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Global Markets Research

Daily Market Highlights

23 Feb: FOMC minutes stayed hawkish as expected

**FOMC minutes showed some officials favored a 50bps hike; traders amped up Fed wagers
US stocks largely lower; UST little changed; DXY gained 0.4% to 104.59**

Hong Kong economy contracted 3.5% in 2022; unveil smaller budget deficit for 2023

- The S&P ended lower for the 4th straight day by 0.2% d/d after the release of the FOMC minutes which bolstered expectations that the fed funds rate will continue to move higher amidst inflation concerns. The Dow Jones fell 0.3% d/d, while Nasdaq turned positive during the last leg, chalking a meagre 0.1% d/d gain for the day. As it is, the rate of the overnight index swap contract linked to the June meeting rose to as high as 5.33%, around 75bps higher than current effective fed funds rate. With meetings in March, May and June, that could equate to a 25bps rate hike at each meeting.
- In Europe, Stoxx 600 index closed 0.3% lower, while FTSE 100 fell 0.6% d/d. In Asia, Nikkei 225 finished 1.3% d/d lower, while the Hang Seng index was down 0.5% d/d.
- Treasury yields were little changed as the FOMC minutes brought no surprise. The benchmark 2-year yield closed flat at 4.70%, while the 10-year fell 3bps to 3.92%.
- The Dollar Index tested session highs and closed the day 0.4% d/d up at 104.59 as traders focused on the hawkish stance of some Fed members. Amongst the G10 currencies, EUR and GBP depreciated by 0.4% d/d and 0.5% d/d, while JPY strengthened slightly by 0.1% d/d. CNH was weaker by 0.2% d/d, while MYR depreciated by 0.2% d/d to 4.4435. SGD closed flat at 1.3405.
- Gold pulled back by 0.1% d/d to \$1832/oz as traders focused on a stronger greenback and hawkish Fed. Oil prices fell close to 3.0% d/d as the Fed minutes showed officials were backing further rate hikes, adding concerns that a US economic slowdown will reduce demand.

FOMC minutes showed that some Fed members wanted to raise rates by 50bps

- Key highlights from the FOMC minutes include: 1) Some members were willing to raise rates by 50bps at the previous meeting noting that a larger increase would more quickly bring the target range close to the levels they believed would achieve a sufficiently restrictive stance in a timely way. 2) Many participants were ready to slow the pace of rate hikes to allow them to assess the economy's progress. 3) Participants observed that a restrictive policy stance would need to be maintained until the incoming data provided confidence that inflation was on a sustained downward path to 2%, which was likely to take some time. 4) Members noted that upside risks to the inflation

Key Market Metrics

	Level	d/d (%)
Equities		
Dow Jones	33,045.09	-0.26
S&P 500	3,991.05	-0.16
NASDAQ	11,507.07	0.13
Stoxx Eur 600	462.22	-0.33
FTSE 100	7,930.63	-0.59
Nikkei 225	27,104.32	-1.34
Hang Seng	20,423.84	-0.51
Straits Times	3,300.04	-0.21
KLCI 30	1,464.00	-0.68
FX		
Dollar Index	104.59	0.39
EUR/USD	1.0605	-0.40
GBP/USD	1.2046	-0.54
USD/JPY	134.84	-0.13
AUD/USD	0.6804	-0.72
USD/CNH	6.9038	0.16
USD/MYR	4.4435	0.24
USD/SGD	1.3405	-0.01
Commodities		
WTI (\$/bbl)	73.95	-2.90
Brent (\$/bbl)	80.60	-2.95
Gold (\$/oz)	1,832.00	-0.05
Copper (\$\$/MT)	9,112.00	-0.96
Aluminum(\$/MT)	2,418.00	-2.01
CPO (RM/tonne)	4,141.50	0.19

Source: Bloomberg, HLBB Global Markets Research

outlook remained a key factor shaping the policy outlook and are appropriate from a risk-management perspective. 5) A number of participants observed that a policy stance that proved to be insufficiently restrictive could halt recent progress in moderating inflationary pressures 5) Some members see the risk of recession as elevated.

- As mortgage rates increased across all loan types, with the 30-year fixed rate jumping 23bps to the highest since November 2022 to 6.62%, mortgage applications decreased 13.3% w/w for the week ending February 17 (Feb 10: -7.7% w/w). Purchase applications, specifically, plunged 18.0% w/w to its lowest level since 1995.

Australia's wage growth missed expectations

- Australia's wage growth came in slower than expected by +3.3% y/y in 4Q (3Q: +3.2% y/y). On a q/q basis, wages grew at a slower pace of 0.8% (3Q: +1.1%), and as the Reserve Bank has said that it is monitoring wage increases closely in case of a wage-price inflation spiral, this data will provide a welcome reprieve. On a q/q basis, jobs in the health care and social assistance, manufacturing as well as professional, scientific and technical services were the main contributors to wage growth.
- The Westpac-Melbourne Institute Leading Index fell 0.1% m/m in January (Dec: -0.2% m/m). In tandem with this, the 6-month annualised growth stood at -1.04% in January (Dec: -1.09%), pointing to below trend growth through most of 2023.

Japan' PPI accelerated to 1.6%

- Japan's producer prices index unexpectedly (PPI) accelerated to +1.6% y/y in January (Jan: +1.5% y/y). Despite this, we don't foresee a rush for the Bank of Japan (BOJ) to tweak its yield curve control policy in its next meeting in March. In fact, former BOJ board member Makoto Sakurai said that the BOJ will likely adopt a gradual approach to raising interest rates and won't be focused on reducing the side effects of monetary easing. His comments come as the yield on the 10-year Japanese government bond exceeded its upper ceiling of its tolerance range of 0.50% for the second day on Wednesday.

Hong Kong unveiled a smaller fiscal deficit for Budget amid scaling-back of support measures

- With the theme "Leaping Forward Steadily, Together We Bolster Prosperity under Our New Vision," Hong Kong's Financial Secretary Paul Chan Mo-po, unveiled a slimmer fiscal deficit of HK\$54.4bn (2022: HK\$139.8bn) as the government scaled back on its anti-pandemic support measures.
- Other key highlights of this Budget include 1) The economy is expected to grow by 3.5% to 5.5% in 2023 (2022: -3.5%) and an average of 3.7% from 2024 to 2027. 2) Underlying and headline inflation rate of 2.5% and 2.9% for 2023 (2022: +1.7% and +1.9%). 3) HK\$5k consumption vouchers to eligible residents delivered in 2 tranches and personal tax rebate of up to HK\$6bn to support consumer spending. 4) Reduction in stamp duty for first-time buyers of properties valued less than HK\$20m, although other taxes will remain unchanged.

Malaysia's foreign reserves slipped to US\$114.4bn

- Malaysia's foreign reserves fell US\$0.8bn to US\$114.4bn as at 15 February (31 Jan: +US\$0.3bn to \$114.9bn). The reserves position is sufficient to finance 5.0

months of imports of goods and services 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
DXY	103-105	101.4	100.9	99.9	98.9
EUR/USD	1.05-1.08	1.09	1.10	1.10	1.10
GBP/USD	1.18-1.21	1.22	1.23	1.23	1.23
USD/JPY	131-135	128	127	127	126
AUD/USD	0.67-0.70	0.69	0.69	0.70	0.71
USD/MYR	4.37-4.45	4.38	4.36	4.32	4.27
USD/SGD	1.33-1.35	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
23-Feb	AU Private Capital Expenditure (4Q)	-0.60%
	SI CPI YoY (Jan)	6.50%
	HK CPI Composite YoY (Jan)	2.00%
	EC CPI YoY (Jan F)	8.50%
	US Chicago Fed Nat Activity Index (Jan)	-0.49
	US GDP Annualized QoQ (4Q S)	2.90%
	US Initial Jobless Claims	194k
	US Continuing Claims	1696k
24-Feb	US Kansas City Fed Manf. Activity (Feb)	-1
	JN Natl CPI YoY (Jan)	4.00%
	UK GfK Consumer Confidence (Feb)	-45
	MA CPI YoY (Jan)	3.80%
	SI Industrial Production YoY (Jan)	-3.10%
	US Personal Income (Jan)	0.20%
	US Personal Spending (Jan)	-0.20%
	US PCE Core Deflator YoY (Jan)	4.40%
	US New Home Sales MoM (Jan)	2.30%
	US U. of Mich. Sentiment (Feb F)	66.4
	US U. of Mich. 1 Yr Inflation (Feb F)	4.20%
	US U. of Mich. 5-10 Yr Inflation (Feb F)	2.90%
	US Kansas City Fed Services Activity (Feb)	-11

Source: Bloomberg

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