

Global Markets Research
Daily Market Highlights

23 March: Less hawkish Powell sent markets sliding

Fed raised rates by 25bps to 4.75%-5.00%; no change to terminal rate at 5.10% for 2023

Powell: banking system is sound; Yellen: no blanket insurance for bank deposits

UK's inflation unexpectedly accelerated to 10.4%; BOE on track to raise rates today

- In a choppy session, Wall Street swung from gains to losses after the Federal Reserve raised rates by 25b and signalled just one more hike this year. Soon after, Fed Chair Jerome Powell also reiterated that he is committed to fighting inflation, sending Dow Jones, S&P 500 and Nasdaq Composite to close the day between 1.6%-1.7% d/d lower. Adding to the stock market's decline and the drop in regional bank shares were comments from Treasury Secretary Janet Yellen, who told the Senate Appropriations subcommittee that the US is not currently working on "blanket insurance" for bank deposits.
- European stock markets, on the other hand, closed slightly higher after UK inflation unexpectedly accelerated and investors around the world awaited the Fed's latest decision. After a choppy morning, Stoxx 600 index closed 0.2% higher, while FTSE 100 also gained 0.4% d/d. Earlier in Asia, Japan stocks climbed 1.9% d/d, leading gains in Asia amid abating banking fear. Hang Seng also advanced 1.7% d/d.
- Treasuries front-end led post-FOMC rally with the 2-year yield plunging 23bps d/d to 3.94%. The 10-year yield slid 18bps to 3.43%. In Europe, the 10-year yields for UK gilt and German bund rose 8bps and 4bps respectively to 3.44% and 2.32%.
- The Dollar Index slumped 0.9% d/d to 102.35 after the less hawkish view. EUR gained 0.8% d/d, while GBP strengthened 0.4% d/d after UK inflation came in much hotter than expected in February, which puts Bank of England policymakers in a tough position when they meet today which we think another 25bps hike is intact. Safe haven JPY continued with its strengthening trend, appreciating 0.8% d/d to 131.44. CNH was also 0.2% d/d stronger. Similarly, MYR and SGD gained 0.3% d/d and 0.4% d/d respectively to 4.4552 and 1.3306.
- Gold prices jumped 0.4% d/d, while oil prices rose between 1.8%-2.3% d/d as the greenback slid. The oil markets shrugged off US Energy Information Administration's (EIA) weekly data that showed crude stockpiles rising 1.1m barrels last week. At 481.2m barrels, crude oil inventories are about 8% above the 5-year average for this time of year.

Fed raised rates by 25bps to 4.75%-5.00%

- As widely expected, the Federal Reserve decided to raise the target range for the fed funds rate by 25bps to 4.75%-5.00%. Key highlights from the statement and Fed Chair Jerome Powell's press conference include: 1) The US banking

Key Market Metrics

	Level	d/d (%)
Equities		
Dow Jones	32,030.11	-1.63
S&P 500	3,936.97	-1.65
NASDAQ	11,669.96	-1.60
Stoxx Eur 600	447.16	0.15
FTSE 100	7,566.84	0.41
Nikkei 225	27,466.61	1.93
Hang Seng	19,591.43	1.73
Straits Times	3,220.98	1.48
KLCI 30	1,412.04	0.39
FX		
Dollar Index	102.35	-0.88
EUR/USD	1.0856	0.82
GBP/USD	1.2268	0.42
USD/JPY	131.44	-0.81
AUD/USD	0.6685	0.24
USD/CNH	6.8607	-0.23
USD/MYR	4.4552	-0.31
USD/SGD	1.3306	-0.43
Commodities		
WTI (\$/bbl)	70.90	2.26
Brent (\$/bbl)	76.69	1.82
Gold (\$/oz)	1,949.60	0.44
Copper (\$\$/MT)	8,888.50	1.50
Aluminum(\$/MT)	2,286.50	0.88
CPO (RM/tonne)	4,089.50	-0.17

Source: Bloomberg, HLBB Global Markets Research

system is sound and resilient. Recent developments are likely to result in tighter credit conditions for households and businesses and to weigh on economic activity, hiring, and inflation. The extent of these effects is uncertain.

2) The Committee remains highly attentive to inflation risks and anticipates that some additional policy firming may be appropriate that is sufficiently restrictive to return inflation to 2% over time. That wording is a departure from previous statements which indicated “ongoing increases” would be appropriate to bring down inflation. 3) Powell said the FOMC considered a pause in rate hikes in light of the banking crisis, but ultimately unanimously approved the decision to raise rates due to intermediate data on inflation and the strength of the labor market. 4) According to the median economic projections of Fed board members and Presidents, growth outlook for 2023 is being downgraded while inflation and employment outlook upgraded. Real GDP growth is projected at 0.4% for 2023 and 1.2% for 2024. Unemployment rate of 4.5% for 2023 and 4.6% for 2024. Core-PCE inflation of 3.6% for 2023 and 2.6% for 2024. Fed funds rate of 5.1% for 2023 and 4.3% for 2024.

- Mortgage applications continued with its upward trend, rising 3.0% w/w for the week ending March 17 (Mar 10: +6.5% w/w) as mortgage rates declined for the second week in a row. The 30-year fixed rate dropped to 6.48%, the lowest level in a month. While both purchase and refinance applications increased, it should be noted that overall application volume remained at relatively low levels.

UK's inflation unexpectedly accelerated to 10.4%

- UK's inflation rate unexpectedly accelerated to +10.4% y/y in February (Jan: +10.1% y/y). This marks a break from 3 consecutive months of slowing increases, led by price pressures for restaurants and hotels as well as food and non-alcoholic beverages. To be specific, the upward pressure came from price increases for alcohol served in restaurants, cafes and pubs for the former and vegetables for the latter. There have been media reports of shortages of salad produce and other vegetables, reportedly because of bad weather in southern Europe and Africa, and the impact of higher electricity prices on produce grown out of season in greenhouses in the UK and northern Europe.
- This is in contrast with producer price-output which decelerated more than expected to +12.1% y/y for the same month (Jan: +13.5% y/y). As it is, the latest data leaves inflation sharply higher than the Bank of England's target of 2%, giving policymakers something to ponder before they set the policy rate today. As it is, expectations are that the BOE will raise its policy rate by another 25bps to 4.25%.
- The House Price Index showed that on average, house prices in the UK slowed more than expected to +6.3% y/y in Jan (Dec: +9.3% y/y).
- According to the latest CBI Industrial Trends Survey, total orders fell to -20 in March (Feb: -16), seen as below normal for the time of year and the weakest position since February 2021. Nevertheless, it should be noted that expected volume of output for the next 3-months rose to +12 (Feb: +7), while expectations for average selling price inflation eased notably. The net balance of manufacturers intending to increase output prices fell to 25 (Feb: 40), the lowest since March 2021, though still well above the long-run average.

Malaysia's foreign reserves fell \$0.3bn in 1H of March

- As compared to a fortnight ago, Malaysia's foreign reserves fell further by \$0.3bn to \$114.0bn as at 15 March (28 Feb: -\$0.1bn to \$114.3bn). 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	102-105	105	104	103	102
EUR/USD	1.05-1.07	1.05	1.06	1.06	1.06
GBP/USD	1.19-1.22	1.20	1.21	1.21	1.21
USD/JPY	131-135	134	132	132	131
AUD/USD	0.65-0.67	0.69	0.69	0.70	0.71
USD/MYR	4.47-4.53	4.40	4.36	4.30	4.25
USD/SGD	1.34-1.36	1.33	1.31	1.29	1.27

Rates, %	Current	1Q-23	2Q-23	3Q-23	4Q-23
Fed	4.75-5.00	4.75-5.00	5.25-5.50	5.25-5.50	5.25-5.50
ECB	3.50	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	2.75	3.00	3.00	3.00

Source: HLBB Global Markets Research

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Date	Events	Prior
23-March	SI CPI YoY (Feb)	6.60%
	HK CPI Composite YoY (Feb)	2.40%
	UK Bank of England Bank Rate	4.00%
	US Initial Jobless Claims	192k
	US Chicago Fed Nat Activity Index (Feb)	0.23
	US Continuing Claims	1684k
	US New Home Sales MoM (Feb)	7.20%
	US Kansas City Fed Manf. Activity (Mar)	0
24-March	EC Consumer Confidence (Mar P)	-19
	AU Judo Bank Australia PMI Mfg (Mar P)	50.5
	AU Judo Bank Australia PMI Services (Mar P)	50.7
	JN Natl CPI YoY (Feb)	4.30%
	UK GfK Consumer Confidence (Mar)	-38
	JN Jibun Bank Japan PMI Mfg (Mar P)	47.7
	JN Jibun Bank Japan PMI Services (Mar P)	54
	MA CPI YoY (Feb)	3.70%
	SI Industrial Production YoY (Feb)	-2.70%
	UK Retail Sales Inc Auto Fuel MoM (Feb)	0.50%
	EC S&P Global Eurozone Manufacturing PMI (Mar P)	48.5
	EC S&P Global Eurozone Services PMI (Mar P)	52.7
	UK S&P Global/CIPS UK Manufacturing PMI (Mar P)	49.3
	UK S&P Global/CIPS UK Services PMI (Mar P)	53.5
	US Durable Goods Orders (Feb P)	-4.50%
	US Cap Goods Orders Nondef Ex Air (Feb P)	0.80%
US S&P Global US Manufacturing PMI (Mar P)	47.3	
US S&P Global US Services PMI (Mar P)	50.6	
US Kansas City Fed Services Activity (Mar)	1	

Source: Bloomberg

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