

5 January 2023

Global Markets Research

Daily Market Highlights

5 Jan: Dow pared gains on hawkish Fed minutes

Fed warned markets not to underestimate the Fed's resolve to bring down inflation

UST yields closed lower for a fourth session; DXY weakened

Oil prices extended its decline; gold prices rose on Chinese buying

- Stocks fell from their highs Wednesday but remained in positive territory after Federal Reserve meeting minutes showed that the central bank will remain aggressive in raising rates to tame inflation. The Dow Jones Industrial Average rose 0.4% d/d while the S&P 500 and the Nasdaq Composite ended up 0.8% d/d and 0.7% d/d respectively. European stocks closed higher, after inflation data out of France and Germany indicated that consumer price increases across the Eurozone are slowing. The Stoxx 600 closed up 1.4%. Hong Kong shares led gains in the Asia-Pacific, with Hang Seng index up 3.2% d/d.
- 10-year Treasury yield was down for the 4th session, slipping 6bps to 3.68%. The 2-year Treasury yield fell by 2bps to 4.35%.
- The Dollar Index closed 0.3% d/d lower at 104.25, off the intraday of low 103.83. AUD led the G10 rally during the day, with the commodity-led currency jumping 1.7% d/d as China discussed easing of ban on Australia coal imports. The EUR and GBP also advanced 0.6% and 0.7% respectively against the USD on the day while the JPY strengthened by a whopping 1.2% d/d. In the Asia FX space, we saw broad gains with the CNH, MYR and SGD reporting 0.2-0.4% d/d gains.
- Oil continued to fall by more than 5.0% after slumping 4.0% in the previous session, weighed down by demand concerns stemming from the state of the global economy and rising COVID cases in China. Both the WTI and Brent are trading at \$73 and \$78/barrel currently. On the other hand, gold prices gained 0.7% d/d, boosted by strong Chinese buying.

Hawkish FOMC minutes; slower rate hike not a signal of the Fed's softer stance on inflation-fighting

- Key highlights in the FOMC minutes include: 1) Decision to step down to a 50bps hike was not an indication of any weakening of the Committee's resolve to achieve its price-stability goal or a judgment that inflation was already on a persistent downward path; 2) Fed warns financial markets not to underestimate the central bank's resolve to bring down inflation; 3) Risks of higher inflation seen as key factor shaping outlook for policy; 4) Minutes gave little hint on the quantum of next rate hike; 5) Staff economic outlook was less weak than in prior meeting as staff assessed the possibility of a recession as a "plausible alternative to the baseline" after previously viewing odds at 50:50.

Key Market Metrics

	Level	d/d (%)
Equities		
Dow Jones	33,269.77	0.40
S&P 500	3,852.97	0.75
NASDAQ	10,458.76	0.69
Stoxx Eur 600	440.19	1.38
FTSE 100	7,585.19	0.41
Nikkei 225	25,716.86	-1.45
Hang Seng	20,793.11	3.22
Straits Times	3,242.46	-0.10
KLCI 30	1,469.55	-0.30
FX		
Dollar Index	104.25	-0.26
EUR/USD	1.0604	0.53
GBP/USD	1.2055	0.73
USD/JPY	132.63	1.23
AUD/USD	0.6839	1.66
USD/CNH	6.8995	-0.35
USD/MYR	4.3985	-0.24
USD/SGD	1.3405	-0.36
Commodities		
WTI (\$/bbl)	72.84	-5.32
Brent (\$/bbl)	77.84	-5.19
Gold (\$/oz)	1,859.00	0.70
Copper (\$\$/MT)	8,252.00	-0.84
Aluminum(\$/MT)	2,266.50	-1.93
CPO (RM/tonne)	4,174.00	3.11

Source: Bloomberg, HLBB Global Markets Research

US ISM manufacturing weakened slightly more than expectation; solid labor market

- The ISM Manufacturing Index for December eased slightly more than expected to 48.4 (Nov: 49.0), marking the lowest since May 2022 and the steepest annual slide since 2008. The silver lining was the continued easing in input costs as well as solid jobs index component.
- MBA mortgage application plunged 13.2% from two weeks earlier for the week ended Dec 30, 2022. As it is, the end of the year is typically a slower time for the housing market, and with mortgage rates still well above 6.0% and the threat of a recession looming, it is not surprising that mortgage applications has declined to the lowest level since 1996.
- Demand for employment remained high in November as companies looked for workers to fill positions despite worries of a looming recession. The Job Openings and Labor Turnover Survey for the month showed available position rose more than expected to 10.5m (Oct: 10.5m). Nevertheless, it should also be noted that the report showed some moderation in hiring in some sectors like accommodation and food services, construction and retail trade.

Eurozone services sector rose more than expected

- The S&P Global Eurozone Services PMI Business Activity Index rose more than expected to 49.8 in Dec (Nov: 48.5). This was the softest decline since last August. A sixth successive monthly reduction in new business was registered in December. Specifically, we noted a further expansion in employment, while business confidence edged up to a four-month peak but remained historically subdued.

UK credit card borrowing soars to highest monthly level since 2004

- Credit card borrowing in the UK soared more than expected in November to its highest monthly level since 2004 amid mounting pressure on households from the cost of living crisis. The latest snapshot from the Bank of England showed individuals borrowed an additional £1.5bn in all forms of consumer credit, of which £1.2bn was on credit cards. The Bank's figures showed a sharp fall in mortgage approvals to 46.1k, reflecting the increase in borrowing costs after successive rate increases from the central bank over the past year.

China resumed approval for private funds in residential property development

- China resumed approval for private equity funds to raise money for residential property developments, in its latest effort to boost the country's real estate sector. According to unconfirmed reports, the Asset Management Association of China recently started allowing private equity funds to register such investment products, after halting it in 2021. After the freeze, the number of private equity property funds dropped 14% in 2021, while investment into real estate focused private equity products also dropped 2% y/y.

Japanese PMI worsened slightly to 48.9

- The headline Jibun Bank Japan Manufacturing PMI dropped to 48.9 in Dec (Nov: 49.0), a second consecutive deterioration in the overall health of the Japanese manufacturing sector. The latest reading remained mild overall but was the lowest since October 2020. Forward looking indicators are also

increasingly painting a gloomier picture for the sector, as companies have cut back input buying sharply, and business sentiment waned to a seven-month low.

Australia's services activity slowed amid softer demand

- Australia's services sector activity continued to slow in December, with sub-50 readings for business activity, outstanding work, exports and new business activity as the economy is clearly responding to higher interest rates and softer demand over the final months of 2022. The business activity index, at 47.3 in December, is down slightly from the 47.6 reading in November.

New Zealand property prices continued to fall, albeit at a slower pace

- New Zealand's CoreLogic's House Price Index (HPI) shows property values fell -0.2% m/m in December, a further reduction in the pace of price declines from previous months (Nov: -0.6% m/m). As it is, New Zealand's property market peaked in March with the first monthly fall in prices recorded in April.

Hong Kong retail sales fell 4.2%, snapping two months of growth

- Hong Kong's November retail sales unexpected fell 4.2% y/y (Oct: +4.0% y/y), snapping two straight months of growth with tightened financial conditions weighing on local demand. Lower sales were seen for jewellery, watches and clocks, and valuable gifts; commodities in department stores; wearing apparel; medicines and cosmetics; furniture and fixtures; footwear, allied products and other clothing accessories (-8.1%); books, newspapers, stationery and gifts; Chinese drugs and herbs and optical shops.

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	1.04-1.07	1.10	1.11	1.11	1.11
GBP/USD	1.17-1.22	1.26	1.27	1.27	1.27
USD/JPY	128-135	130	128	128	128
AUD/USD	0.66-0.69	0.70	0.72	0.72	0.72
USD/MYR	4.38-4.43	4.31	4.28	4.28	4.28
USD/SGD	1.34-1.36	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
5-Jan	SI S&P Global Singapore PMI (Dec)	56.2
	HK S&P Global Hong Kong PMI (Dec)	48.7
	CH Caixin China PMI Services (Dec)	46.7
	SI Retail Sales YoY (Nov)	0.104
	JN Consumer Confidence Index (Dec)	28.6
	UK S&P Global/CIPS UK Services PMI (Dec F)	50
	EC PPI MoM (Nov)	-0.029
	US Challenger Job Cuts YoY (Dec)	4.165
	US ADP Employment Change (Dec)	127k
	US Trade Balance (Nov)	-\$78.2b
	US Initial Jobless Claims	225k

6-Jan	US Continuing Claims	1710k
	US S&P Global US Services PMI (Dec F)	44.4
	JN Labor Cash Earnings YoY (Nov)	0.018
	JN Jibun Bank Japan PMI Services (Dec F)	51.7
	UK S&P Global/CIPS UK Construction PMI (Dec)	50.4
	EC Consumer Confidence (Dec F)	-22.2
	EC CPI MoM (Dec P)	-0.001
	EC Retail Sales MoM (Nov)	-0.018
	EC Economic Confidence (Dec)	93.7
	US Change in Nonfarm Payrolls (Dec)	263k
	US Unemployment Rate (Dec)	0.037
	US Average Hourly Earnings MoM (Dec)	0.006
	US ISM Services Index (Dec)	56.5
	US Factory Orders (Nov)	0.01
	US Durable Goods Orders (Nov F)	-0.021

Source: Bloomberg

Hong Leong Bank Berhad

Fixed Income & Economic Research,
Global Markets
Level 8, Hong Leong Tower
6, Jalan Damansara
Bukit Damansara
50490 Kuala Lumpur
Tel: 603-2081 1221
Fax: 603-2081 8936

HLMarkets@hlbb.hongleong.com.my

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