3 January 2023

## Global Markets Research

## Daily Market Highlights

# 3 Jan: China reopening and Fed policy path in focus in 2023

### Global stocks ended 2022 in the red; government bond yields spiked

### DXY advanced 8.2% over 2022 but is poised to lose its lustre going into 2023

### China reopening, Fed policy path and downside growth risks are key themes to watch

- Stocks slipped on Friday to end 2022 with a whimper, as Wall Street wrapped up its worst year since 2008 on a sour note. The Dow Jones Industrial Average slid 0.2% d/d, the S&P 500 shed 0.3% d/d, while the Nasdaq Composite ticked down 0.1% d/d, bringing annual losses to 8.8%, 19.4%, and 33.1% respectively. European markets also wrapped up their worst year since 2018 (down 15.3%), following the 1.3% d/d lower closing in the Stoxx 600 index. Meanwhile, the FTSE100 closed -0.8% d/d, pushing the annual loss to 9.8%. Stocks in the Asia-Pacific, on the other hand, traded higher on Friday, with Hang Seng and CSI 300 up 0.2% d/d and 0.4% d/d respectively, but annual losses were widely seen across (between 3-35%), with the exception of the Singapore Straits Time Index which advanced 5.0% over 2022.

- Treasury yields rose across the curve to the highest levels of the month, with the yield on the benchmark 10-year Treasury note up 8bps to 3.88%, while the 2 and 5-year Treasury yields rising by 6bps to 4.43% and 4.00% respectively. Over the course of 2022, 10Y UST yields jumped a whopping 225bps while the 2s spiked 366bps, significantly bear flattening the curve.

- The dollar lost a bit of its shine, with the Dollar Index dipping 0.3% d/d to close 2022 at 103.52, translating into an annual gain of 8.2%. Amongst its G10 peers, the greenback weakened 0.4% d/d and 0.2% d/d against the euro and sterling, 1.4% d/d against yen and 0.5% d/d against AUD. Greenback also depreciated 0.7% d/d against the Chinese yuan and 0.3% d/d against MYR. For the whole of 2022, the MYR depreciated 5.7% vs the USD while the CNH lost 8.9%. The SGD bucked the trend to appreciate 0.7% against the greenback over the year, following a 0.3% gain on Friday to 1.3395.

- Oil ended a volatile year higher as investors look ahead to a potential rebound in Chinese demand. WTI rose 2.4% d/d to above $80/barrel, while the Brent jumped 4.4% d/d to $85.92/ barrel. Gold prices, meanwhile, were relatively flat d/d at $1826.20/oz and were in fact slightly lower over 2022

**US Core-PCE eased, but wages will keep Fed on alert**

- University of Michigan's final consumer sentiment index was revised upwards to 59.7 from 59.1 previously for the month of December. More importantly, the expectations index rose to 59.9 from 58.8 previously,

**Key Market Metrics**

| | Level | d/d (%) |
|---|---|---|
| **Equities** | | |
| Dow Jones | 33,147.25 | -0.22 |
| S&P 500 | 3,839.50 | -0.25 |
| NASDAQ | 10,466.48 | -0.11 |
| Stoxx Eur 600 | 424.89 | -1.27 |
| FTSE 100 | 7,451.74 | -0.81 |
| Nikkei 225 | 26,094.50 | 0.00 |
| Hang Seng | 19,781.41 | 0.20 |
| Straits Times | 3,251.32 | 0.06 |
| KLCI 30 | 1,495.49 | 0.26 |
| **FX** | | |
| Dollar Index | 103.52 | -0.30 |
| EUR/USD | 1.0705 | 0.41 |
| GBP/USD | 1.2083 | 0.23 |
| USD/JPY | 131.12 | -1.44 |
| AUD/USD | 0.6813 | 0.52 |
| USD/CNH | 6.9220 | -0.74 |
| USD/MYR | 4.4040 | -0.33 |
| USD/SGD | 1.3395 | -0.30 |
| **Commodities** | | |
| WTI ($/bbl) | 80.26 | 2.37 |
| Brent ($/bbl) | 85.91 | 4.44 |
| Gold ($/oz) | 1,826.20 | 0.01 |
| Copper ($$/MT) | 8,372.00 | -0.55 |
| Aluminum($/MT) | 2,378.00 | -1.12 |
| CPO (RM/tonne) | 4,048.00 | 0.60 |

*Source: Bloomberg, HLBB Global Markets Research* while inflation expectations for 1 and 5-years eased to 4.4% (prior: 4.6%) and 2.9% (prior: 3.0%) respectively.

- Similarly, Fed's preferred core-PCE price index eased to +0.2% m/m in November, matching consensus estimate but lower that prior month's upwardly revised 0.3% m/m. On a y/y basis, headline PCE slowed to 5.5% (Oct: +6.1%) while the core slowed to 4.7% from 5.0% previously.
- The 0.4% rise in personal income, meanwhile, came above forecast of +0.3% m/m (Oct: +0.7% m/m). Wage income also grew 0.5% m/m, a similar robust as the previous month, coupled with transfers from state and local government via tax rebates explained the income growth. Despite this, real spending was flat, slower than expected as well as a deceleration from prior month's +0.5% m/m.
- In the housing market, sales of new homes surprised on the upside with a 5.8% m/m gain (consensus: -5.1% m/m) but a shade softer than prior month's +8.2% m/m surge. Nevertheless, pending home sales, a forward-looking indicator of home sales based on contract signings, fell 4.0% m/m and 37.9% y/y, to the second-lowest monthly reading in 20 years and this will be reflected in home sales data next 2 months. The reading is worse than consensus estimate's -1.0% m/m but slightly narrower than Oct's -4/.7% m/m.
- House prices indicators were mixed despite coming above expectations. While FHFA home prices were flat nationwide in Oct (consensus: -0.7% m/m vs Sept: +0.1% m/m), the dip in S&P CoreLogic CS 20-City prices narrowed to -0.5% m/m (consensus: -1.1% m/m and Sept: -1.4% m/m). As it is, higher mortgage rates continued to put downward pressure on demand, weakening house price growth.
- New orders for manufactured durable goods reversed course to register a contraction. New orders for manufactured durable goods in November fell 2.1% m/m following three consecutive monthly increases previously (consensus: -1.0% m/m vs Oct: +0.7% m/m). Nevertheless, nondefense new orders exc air for capital goods in November unexpectedly rose by +0.2% m/m.
- Fed manufacturing PMIs, were nevertheless mixed. Richmond Fed surprised with a +1 in December (consensus: -10 vs Oct: -9), The Chicago Purchasing Managers' Index also came in better than expected, but still showed economic contraction (44.9 vs consensus: 40.0 and Nov: 37.2). Dallas Fed contracted worse than expected at -18.8 (consensus: -13.5 vs Oct: -14.4).
- In the labour market, initial jobless claims rose for the second week by 9k to 225k for the week ending Dec 25, in line median estimate. Continuing claims, meanwhile, rose 41k to 1.7m. This is the highest since February and sustained upward trend suggests that it's been more difficult for out of work individuals to find job.

**UK: Nationwide expects home prices to fall 5% in 2023**

- Further evidence of the slowdown in the housing market can be seen with growth in Nationwide House Price Index decelerating from 4.4% y/y in Nov to +2.8% y/y in Dec. December also marked the fourth consecutive m/m fall, the worst run since 2008, which left prices 2.5% lower than their August peak, after taking account of seasonal effects. Moving forward, Nationwide expects to see a modest decline in house prices in 2023 of around 5%.

### Japan inflation hit 40-year high

- Japan's core consumer inflation hit a fresh four-decade high as companies continued to pass on rising costs to households. Core CPI rose 3.7% y/y in November matching market forecasts and perking up from a 3.6% gain in October. Gains in processed food prices were the biggest driver behind the acceleration.
- Japanese retail sales rose for a ninth straight month at 2.6% y/y in November (forecast: +3.7% y/y vs Oct: +4.4% y/y) as the lifting of Covid-19 border controls and the government's domestic travel subsidy helped consumer demand. However, it should be noted that sales unexpectedly slipped 1.1% on a m/m basis.
- Spending, will nevertheless be supported by favourable labour market as jobless rate fell to 2.5% in November, a shade lower than consensus and October's 2.6%. The jobs-to-applicants ratio, a key gauge of job availability, was at 1.35, unchanged from October and holding at the highest level since March 2020.
- Factory output, meanwhile, fell for third month at -0.1% m/m, (consensus -0.2% m/m and Oct: -3.2% m/m), dragged by falls in output of conveyor belts, cranes and equipment for making chips and flat panel displays.

### China's industrial profits fell 3.6%, PMIs worse than expected

- Profits at China's industrial firms contracted further 3.6% y/y in the January-November period when strict COVID-19-related restrictions disrupted factory activity and supply chains as the virus spread through key manufacturing hubs. As it is, makers of steel and other construction materials as well as ferrous metals were amongst the worst performers.
- The PMI for China's manufacturing sector came in at 47.0 in December 2022, down from 48 in November and worse than consensus estimate's 47.8. Data also showed that the PMI for China's non-manufacturing sector stood at 41.6 in December, down from 46.7 in November and worse than consensus estimate's 45.0.

### Hong Kong's exports logged worst performance in 7 decades

- Hong Kong records worst monthly export performance since 1954 with plunge of 24.1% y/y in November. The data was far more severe than median estimate's -16.2% y/y after October's -10.4% y/y. Imports, also declined 20.3% y/y, the biggest drop since 2009, also worse than consensus estimate's -13.8% y/y. Hong Kong's trade decline comes amid period of disrupted cross-border land transport and will continue to face challenges going forward amidst tightening monetary policies in advanced economies. Relaxation of borders, nevertheless, may offset some of these pressures.

### Singapore core inflation stable at 5.1%,

- Core Inflation came in at 5.1% y/y, unchanged from October but slightly higher than consensus estimate's 5.0% y/y. Smaller increases in the costs of services and electricity & gas were broadly offset by a steeper pickup in the costs of retail & other goods and food.
- Singapore's manufacturing output decreased 3.2% y/y in November, worse than consensus forecast of -1.2% y/y and Oct's -0.9% y/y. Specifically, electronics output plunged 12.4% y/y.

**Vietnam's GDP grew by 8.0% in 2022**

- In 2022, Vietnam's economy grew at the fastest pace in the Asia region, expanding by 8.0% y/y and beating the governments initial full year target of 6.0%-6.5% y/y. Manufacturing, which grew 8.1% y/y for the year, was the main driver of growth. This was aided by strong services and construction sectors, which surged by 10.0% y/y and 8.2% y/y respectively. Growth in agriculture, forestry and fishing was tamer at 3.4% y/y. Nevertheless, while the economy has performed well and above expectation, with 4Q GDP growing at 5.9% (consensus estimate +4.7% y/y), this is a sharp deceleration from 13.7% y/y in 3Q. As it is, latest trade data are showing signs of slowing in line with weakening global demand.

**Malaysia CPI remained sticky at 4.0%**

- Headline Consumer Price Index (CPI) surprised on the upside and held firm at 4.0% y/y in November (Oct: +4.0% y/y), halting two months of easing trend. Quicker than expected increase in food prices was the main factor behind the surprisingly elevated inflation print, offsetting the smaller gains in the prices of utilities and transport. Moving forward, although we expect moderation in headline inflation going forward, full year CPI will likely average a tad above our full year projection of 3.3%. YTD November, CPI averaged 3.4% y/y. Headline CPI is expected to taper off further to 2.1% y/y in 2023, in anticipation of continued subdued outlook in global oil prices in the wake of an imminent global slowdown. In addition, the higher base effect in the earlier part of 2022 would also play a part in the lower print for 2023. Key wild card to next year's inflationary outlook would be second round price effects and price stickiness, in addition to any restructuring in the subsidy system.

## House View and Forecasts

| FX | This Week | 1Q-23 | 2Q-23 | 3Q-23 | 4Q-23 |
|---|---|---|---|---|---|
| DXY | 102-105 | 98.00 | 96.04 | 96.04 | 96.04 |
| EUR/USD | 1.05-1.08 | 1.10 | 1.11 | 1.11 | 1.11 |
| GBP/USD | 1.20-1.24 | 1.26 | 1.27 | 1.27 | 1.27 |
| USD/JPY | 130-135 | 130 | 128 | 128 | 128 |
| AUD/USD | 0.66-0.69 | 0.70 | 0.72 | 0.72 | 0.72 |
| USD/MYR | 4.38-4.44 | 4.31 | 4.28 | 4.28 | 4.28 |
| USD/SGD | 1.32-1.35 | 1.32 | 1.30 | 1.30 | 1.30 |

| Rates, % | Current | 1Q-23 | 2Q-23 | 3Q-23 | 4Q-23 |
|---|---|---|---|---|---|
| Fed | 4.25-4.50 | 4.75-5.00 | 4.75-5.00 | 4.75-5.00 | 4.75-5.00 |
| ECB | 2.50 | 3.00 | 3.00 | 3.00 | 3.00 |
| BOE | 3.50 | 4.00 | 4.00 | 4.00 | 4.00 |
| BOJ | -0.10 | -0.10 | -0.10 | -0.10 | -0.10 |
| RBA | 3.10 | 3.35 | 3.35 | 3.35 | 3.35 |
| BNM | 2.75 | 3.00 | 3.00 | 3.00 | 3.00 |

*Source: HLBB Global Markets Research*

## Up Next

| Date | Events | Prior |
|---|---|---|
| 3-Jan | AU S&P Global Australia PMI Mfg (Dec F) | 50.4 |
| | MA S&P Global Malaysia PMI Mfg (Dec) | 47.9 |
| | VN S&P Global Vietnam PMI Mfg (Dec) | 47.4 |
| | UK S&P Global/CIPS UK Manufacturing PMI (Dec F) | 44.7 |
| | US S&P Global US Manufacturing PMI (Dec F) | 46.2 |
| | US Construction Spending MoM (Nov) | -0.30% |
| 3-4 Jan | SI Purchasing Managers Index (Dec) | 49.8 |
| 4-Jan | NZ CoreLogic House Prices YoY (Dec) | -2.90% |

| | |
|---|---|
| JN Jibun Bank Japan PMI Mfg (Dec F) | 48.8 |
| CH Caixin China PMI Composite (Dec) | 47 |
| CH Caixin China PMI Services (Dec) | 46.7 |
| HK Retail Sales Value YoY (Nov) | 3.90% |
| EC S&P Global Eurozone Services PMI (Dec F) | 49.1 |
| UK Consumer Credit YoY (Nov) | 7.00% |
| US MBA Mortgage Applications | 0.90% |
| US ISM Manufacturing (Dec) | 49 |
| US JOLTS Job Openings (Nov) | 10334k |

*Source: Bloomberg*

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