	-1.12

Source: Bloomberg, HLBB Global Markets Research

US personal spending growth eased on lower gasoline receipts:

- The core PCE inflation slipped to 4.6% y/y in July, from 4.8% in June, adding to evidence that the US inflation is easing. On a m/m basis, core PCE rose a mere 0.1% (Jun: +0.6%), reflecting tepid consumer spending. Personal consumption picked up 0.1% m/m (versus the 1.0% increase prior) on lower gasoline receipts as prices of gasoline fell last month.
- Personal income growth also slowed to 0.2% m/m (Jun: +0.7%) mainly because of the declines in proprietors' income and rental income. Wages and salaries continued to record a strong gain of 0.8% m/m (Jun: +0.6%) and may be able to support consumer spending.

Consumer confidence improved in the US:

- The University of Michigan Consumer Sentiment Index rose to 58.2 in August (Jul: 51.2), indicating an improvement in consumer confidence. The survey reflects higher expectations over the year-ahead economic outlook after two months at its lowest reading since the Great Depression. Consumers also eased their median expected year-ahead inflation rate to 4.8%, from 5.2% prior.

US posted smaller goods trade deficit:

- The US goods trade deficit narrowed to \$89.1b in July, from \$98.6b previously, thanks to a sharper fall in imports (-3.5% m/m) when compared to exports (-0.2% m/m). Consumer goods imports fell the most (-10.4% m/m); automotive vehicles posted a rebound (+5.8% m/m) and capital goods managed to sustain a small rise (+0.5% m/m).

Singapore's IPI growth slowed in July:

- Singapore's industrial production fell 2.3% m/m in July, extending from the 8.0% decline in the previous month and missing the consensus forecasts that predicted a 2.3% increase. Compared to a year ago, industrial production rose a mere 0.6% y/y (Jun: +2.6%), reflecting lower electronics production and biomedical production which were offset by higher engineering output.

House View and Forecasts

FX	This Week	3Q-22	4Q-22	1Q-23	2Q-23
DX	106-110	106.00	105.00	103.00	102.00
EUR/USD	0.99-1.01	1.02	1.03	1.05	1.04
GBP/USD	1.17-1.20	1.21	1.22	1.24	1.23
USD/JPY	135-138	138.00	135.00	133.00	132.00
AUD/USD	0.68-0.71	0.67	0.69	0.70	0.70
USD/MYR	4.46-4.50	4.42	4.40	4.38	4.35
USD/SGD	1.38-1.40	1.40	1.38	1.37	1.36

Rates, %	Current	3Q-22	4Q-22	1Q-23	2Q-23
Fed	2.25-2.50	2.75-3.00	3.25-3.50	3.25-3.50	3.25-3.50
ECB	-0.50	0.25	0.50	0.50	0.50
BOE	1.75	1.75	2.00	2.00	2.00
BOJ	-0.10	-0.10	-0.10	-0.10	-0.10
RBA	1.85	1.60	1.85	1.85	1.85
BNM	2.25	2.50	2.75	2.75	2.75

Source: HLBB Global Markets Research

Up Next

Date	Events	Prior
29/08	AU Retail Sales MoM (Jul)	0.2%
	US Dallas Fed Manf. Activity (Aug)	-22.6
30/08	JP Jobless Rate (Jul)	2.6%

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JP Job-To-Applicant Ratio (Jul)	1.27
EZ Economic Confidence (Aug)	99
US FHFA House Price Index MoM (Jun)	1.4%
US S&P CoreLogic CS 20-City YoY NSA (Jun)	20.5%
US Conf. Board Consumer Confidence (Aug)	95.7
US JOLTS Job Openings (Jul)	10698k

Source: Bloomberg

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