19 January 2023

Global Markets Research

Daily Market Highlights

19 Jan: US stocks plunged on recession and rate hike fear

Weak US retail sales and IPI raised recessionary concerns

Microsoft plans to cut 10k jobs; BoA to pause hiring

JPY weakened as BOJ stuck to its ultra-easy policy

- The Dow tumbled 1.8% d/d as weak retail sales raised concerns about a recession while prominent Fed hawks repeated calls for more rate increases. Nasdaq Composite also lost 1.2% d/d, while S&P fell 1.6% d/d. On the corporate front, Microsoft said it plans to cut 10k jobs. Bank of America has started telling executives to pause hiring except for more vital positions, while Genesis Global Capital is said to be laying the ground for a bankruptcy filing. European markets closed cautiously higher with Stoxx 600 index up 0.2% d/d, while FTSE 100 fell 0.3% d/d. Similarly, Asia-Pacific shares closed mostly higher even as the BOJ announced no change to its yield curve control policy. Nikkei 225 was up 2.5% d/d while Hang Seng gained 0.5% d/d.

- U.S. Treasury yields fell as December's PPI hinted that inflation may have reached its peak. The yield on the benchmark 2-year Treasury note dropped 13bps to 4.08%, while the yield on the 10-year Treasury bond shed 18bps to 3.37%

- The Dollar Index closed relatively flat at 102.36. JPY sank 0.6% w/w to 128.90 after the Bank of Japan maintained ultra-low interest rates. EUR gained 0.1% d/d, while GBP appreciated by 0.5% d/d. Closer to home, MYR appreciated slightly by 0.2% d/d to close at 4.3158, while SGD weakened slightly by 0.1% d/d to 1.3208.

- Oil prices slipped after the weak US retail sales and production data was released. Prices for WTI and Brent fell 0.9% d/d and 1.1% d/d respectively. Gold declined 0.2% d/d after the latest reading on the PPI suggested inflation was cooling, spurring greater expectations of a slower pace of Fed rate hike.

Dovish BOJ stayed status quo

- At the latest MPC meeting, the Bank of Japan (BOJ) maintained its short-term policy interest rate unchanged at -0.1% and target for 10-year yields under its curve control programme around 0%. The Bank will also continue to allow 10-year JGB yields to fluctuate in the range of around +/-0.5ppts from the target level. Given the change of guard at the BOJ helm in April, we see high likelihood that BOJ will continue to stand pat at the next meeting in March.
- The BOJ updated forecasts also showed that officials don't see inflation staying above 2.0% in a sustainable manner. BOJ largely left its inflation rate unchanged at +1.6% for 2023 (Prior forecast: +1.6%) and +1.8% for 2024 (Prior: +1.6%). BOJ revised its GDP forecast downwards slightly to +1.7% for 2023 (Prior: +1.9%) and +1.1% for 2024 (Prior: +1.5%).

Key Market Metrics

	Level	d/d (%)
Equities		
Dow Jones	33,296.96	-1.81
S&P 500	3,928.86	-1.56
NASDAQ	10,957.01	-1.24
Stoxx Eur 600	457.53	0.23
FTSE 100	7,830.70	-0.26
Nikkei 225	26,791.12	2.50
Hang Seng	21,678.00	0.47
Straits Times	3,289.55	0.28
KLCI 30	1,495.50	-0.26
FX		
Dollar Index	102.36	-0.03
EUR/USD	1.0794	0.06
GBP/USD	1.2348	0.50
USD/JPY	128.90	0.61
AUD/USD	0.6943	-0.64
USD/CNH	6.7691	-0.01
USD/MYR	4.3158	-0.23
USD/SGD	1.3208	0.05
Commodities		
WTI ($/bbl)	79.48	-0.87
Brent ($/bbl)	84.98	-1.09
Gold ($/oz)	1,907.00	-0.15
Copper ($$/MT)	9,323.50	0.39
Aluminum($/MT)	2,638.00	0.74
CPO (RM/tonne)	3,827.00	-0.22

Source: Bloomberg, HLBB Global Markets Research

US Retail sales, IPI and PPI came below expectations

- Highlights from the latest Beige Book include: 1) Economic activity was unchanged since the previous report, with expectations of little growth in the months ahead. Consumer spending increased slightly, with some retailers reporting more robust sales over the holidays. Manufacturers indicated that activity declined modestly, while housing markets continued to weaken. 2) Employment continued to grow at a modest to moderate pace. While some Districts noted that while labor availability had increased, firms continued to report difficulty in filling open positions. 3) Selling prices increased at a modest or moderate pace, though many said that the pace of increases had slowed. Many retailers noted increased difficulty in passing through cost increases, suggesting greater price sensitivity on the part of consumers.
- Producer prices (PPI) eased more than expected to -0.5% m/m or +6.2% y/y December (Nov: +0.2% m/m or +7.3% y/y). Core index also slowed, albeit within expectations at +0.1% m/m (Nov: +0.2% m/m). While a steep drop in energy prices explained the softer prices, slowing price increases were also observed in the goods and the services sector. The latter, specifically, registered its slowest monthly gain in 8 months led by prices for medical care services.
- Retail sales fell more than expected at -1.1% m/m in December (Nov: -1.0% m/m). Specifically, sales were pulled down by declines in purchases of motor vehicles. Excluding automobiles, gasoline, building materials and food services, sales in the controlled group which is used to calculate GDP, fell 0.7% m/m (Nov: -0.2% m/m). This is the most in a year.
- Industrial production fell more than expected by -0.7% m/m in December (Nov: -0.6% m/m). The declines were broad based and likely reflect shrinking orders as well as companies preparing for output in the future. Manufacturing output, specifically, plunged 1.3% m/m (Nov -1/1% m/m). In tandem with this, capacity utilization also dipped more than expected to 78.8% (Nov: 79.4%). Separate data showed that business inventories rose more than expected at +0.4% m/m in November (Oct: +0.2% m/m).
- In the services sector, New York Fed's business activity index fell to -21.4 in January (Dec: -17.6), the lowest level in nearly two years. Looking ahead, firms also do not expect conditions to be better in six months.
- Modest drops in mortgage rates helped to end a string of 12 straight monthly declines in builder confidence levels as well as support mortgage applications in January. The NAHB/Wells Fargo Housing Market Index (HMI) unexpectedly rose to 35 (Dec: 31), although sentiment remained in bearish territory. Separately, mortgage applications jumped 27.9% w/w for the week ended Jan 13 with double digit growths reported both for refinancing and purchase activities.

Eurozone inflation for December confirmed at +9.2%

- The final reading of December's headline inflation confirmed that price pressures is on downward path, helped by a decline in energy contributions. CPI rose +9.2% y/y for the month (Nov: +10.1% y/y) after peaking in October. Nevertheless, core inflation proved to be stickier with final reading at +5.2% y/y (Nov: +5.0% y/y) with prices on services broad based and particularly strong for recreational and hospital services.

UK inflation eased to 10.5%

- Inflation eased in line with expectations to 10.5% y/y in December (Nov: +10.7% y/y), while core CPI held steady at +6.3% y/y (Nov: +6.2% y/y). The largest downward contribution came from the transport, clothing and recreation sectors, offsetting hikes in housing and household services, food and non-alcoholic beverages.

Japan's core machinery orders plunged 8.3%

- Japan's core machinery orders plunged more than expected by 8.3% m/m in November (Dec: +5.4% m/m). This marked the first decrease in two months as orders from manufacturers fell 9.3% m/m, driven by decline in orders from electric-machinery companies. In tandem with the release of the data, the Cabinet Office also cut its assessment of the orders to "stalling".
- Separately, Japan revised its IPI upwards to +0.2% m/m for the month of November (Oct: -3.2% m/m). Capacity utilization, meanwhile, fell to 95.9% from 97.3% previously.

Malaysia's exports growth decelerated to 6.0% y/y in December; its slowest since July 2021

- Exports registered a single-digit growth for the first time since July 2022, at 6.0% y/y in December (Nov: +15.1% y/y revised). This came in within our expectations but was below market consensus estimate. On the other hand, imports saw back-to-back decline (-3.5%% vs -4.9%) while exports turned around to eke out a 1.7% m/m increase.
- External trade has been showing clear signs of slowing since September, growing a mere 12.0% y/y in 4Q (3Q: +38.7%). Contribution to overall GDP will however be negated by the even faster increase in imports (+18.9% y/y), although this reflected a marked slowdown from the 47.3% y/y increase in November. Exports outlook will remain challenging going forward as the world economy slows. We are maintaining our 4Q's GDP growth forecast of 4.9% and full year growth projection of 8.2% at this juncture.

House View and Forecasts

FX	This Week	1Q-23	2Q-23	3Q-23	4Q-23
DXY	101-106	98.00	96.04	96.04	96.04
EUR/USD	1.07-1.10	1.10	1.11	1.11	1.11
GBP/USD	1.19-1.25	1.26	1.27	1.27	1.27
USD/JPY	126-132	130	128	128	128
AUD/USD	0.67-0.71	0.70	0.72	0.72	0.72
USD/MYR	4.28-4.35	4.31	4.28	4.28	4.28
USD/SGD	1.31-1.34	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
19-Dec	JN Exports YoY (Dec)	20.00%
	JN Imports YoY (Dec)	30.30%
	AU Consumer Inflation Expectation (Jan)	5.20%

	UK RICS House Price Balance (Dec)	-25%
	AU Unemployment Rate (Dec)	3.40%
	MA BNM Overnight Policy Rate	2.75%
	HK Unemployment Rate SA (Dec)	3.70%
	US Building Permits MoM (Dec)	-11.20%
	US Housing Starts MoM (Dec)	-0.50%
	US Philadelphia Fed Business Outlook (Jan)	-13.8
	US Initial Jobless Claims (14-Jan)	205k
20-Dec	JN Natl CPI YoY (Dec)	3.80%
	UK GfK Consumer Confidence (Jan)	-42
	CH 5-Year Loan Prime Rate	4.30%
	CH 1-Year Loan Prime Rate	3.65%
	MA CPI YoY (Dec)	4.00%
	UK Retail Sales Inc Auto Fuel MoM (Dec)	-0.40%
	MA Foreign Reserves (Dec)	114.6bn
	HK CPI Composite YoY (Dec)	1.80%
	US Existing Home Sales MoM (Dec)	-7.70%

Source: Bloomberg

Hong Leong Bank Berhad
Fixed Income & Economic Research, Global Markets
Level 8, Hong Leong Tower
6, Jalan Damanlela
Bukit Damansara
50490 Kuala Lumpur
Tel: 603-2081 1221
Fax: 603-2081 8936
HLMarkets@hlbb.hongleong.com.my