17 February 2023

Global Markets Research

Daily Market Highlights

17 Feb: 50bps Fed rate hike back in the radar

Risk sentiments took a beating as Fed officials reopened the door for 50bps rate hike

10-year UST yield touched 3.87%; DXY broke above 104 before retreating

PPI logged biggest m/m jump since June 2022; longest losing streak for housing starts

- Wall Street closed firmly in the red after two Federal Reserve Presidents said that they were considering 50bps rate hikes to battle inflation. The S&P fell 1.4%, NASDAQ dipped 1.8% d/d, while the Dow Jones Industrial Average slipped 1.3% d/d. Federal Reserve of Cleveland President Loretta Mester said that she had seen a compelling "economic case" for rolling out another 50bps hike, while St. Louis President James Bullard said that he would not rule out supporting a half ppts increase at Fed's March meeting. These warnings came after PPI rebounded in January by the most since June 2022. Stocks in Europe and Asia, meanwhile, closed higher. Stoxx 600 and FTSE 100 edged up by 0.2% d/d each, while Nikkei 225 and Hang Seng gained 0.7% d/d and 0.8% d/d.

- The yield on 10-year Treasuries rose to its highest level this year at 3.87% after the PPI data, before retreating to close up 6bps d/d to 3.86%. The benchmark 2-year added 1bps to 4.64%. Germany's 10-year yield was little changed at 2.47%, while UK's 10-year yield edged up by 1bps to 3.49%.

- Dollar Index snapped back from its earlier gains after the Cleveland Fed President's statement. Greenback closed the day slightly lower by 0.1% d/d at 103.86, after spiking as much as 0.4% above the 104 handle earlier. EUR and GBP weakened by 0.1% d/d and 0.3% d/d respectively vis-à-vis USD. In Asia, JPY strengthened by 0.2% d/d, while CNH depreciated by 0.1% d/d. MYR also closed the day 0.3% d/d weaker at 4.4037, its weakest in two months, while SGD was relatively flat at 1.3362.

- Oil fluctuated as investors assessed more evidence of higher energy demand in China and large build in US crude stockpiles and closed the day 0.1%-0.3% d/d lower. Gold fell to a 6-week low before erasing losses to close up +0.4% d/d.

US PPI logged biggest m/m jump since June 2022; housing starts dropped for the fifth month, longest streak since 2009

- US producer price (PPI) rebounded more than expected in January, jumping 0.7% m/m (Dec: -0.2% m/m) bolstered by higher energy costs while food prices dropped the most since December 2020. Goods inflation jumped 1.2% m/m, also the largest since June, while service inflation remained firm at +0.4% m/m). On a y/y basis, prices softened less than expected to +6.0% (Dec: +6.5%). Excluding volatile food and energy, core PPI rose by 0.5% m/m and 5.4% y/y respectively (Dec: +0.3% m/m and +5.8% y/y).

Key Market Metrics

	Level	d/d (%)
Equities		
Dow Jones	33,696.85	-1.26
S&P 500	4,090.41	-1.38
NASDAQ	11,855.83	-1.78
Stoxx Eur 600	465.24	0.19
FTSE 100	8,012.53	0.18
Nikkei 225	27,696.44	0.71
Hang Seng	20,987.67	0.84
Straits Times	3,311.23	0.93
KLCI 30	1,484.26	-0.26
FX		
Dollar Index	103.86	-0.06
EUR/USD	1.0674	-0.14
GBP/USD	1.1993	-0.31
USD/JPY	133.94	-0.16
AUD/USD	0.6879	-0.35
USD/CNH	6.8684	0.07
USD/MYR	4.4037	0.26
USD/SGD	1.3362	0.02
Commodities		
WTI ($/bbl)	78.49	-0.13
Brent ($/bbl)	85.14	-0.28
Gold ($/oz)	1,842.00	0.43
Copper ($$/MT)	9,023.00	1.87
Aluminum($/MT)	2,394.00	0.40
CPO (RM/tonne)	3,911.50	-0.01

Source: Bloomberg, HLBB Global Markets Research

- Residential starts retreated for the fifth month in January, the longest streak of decline since 2009 and to the lowest level since 2022. Starts fell more than expected by 4.5% (Dec: -3.4% m/m) to 1.31m. Building permits, a proxy for future construction, were little changed at 1.34m or +0.1% m/m (Dec: -1.0% m/m), lower than consensus had anticipated.
- In the week ended Feb 11, initial jobless claims unexpectedly fell 1k to 194k (Feb 4: +12k to 195k), marking the fifth straight week with fewer than 200k claims and a still tight market. Continuing claims, nevertheless, increased slightly more than expected by 16k to 1696k for the week ended Feb 4 (Jan 28: +30k to 1680k). With a gradual increase in continuing claims since September, this suggests it's taking a bit longer for people who lost theirs to find new ones.
- Manufacturing activity in the Philadelphia region unexpectedly worsened to -24.3 in February (Jan: -8.9). Most of the survey's future indicators were positive but low, suggesting tempered expectations for growth over the next six months.
- Activity continued to decline in New York's service sector, though at a slower pace than expected. The Federal Reserve Bank of New York's February Business Leaders Survey business activity index improved to -12.8 (Jan: -21.4). Nevertheless, the business climate index came in at -34.9, suggesting the business climate remains much worse than normal. Looking ahead, firms expect conditions to improve modestly over the next six months.

Australia's unemployment rate unexpectedly increased to 3.7%

- Australia's employment change data unexpectedly fell by 11.5k (Dec: -20.0k), pushing the unemployment rate higher than expected to 3.7% in January (Dec: 3.5%). This is the highest since May 2022. Nevertheless, data also showed that 276.9k people were waiting to start work in January, the highest level in a year. This suggests that the labour market may not be as weak as the data suggested and may avoid a price wage spiral.
- The Melbourne Institute of Applied Economic and Social Research reported that consumers expect inflation to moderate to 5.1% over the next 12 months in February (Jan: +5.6%).

Hong Kong unemployment rate dipped to 3.4%

- Matching expectations, Hong Kong unemployment rate fell slightly to 3.4% for the 3 months ended Jan (Dec: 3.5%). Declines were seen across almost all the major economic sectors, with more distinct contractions observed in construction and retail. With economic activities gradually returned to normalcy, coupled with a rebound in inbound tourism and full resumption of normal travel between Hong Kong and the Mainland, labour market is expected to improve in the coming months.

China new home prices were flat

- China's new home prices were unchanged in January (Dec: -0.3% m/m). Nevertheless, with the end of the zero-Covid regime and the rolling out of favourable property policies, this should provide some support for property demand moving forward.

Japan logged record trade deficit as export growth slows

- Exports unexpectedly recorded slight growth of +3.5% y/y in January (Dec: +11.5% y/y), while imports grew less than expected by 17.8% y/y (Dec: +20.7% y/y). As exports slowed sharper than imports, this created the country's largest trade deficit on record and more than expectations at ¥3.5 trillion (Dec: ¥1.5

trillion). Exports were dragged down by a 17.1% y/y plunge in exports to China. In contrast, US-bound shipments were up 10.2% y/y, led by demand for cars, mining machinery and metal processing machinery.

- Separate data showed that core machinery orders rebounded less than expected by 1.6% m/m in January (Dec: -8.3% m/m). Moving forward, companies expect a 4.3% q/q rise in core orders in 1Q (4Q: -5.0% q/q), led by the manufacturing sector (+13.6% q/q vs -14.0% q/q in 3Q). As it is, data indicated a rebound in demand for airplanes and industrial machines.

House View and Forecasts

FX	This Week	1Q-23	2Q-23	3Q-23	4Q-23
DXY	102-104	101.4	100.9	99.9	98.9
EUR/USD	1.06-1.08	1.09	1.10	1.10	1.10
GBP/USD	1.19-1.22	1.22	1.23	1.23	1.23
USD/JPY	130-133	128	127	127	126
AUD/USD	0.68-0.70	0.69	0.69	0.70	0.71
USD/MYR	4.34-4.40	4.38	4.36	4.32	4.27
USD/SGD	1.32-1.34	1.32	1.30	1.28	1.26

Rates, %	Current	1Q-23	2Q-23	3Q-23	4Q-23
Fed	4.50-4.75	4.75-5.00	4.75-5.00	4.75-5.00	4.75-5.00
ECB	3.00	3.50	3.50	3.50	3.50
BOE	4.00	4.25	4.25	4.25	4.25
BOJ	-0.10	-0.10	-0.10	-0.10	-0.10
RBA	3.35	3.60	3.60	3.60	3.60
BNM	2.75	3.00	3.00	3.00	3.00

Source: HLBB Global Markets Research

Up Next

Date	Events	Prior
17-Feb	SI Non-oil Domestic Exports SA MoM (Jan)	-3.30%
	UK Retail Sales Inc Auto Fuel MoM (Jan)	-1.00%
	EC ECB Current Account SA (Dec)	13.6b
	US Import Price Index MoM (Jan)	0.40%
	US Export Price Index MoM (Jan)	-2.60%
	US Leading Index (Jan)	-0.80%
20-Feb	UK Rightmove House Prices MoM (Feb)	0.90%
	CH 5-Year Loan Prime Rate	4.30%
	CH 1-Year Loan Prime Rate	3.65%
	MA Imports YoY (Jan)	12.00%
	MA Trade Balance MYR (Jan)	27.76b
	MA Exports YoY (Jan)	6.00%
	EC Consumer Confidence (Feb P)	-20.9

Source: Bloomberg

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