

8 March 2023

Global Markets Research

Daily Market Highlights

8 March: Wall Street tanked after Powell's testimony

Powell: Terminal rate likely higher than expected; faster tightening maybe warranted

2-yr UST yield jumped above 5.00%; DXY rose as high as 105.65

RBA raised rates to 3.60%; further tightening maybe needed; AUD weakened 2.2%

- Wall Street sold off sharply after comments from Federal Reserve Chair Jerome Powell suggesting that rates may need to go higher for longer and fuelled fears of a potentially larger hike of 50bps at the central bank's next policy meeting. The Dow Jones Industrial Average shed 575 points or 1.7% d/d, while the S&P 500 lost 1.5% d/d. The Nasdaq Composite fell 1.3% d/d. European markets also fell as traders followed Powell's testimony. Stoxx 600 closed 0.8% lower, while FTSE 100 dipped 0.1% d/d. Asia-Pacific markets closed mixed, with Nikkei 225 up 0.3% d/d, while Hang Seng fell 0.3% d/d.
- The 2-year Treasury yield jumped 12bps to close at 5.01%, its highest level since 2007. The 10-year yield gained +1bps at 3.96%.
- Hawkish comments from Powell sent the greenback to as high as 105.65 during the day, the highest since Feb 3. The Dollar Index closed the day up 1.3% d/d at 105.62. EUR weakened 1.2% d/d after ECB said that consumer expectations for euro zone inflation receded significantly, bolstering calls for slower pace of rate hikes. GBP depreciated 1.6% d/d after BOE policy maker Catherine Mann said that the sterling would face downward pressure as investors absorb the implication of plans by the US Federal Reserve and ECB to raise interest rates. AUD closed the day 2.2% d/d lower at 0.6584 after tumbling as low as 0.6581 during the day. It was the lowest since Nov 11 after the RBA said that monthly CPI numbers suggest that inflation has peaked. In Asia, JPY weakened 0.9% d/d, while CNH depreciated 0.6% d/d. Similarly, SGD weakened by 0.7% d/d to 1.3543. MYR bucked the trend, gaining 0.2% d/d at 4.4718.
- Oil plummeted the most since early January after the hawkish Fed speak. The West Texas Intermediate settled at \$77.21/barrel after tumbling by \$3/barrel or 4.1% d/d. Brent also closed 3.7% d/d lower, while the price of gold slipped 1.9% d/d.

Powell: Interest rates are 'likely to be higher' than previously anticipated

- Key highlights from Federal Reserve Chair Jerome Powell's semi-annual Monetary Policy Report to the Congress include: 1) The latest economic data have come in stronger than expected, which suggests that the ultimate level of interest rates is likely to be higher than previously anticipated. 2) If the totality of the data were to indicate that faster tightening is warranted, the Fed would be prepared to increase the pace of rate hikes. 3) Although inflation has been moderating in recent months, the process of getting inflation back down to 2% has a long way to go and is likely to be bumpy. Powell added that the

Key Market Metrics

	Level	d/d (%)
Equities		
Dow Jones	32,856.46	-1.72
S&P 500	3,986.37	-1.53
NASDAQ	11,530.33	-1.25
Stoxx Eur 600	460.60	-0.77
FTSE 100	7,919.48	-0.13
Nikkei 225	28,309.16	0.25
Hang Seng	20,534.48	-0.33
Straits Times	3,245.27	0.18
KLCI 30	1,458.67	0.41
FX		
Dollar Index	105.62	1.27
EUR/USD	1.0549	-1.24
GBP/USD	1.1830	-1.62
USD/JPY	137.16	0.90
AUD/USD	0.6584	-2.17
USD/CNH	6.9939	0.63
USD/MYR	4.4718	-0.15
USD/SGD	1.3543	0.68
Commodities		
WTI (\$/bbl)	77.21	-4.08
Brent (\$/bbl)	83.08	-3.68
Gold (\$/oz)	1,817.60	-1.88
Copper (\$\$/MT)	8,732.50	-2.43
Aluminum(\$/MT)	2,348.00	-1.63
CPO (RM/tonne)	4,200.00	-3.29

Source: Bloomberg, HLBB Global Markets Research

breadth of the reversal along with revisions to the previous quarter suggests that inflationary pressures are running higher than expected.

- US consumer credit rose less than expected by \$14.8bn in January (Dec: \$10.7bn), restrained by the smallest increase in non-revolving credit since 2020. Nonrevolving credit like auto and student loans, typically less volatile, rose by \$3.6bn (Dec: \$3.8bn). Revolving credit, meanwhile, accelerated to +\$11.2bn (Dec: \$6.9bn) as credit balances picked up.
- US wholesale inventories fell 0.4% m/m as initially estimated in January (Dec: +0.1% m/m) led by automotive, while sales at wholesalers increased 1.0% m/m (Dec: -0.2% m/m) led by a turnaround in non-durable goods like petroleum and drugs as well as a pick-up in machinery and autos. At January's sales pace it would take wholesalers 1.34 months to clear shelves (Dec: 1.36 months)

RBA raised rates to 3.60%

- As expected, the Reserve Bank of Australia (RBA) increased the cash rate target by 25bps 3.60%. Key highlights from the accompanying statement include: 1) The Board expects that further tightening of monetary policy will be needed to ensure that inflation returns to target and that this period of high inflation is only temporary. 2) The monthly CPI indicator suggests that inflation has peaked in Australia and goods price inflation is expected to moderate over the months ahead. 3) The Board recognises that monetary policy operates with a lag and that the full effect of the cumulative increase in interest rates is yet to be felt in mortgage payments. 4) In assessing when and how much further interest rates need to increase, RBA will be paying close attention to developments in the global economy, trends in household spending and the outlook for inflation and the labour market.
- Trade deficit narrowed more than forecast to A\$11.7bn in January (Dec: -A\$13.0bn) as growth in imports outpaced exports at +4.6% m/m (Dec: +0.6% m/m) and +1.4% m/m (Dec: -0.4% m/m) respectively. The jump in imports was driven by non-industrial transport equipment, while exports were supported by metal ores and minerals.

China's exports and imports extended its contraction in Jan-Feb

- China's exports and imports extended its decline in the first two months of 2023, reflecting a slowdown in the global economy for the former and weak commodity prices and strong USD for the latter. Exports fell less than expected by 6.8% y/y, while imports contracted more than expected by 10.2% y/y. The biggest drag in exports were equipment used for data processing, while imports were weighed down by China's purchases of semiconductor and steel products as well as crude oil and natural gas which more than offset the jump in edible oil, coal and rare earths.

Malaysia's foreign reserves relatively stable at \$114.3bn

- Malaysia's foreign reserves fell at a much slower pace of \$0.1bn to \$114.3bn as at 28 February (15 Feb: -\$0.8bn to \$114.3bn). The reserves position is sufficient to finance 5.0 months and is 1.0 time of the total short-term external debt.

House View and Forecasts

FX	This Week	1Q-23	2Q-23	3Q-23	4Q-23
DX	104-105	105	104	103	102
EUR/USD	1.05-1.07	1.05	1.06	1.06	1.06
GBP/USD	1.18-1.20	1.20	1.21	1.21	1.21
USD/JPY	133-137	134	132	132	131

AUD/USD	0.66-0.68	0.69	0.69	0.70	0.71
USD/MYR	4.43-4.50	4.40	4.36	4.30	4.25
USD/SGD	1.34-1.35	1.33	1.31	1.29	1.27

Rates, %	Current	1Q-23	2Q-23	3Q-23	4Q-23
Fed	4.50-4.75	4.75-5.00	5.25-5.50	5.25-5.50	5.25-5.50
ECB	3.00	3.50	3.75	3.75	3.75
BOE	4.00	4.25	4.25	4.25	4.25
BOJ	-0.10	-0.10	-0.10	-0.10	-0.10
RBA	3.60	3.60	3.85	3.85	3.85
BNM	2.75	3.00	3.00	3.00	3.00

Source: HLBB Global Markets Research

Up Next

Date	Events	Prior
8-March	JN BoP Current Account Balance (Jan)	¥33.4b
	JN Bank Lending Incl Trusts YoY (Feb)	3.10%
	JN Eco Watchers Survey Current SA (Feb)	48.5
	JN Leading Index CI (Jan P)	97.2
	EC GDP SA QoQ (4Q F)	0.10%
	EC Employment QoQ (4Q F)	0.40%
	US MBA Mortgage Applications	-5.70%
	US ADP Employment Change (Feb)	106k
	US Trade Balance (Jan)	-\$67.4b
	US JOLTS Job Openings (Jan)	11012k
	JN GDP Annualized SA QoQ (4Q F)	0.60%
	UK RICS House Price Balance (Feb)	-47%
	CH CPI YoY (Feb)	2.10%
	CH PPI YoY (Feb)	-0.80%
9-March	MA BNM Overnight Policy Rate	2.75%
	US Challenger Job Cuts YoY (Feb)	440.00%
	US Initial Jobless Claims	190k
	US Continuing Claims	1655k
	CH Aggregate Financing CNY (Feb)	5980.0b

Source: Bloomberg

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