HongLeong Bank

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Global Markets Research
Daily Market Highlights

29 Nov: Stocks in red on China's social unrest, Fed speaks

China slashed RRR by 25bps wef 5-Dec; industrial profits saw bigger decline
Commodity prices hit by prospect of slower China economy
Malaysia's inflation rate moderated, but core continued ticking up

- Global stocks pulled back on Monday after rare protests erupted across China over the weekend amid growing unrest over the country's zero-Covid policy. In the US, the three major stock indices fell between 1.5-1.6% d/d. Shares of companies with big production facilities in China were under pressure. Apple lost 2.6% d/d after Bloomberg reported that unrest at a factory in China could mean 6m fewer iPhone Pro units for the year. Stocks also sank as Federal Reserve officials stressed that more rate hikes are coming. St. Louise President James Bullard said markets maybe underestimating the chances of higher rates while his New York Counterpart John Williams noted that policy makers have more work to do to curb inflation. Shares in Asia-Pacific retreated, with Hong Kong's Hang Seng index shedding 1.6% to lead losses, while Stoxx 600 dropped 0.7 % d/d.

- The US Treasury, meanwhile, were little changed as traders await economic data due this week. The benchmark 10-year Treasury yield was trading under +1bps at 3.68%. The yield on the 2-year Treasury was at around 4.44%, up 1bps. The slew of economic data releases due include 3Q GDP and ADP's private business payroll figures on Wednesday, core PCE on Thursday as well as non-farms payroll and unemployment data on Friday.

- The unrest also sent the yuan to close 0.7% d/d weaker at 7.2474 per dollar. The Australian dollar, often used as a proxy for the yuan, slid 1.5% d/d. Elsewhere in currency markets, the dollar was last down 0.2% d/d to 138.95 against the yen. As investors flocked to safety, the Dollar Index closed 0.6% d/d up at 106.67, with the greenback appreciating 0.5% d/d against Euro and 1.1% d/d against sterling. Ringgit, meanwhile, closed Friday (25th Nov) 0.2% d/d stronger vis-à-vis USD on political clarity in Malaysia as well as a weak Dollar post-FOMC minutes.

- The commodity markets are also weighing the bearish aspect of a slowing Chinese economy. Spot gold fell 0.8% d/d, while in the crude market, Brent fell by 1.3% d/d, while the West Texas Intermediate (WTI) crude were flat. EU governments, meanwhile, were split on the level at which to cap Russian oil prices between $65-$70 a barrel, with the aim of limiting revenue to fund Moscow's military offensive in Ukraine without disrupting global oil markets.

Key Market Metrics

	Level	d/d (%)
Equities		
Dow Jones	33,849.46	-1.45
S&P 500	3,963.94	-1.54
NASDAQ	11,049.50	-1.58
Stoxx Eur 600	437.85	-0.65
FTSE 100	7,474.02	-0.17
Nikkei 225	28,162.83	-0.42
Hang Seng	17,297.94	-1.57
Straits Times	3,240.06	-0.14
KLCI 30	1,486.54	-1.02
FX		
Dollar Index	106.67	0.57
EUR/USD	1.0340	-0.53
GBP/USD	1.1959	-1.10
USD/JPY	138.95	-0.17
AUD/USD	0.6650	-1.50
USD/CNH	7.2474	0.74
USD/MYR	4.4838	-0.22
USD/SGD	1.3793	0.18
Commodities		
WTI ($/bbl)	76.54	-0.01
Brent ($/bbl)	82.58	-1.59
Gold ($/oz)	1,740.30	-0.84
Copper ($$/MT)	7,980.00	-0.13
Aluminum($/MT)	2,374.00	0.38
CPO (RM/tonne)	4,073.00	1.28

Source: Bloomberg, HLBB Global Markets Research

US Dallas Fed manufacturing activity continued to worsen, albeit at a slower pace

- Growth in Dallas factory activity posted a seventh consecutive negative reading in October but moved up 5 points to -14.4 and was above consensus estimate at -21.0. More importantly, the 6-month outlook also showed the same trend, rising to -17.5 from -21.2 previously, suggestion a still worsening outlook for the district's manufacturing sector.

Japan Services prices eased to 1.8%, but Tokyo inflation hits fastest pace since 1982

- October's Corporate Services Price Index (CSPI), which measures the change in the price of goods sold by corporations eased slightly to 1.8% y/y (prior +2.1% y/y previously). Tokyo inflation excluding fresh foods, on the other hand, rose 3.6% y/y in November, driven by faster pace gains in processed food prices. This is the quickest since April 1982 and stronger than consensus estimate's +3.5% y/y. As it is, there has been transmission of rising producer prices into rising consumer prices in Japan, partially fuelled by a weak yen. Nevertheless, the Bank of Japan has said that it views rising consumer prices at present as transitory and as such, we do not believe that there will be any change in the monetary stance at this juncture.
- Japan's jobless rate, meanwhile, stayed unchanged at 2.6% in October (consensus 2.5%), while the availability of jobs improved for the tenth straight month. The jobs-to-applicants ratio stood at 1.35, higher than 1.34 in September and marking its highest since March 2020. With the steady labour market, retail sales continued to grow albeit at a slower pace of +0.2% m/m for the same month (vs 1.5% m/m previously and consensus estimate of +1.0% m/m).

Australia retail sales ended 9-months of gain

- Australian retail sales registered its first contraction of 2022 in October as rising prices and higher interest rates finally seemed to have an impact on spending, Sales declined 0.2% m/m in October, well under forecasts of a +0.5% m/m and September's +0.6% m/m. Sales were down across board with the exception of food retailing.

China to cut RRR by 25bps from 5-Dec; industrial profit saw bigger decline

- The People's Bank of China (PBOC) said it would cut the reserve requirement ratio for banks by 25bps wef from Dec. 5. That would lower the weighted average ratio for financial institutions to 7.8% and release 500bn yuan in long-term liquidity to prop the economy. The cut, which follows a 25bps reduction in April, had been widely expected after state media on Wednesday quoted the cabinet as saying China would use timely reserve ratio cuts, alongside other monetary policy tools, to keep liquidity reasonably ample. Provided lenders put the extra funds to work in coming months, this move is expected to help counter growing pressure on the economy from widening COVID outbreaks and global slowdown. As it is, sign of a faltering economy is visible, Profits at industrial firms continued to decline for the period Jan-Oct, contracting 3.0% y/y (YTD Jan-Sept: -2.3% y/y).

Hong Kong exports fell for the sixth straight month

- Hong Kong exports registered its sixth consecutive month of decline, with overseas shipment falling 10.4% y/y, worse than consensus estimate's -8.0% y/y but was an improvement from September's -9.1% y/y. Imports, also fell 11.9% y/y, also more than consensus estimate's -6.4% y/y. As it is, the city state's exports continued to be weighed down by worsening global outlook as well as disruption to cross-boundary land transportation to China.

Consequently, exports to China fell 12.9% y/y while shipments to US and Japan dropped 19.5% y/y and 24.1% y/y.

Singapore factory output shrank 0.8% as pharma slumped

- Singapore's manufacturing output shrank for the first time in a year on a slump in pharmaceuticals production and continued weakness in the electronics sector. Output fell 0.8% y/y in October (September: +1.6% y/y), a shade better than consensus estimate's -1.6% y/y. Specifically, the pharmaceuticals segment shrank 27.1% y/y due to a different mix of active ingredients being produced, while the electronics sector saw output drop, albeit narrower than the previous 2 months at -0.7% y/y (-5.7% y/y in September and -6/9% y/y in August). As it is, the industry, is facing a slump in global demand amid macroeconomic headwinds and does not bode well for Singapore's 4Q GDP as it accounts for 40% of the export-driven manufacturing sector.

Malaysia headline CPI moderated but core continued ticking up

- Headline Consumer Price Index (CPI) eased for the second straight month as expected to 4.0% y/y in October (Sept: +4.5% y/y), confirming that CPI has seen its peak and will continue to trend lower from here. We noted broadly easier price gains across all key categories with the exception of food, education, and recreation & culture. On a m/m basis, the rate of increase in CPI quickened slightly to 0.2% m/m (Sept: +0.1%). That said, inflationary woes continue to linger as the core CPI showed no signs of softening. Core CPI continued to edge higher for the 13th straight month, hitting a fresh record high at 4.1% y/y in October (Sept: +4.0%). Meanwhile, services CPI also ticked higher for the 12th straight month, to 4.2% y/y in October (Sept: +4.0%), adding to signs of higher inflationary pressure stemming from second round price effects.

  While the headline CPI is expected to show a downward trajectory from here, the overall inflation risk remains tilted to the upside as seen in the core CPI and services inflation. We will be watching for any further signs of second round price effects and imported inflation amid a weaker MYR. That said, our full year CPI of 3.3% remains intact (YTD +3.3%), and is poised to decelerate back below the 3.0% threshold next year, helped by dissipating base effect although price stickiness could still impinge on cost of living and consumer real purchasing power.

House View and Forecasts

FX	This Week	4Q-22	1Q-23	2Q-23	3Q-23
DXY	103-108	115.00	112.70	110.45	110.00
EUR/USD	1.00-1.06	0.95	0.97	0.98	0.98
GBP/USD	1.16-1.24	1.10	1.10	1.11	1.12
USD/JPY	135-140	147.00	146.00	145.00	144.00
AUD/USD	0.65-0.69	0.62	0.63	0.64	0.64
USD/MYR	4.43-4.50	4.68	4.64	4.62	4.60
USD/SGD	1.35-1.38	1.45	1.44	1.42	1.40

Rates, %	Current	4Q-22	1Q-23	2Q-23	3Q-23
Fed	3.75-4.00	4.25-4.50	5.25-5.50	5.25-5.50	5.25-5.50
ECB	2.00	2.75	2.75	2.75	2.75
BOE	3.00	3.25	3.25	3.25	3.25
BOJ	-0.10	-0.10	-0.10	-0.10	-0.10
RBA	2.85	3.10	3.10	3.10	3.10
BNM	2.75	2.75	3.00	3.00	3.00

Source: HLBB Global Markets Research

Up Next

Date	Events	Prior
29-Nov	UK Consumer Credit YoY (Oct)	7.20%
	EC Consumer Confidence (Nov F)	-25.8
	US FHFA House Price Index MoM (Sep)	-0.70%
	US Conf. Board Consumer Confidence (Nov)	102.5
30-Nov	JN Industrial Production MoM (Oct P)	-1.70%
	NZ ANZ Activity Outlook (Nov)	-2.5
	NZ ANZ Business Confidence (Nov)	-42.7
	AU Private Sector Houses MoM (Oct)	-7.80%
	AU CPI YoY (Oct)	7.30%
	CH Manufacturing PMI (Nov)	49.2
	CH Non-manufacturing PMI (Nov)	48.7
	JN Housing Starts YoY (Oct)	1.00%
	EC CPI MoM (Nov P)	1.50%
	US MBA Mortgage Applications	+2.20%
	US ADP Employment Change (Nov)	239k
	US Advance Goods Trade Balance (Oct)	-$92.2b
	US Wholesale Inventories MoM (Oct P)	0.60%
	US GDP Annualized QoQ (3Q S)	2.60%
	US Core PCE QoQ (3Q S)	4.50%
	US MNI Chicago PMI (Nov)	45.2
	US Pending Home Sales MoM (Oct)	-10.20%
	US JOLTS Job Openings (Oct)	10717k

Source: Bloomberg

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