7 January, 2022

Hong Leong Bank

Global Markets Research
Weekly Market Highlights

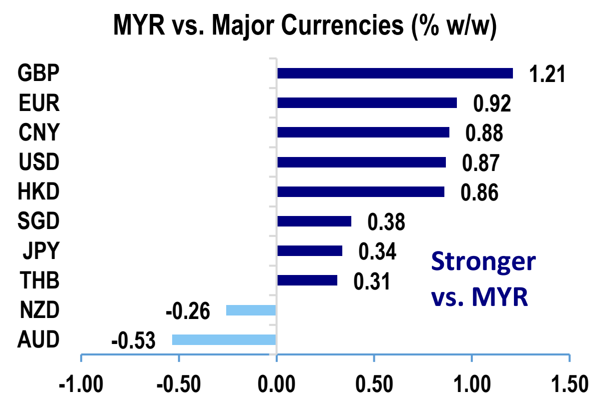
Markets

	Last Closing	WOW%	YTD %
Dow Jones Ind.	36,236.47	-0.44	-0.28
S&P 500	4,696.05	-1.73	-1.47
FTSE 100	7,450.37	0.64	0.89
Hang Seng	23,072.86	-0.17	-1.39
KLCI	1,533.36	-0.66	-2.18
STI	3,184.30	1.84	1.94
Dollar Index	96.32	0.37	0.68
WTI oil ($/bbl)	79.46	3.21	3.21
Brent oil ($/bbl)	81.99	3.37	5.41
Gold (S/oz)	1,789.20	-1.37	-2.08

Source: Bloomberg

- US equities suffered from a Fed induced selloff this week as investors became newly concerned that the faster pace of rate hikes may weigh on risk assets. The Dow Jones closed modestly lower (-0.4% w/w) as of Thursday while the selloff in tech shares pulled down the broad S&P 500 (-1.7% w/w) and NASDAQ (-4.2% w/w) with the latter suffering the steepest loss amid the three main benchmarks. Crude oil prices climbed for the fourth consecutive session as traders cheered the OPEC+'s decision to maintain its oil output plan (+400k bpd starting February).
- The latest set of US data held up very well, reflecting underlyingly strong economic conditions that would work in line with the Fed's quicker than expected rate hikes. Initial jobless claims remained historically low at 207k last week while the ADP private jobs rose by 807k in December. ISM indexes pulled back but remained on firm footing. Easing supply chain pressures also gave up rise to hope that inflation may come down. Focus shifts to tonight's NFP..

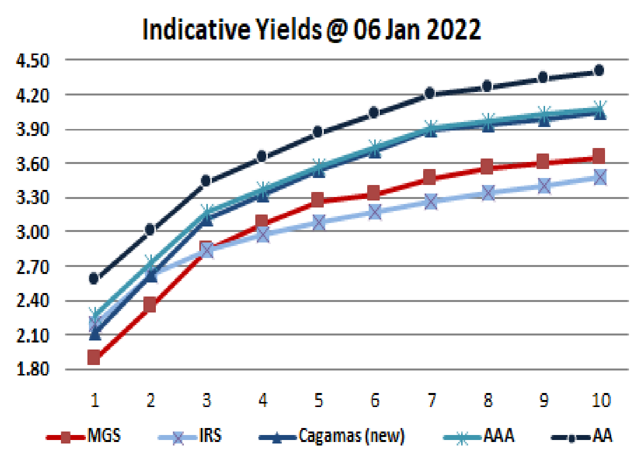
Forex



Source: Bloomberg

- **MYR:** USD/MYR's fortune took a turn and climbed steadily through the week to end 0.9% w/w higher at 4.2140 as at Thursday's close, its highest level in thirteen days. The pair traded from a low of 4.1645 on 31-Dec due to window dressing to a high of 4.2155 on Thursday amid USD strength spurred by surprised hawkishness from the Fed. In the week ahead, we are ***Bullish*** on USD/MYR, supported by sustained USD strength, eyeing a range of 4.1800-4.2300.
- **USD**: The US dollar shrugged off prior week's losses and traded on a bid note in the past five trading sessions, outperforming all G10s save for the GBP and CAD. The Dollar Index settled 0.3% w/w higher at 96.25 on Thursday. We expect ongoing rate hike expectations to keep the USD supported going forward, hence our ***Neutral-to Bullish*** view on the USD. However, rapid surges in Omicron new cases and the emergence of the IHU new variant in France as well as consolidation from recent gains could limit its move within 95.50-96.30 in the week ahead. Key data watch would be CPI and retail sales, in addition to tonight's nonfarm job report which would dictate USD movement next week.

Fixed Income



Source: Bloomberg

- **UST:** USTs were sold-off aggressively w/w following ongoing concerns over the Fed's hawkish tilt based on the release of the recent FOMC meeting minutes. Overall benchmark yields spiked between 14-21bps with the UST 2Y yield up 14bps at 0.87% whilst the much-watched 10Y bond (which ranged tighter between 1.42-49%) jumped the most by 21bps to 1.72%. The robust corporate bond issuance slate and stronger-than-expected December data by private payroll processor ADP also weighed on the curve. Current expectations revolve around a possible rate hike of up three (3) this year followed by up to another three (3) by end-2023. We expect UST yield movements to be more volatile with upside bias next week.
- **MGS/GII:** Local govvies softened w/w in line with UST and SGS movements with the intermediates pressured the most. Overall benchmark MGS/GII yields closed between 1-14bps higher whilst GII settled mixed between -3 to +6bps across. The benchmark 5Y MGS 11/26 jumped 14bps to 3.28% whilst the 10Y MGS 4/31 closed 6bps higher at 3.66%. The average weekly secondary market volume tripled to RM12.5b. The inaugural auction of the year consisting of the 5Y MGS despite drawing a long tail; surprisingly notched strong bidding metrics of 2.329x and awarded at 3.273%. The 2s5s spreads for Malaysia, Indonesia and Philippines are higher than other EM counterparts as these central banks have prioritized growth over inflation. Expect govvies to take cue from global bond performances i.e. mainly UST yield movements next week.

Macroeconomic Updates

- **Hakwish Fed minutes weighed on equities:** US equities suffered from a Fed induced selloff this week as investors became concerned that the faster pace of rate hikes may weigh on risk assets. The Dow Jones closed modestly lower (-0.4% w/w) as of Thursday while the selloff in tech shares pulled down the broad S&P 500 (-1.7% w/w) and NASDAQ (-4.2% w/w) with the latter suffering the steepest loss amid the three main benchmarks. Notably, Apply shares crossed the $3 trillion threshold briefly this week.

- **Extended climb in oil prices**: Crude oil prices climbed for the fourth consecutive session as traders cheered the OPEC+'s decision to maintain its oil output plan (+400k bpd starting February). The oil cartel and its allies remained confidence over this year's oil demand. Both Brent crude and WTI benchmarks rose over 3.0% w/w as of Thursday.

- **Fed released surprisingly hawkish minutes**: The Federal Reserves published the minutes of the 14-15 December during which it decided to double the pace of asset tapering in starting in January. Fed officials judged that it has largely achieved its economic objectives in terms of employment and inflation thus a quicker conclusion to the asset purchase program would put the Fed in a better position to address a full range of economic outcomes. Importantly, it also signalled the possibility of increasing rates at a faster pace than previously expected and convey a strong message to address the elevated inflation.

- **US ISM indexes point to still-solid growth:** Both the ISM indexes for manufacturing and services sector pulled back in the last month of 2021, reflecting moderating expansion of both industries heading into 2022. The manufacturing sector PMI held up relatively well (-2.4pts) compared to the services (-7.1pts), in line with the strong factory order index. Importantly both surveys showed that the supply chain pressures that have been plaguing the economy for months have eased towards year-end, offering some hope that the elevated prices of raw materials and goods may come down.

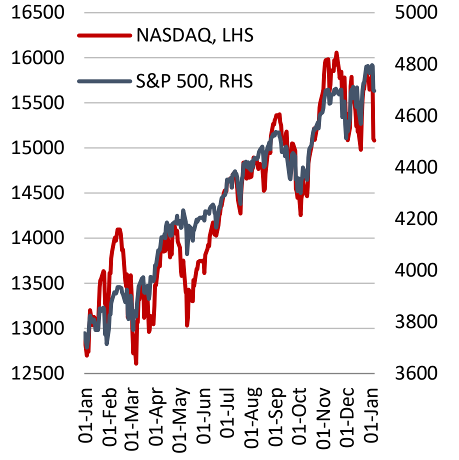
- **US trade deficit widened on strong imports:** Strong USD and domestic consumer demand pushed up US imports to a record high of $304.4b in November, resulting in a trade deficit of $80.2b. Exports also picked up to record level but recorded relatively smaller growth compared to imports.

- **ADP payrolls locked in best reading in 7 months:** Initial jobless claims remained historically low at 207k last week. The US private sector added more jobs than expected in the month of December; the number of jobs created amounted to 807k, its largest single-month increase in seven months. Job growth concentrated in the services industry as demand grew in tandem with higher income in a fully reopened economy. The reading bodes well for tonight's nonfarm payroll data. A Bloomberg survey currently places the consensus forecast at 447k job gains.

- **Other countries' PMI data:** PMIs in the Eurozone and UK pulled back from the recent high levels, as fading reopening effect and the spread of the Omicron variant on the continent weighed on the overall economic activity. Meanwhile in China, PMI readings improved for both the manufacturing and services sector; similarly Japan's PMIs hold up relatively well towards the end of the year.

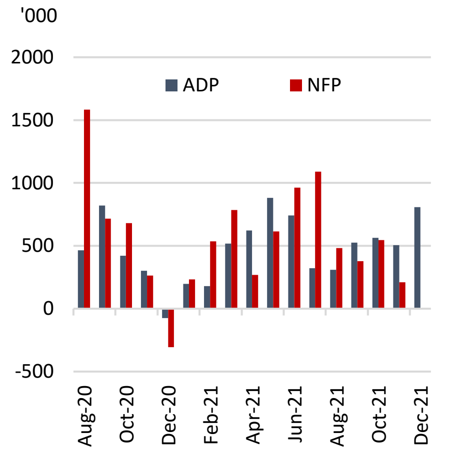
- **Next week data:** Data calendar is lightly packed next week with key US data including CPI, retail sales and industrial production. Other developed economy data due for the same week release are the UK's monthly indicators (monthly nominal GDP, industrial production, services, construction and international trade). China will also report its monthly trade data. Australia's retail sales and trade report and Malaysia's industrial production are also in the pipeline.

US stocks pulled down by a hawkish Fed



Source: Bloomberg

ADP payrolls rose 807k in December



Source: Bloomberg

Foreign Exchange Market

- **MYR:** USD/MYR's fortune took a turn and climbed steadily through the week to end 0.9% w/w higher at 4.2140 as at Thursday's close, its highest level in thirteen days. The pair traded from a low of 4.1645 on 31-Dec due to window dressing to a high of 4.2155 on Thursday amid USD strength spurred by surprised hawkishness from the Fed. In the week ahead, we are ***Bullish*** on USD/MYR, supported by sustained USD strength, eyeing a range of 4.1800-4.2300.

- **USD**: The US dollar shrugged off prior week's losses and traded on a bid note in the past five trading sessions, outperforming all G10s save for the GBP and CAD. The Dollar Index settled 0.3% w/w higher at 96.25 on Thursday, after having traded within 95.57-96.46 in the past week. The surprisingly hawkish FOMC minutes which brought forward expectations for a Fed rate hike to as early as March spurred gains in the USD. We expect ongoing rate hike expectations to keep the USD supported going forward, hence our ***Neutral-to Bullish*** view on the USD. However, rapid surges in Omicron new cases and the emergence of the IHU new variant in France as well as consolidation from recent gains could limit its move within 95.50-96.30 in the week ahead. Key data watch would be CPI and retail sales, in addition to tonight's nonfarm job report which would dictate USD movement next week.

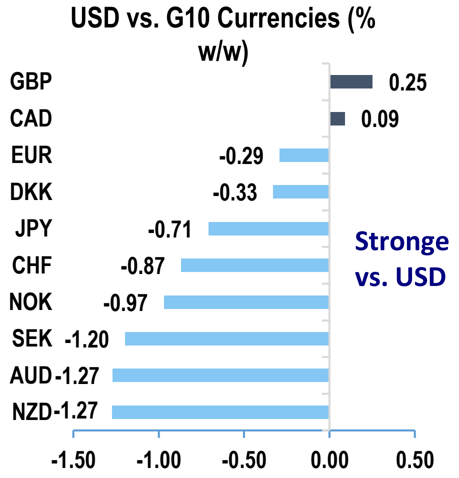
- **EUR**: EUR/USD pulled back 0.3% w/w to last settle at 1.1298 on Thursday's, its first weekly close below the 1.13 handle in four weeks amid rally in the greenback. The pair has been rangetrading within the 1.12-1.13 big figures for the last two months, amid sustained USD and selling pressure arising from Omicron related concerns in Europe. We are ***Neutral to Bearish*** on EUR/USD for the week ahead, eyeing a range of 1.1285-1.1370. Continued surge in daily Covid cases and the surface of a new virus variant in France could continue to pressure the EUR. Sentix investor confidence, unemployment rate and industrial production will unlikely swing EUR performance next week.

- **GBP**: GBP/USD bucked the general trend and posted its 4th weekly advances, clocking in a 0.3% w/w gain. The GBP/USD last settled at 1.3535 as at Thursday's close, closing above the 1.35 handle in the last three trading sessions. BOE's surprised rate hike in December has boosted the pair and market expectations of further policy normalization by the BOE will continue to lend support to the sterling. We are ***Neutral*** on GBP/USD as the pair may experience some range movement between 1.34-1.35, more so as the USD consolidates from recent gains. Monthly GDP, industrial production and visible trade balance are key UK data to watch.

- **JPY**: USD/JPY closed 0.7% w/w higher at 115.87 as of Thursday, as positive risk sentiment weighed on the safe haven yen. We are ***Neutral-to Bullish*** on USD/JPY, expecting the pair to trade in the 115-116 handles as USD strength will likely dominate. Key Japan data next week include Eco Watcher surveys, leading index, machine tool orders, and PPI.

- **AUD**: AUD/USD was the worst performer this week, hand in hand with the kiwi. The Aussie depreciated by 1.3% w/w to 0.7163, breaking below the 0.72 handle. The Aussie gapped down twice in two separate occasions, following a sharp spike in Covid cases over the weekend and post FOMC minutes. Reimposition of some restrictions in Sydney, coupled with ongoing concerns on China, are expected to dampen the appeal of the Aussie near term. We are therefore ***Neutral-to-Bearish*** on AUD/USD in the week ahead, eyeing a range of 0.70-0.72. Exports, retail sales, and building approvals as well as key China data would be key watch next week.

- **SGD**: USD/SGD closed 0.7% w/w higher at 1.3609 on Thursday as the Singaporean dollar weakened alongside other currencies amid broad dollar strength. This came despite positive economic releases that showed a pick-up in PMI and retail sales. We are ***Neutral-to-Bullish*** on USD/SGD for the week ahead, attributed to our stronger USD view, eyeing a range of 1.3550-1.3630.



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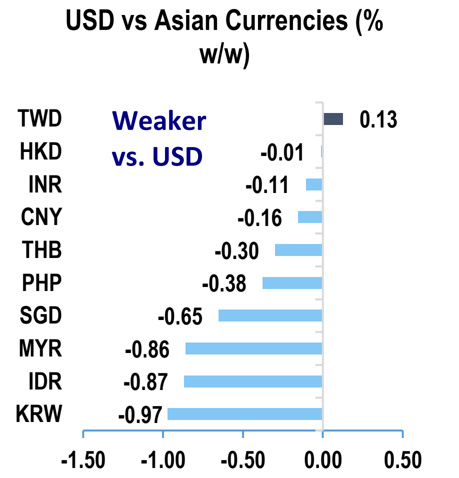


Source: Bloomberg

Forecasts

	Q1-22	Q2-22	Q3-22	Q4-22
DXY	96.15	96.40	96.30	96.30
EUR/USD	1.13	1.12	1.12	1.13
GBP/USD	1.34	1.33	1.35	1.36
AUD/USD	0.72	0.72	0.74	0.75
USD/JPY	115	116	115	114
USD/MYR	4.17	4.15	4.15	4.10
USD/SGD	1.35	1.34	1.34	1.33

	Q4-21	Q1-22	Q2-22	Q3-22
EUR/MYR	4.71	4.65	4.65	4.63
GBP/MYR	5.59	5.52	5.60	5.58
AUD/MYR	3.00	2.99	3.07	3.08
SGD/MYR	3.09	3.10	3.10	3.08

Source: HLBB Global Markets Research

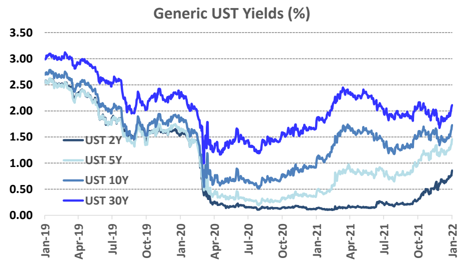
Fixed Income

- **UST:** USTs were sold-off aggressively w/w following ongoing concerns over the Fed's hawkish tilt based on the release of the recent FOMC meeting minutes. Overall benchmark yields spiked between 14-21bps with the UST 2Y yield up 14bps at 0.87% whilst the much-watched 10Y bond (which ranged tighter between 1.42-49%) jumped the most by 21bps to 1.72%. The robust corporate bond issuance slate and stronger-than-expected December data by private payroll processor ADP also weighed on the curve. Current expectations revolve around a possible rate hike of up three (3) this year followed by up to another three (3) by end-2023. An avalanche of coupon offerings amounting to ~$110b next week and corporate offerings may see investors sidelined for now; but more importantly expect attention to shift to the all-important jobs data for December tonight. We expect UST yield movements to be more volatile with upside bias next week.

- **MGS/GII:** Local govvies softened w/w in line with UST and SGS movements with the intermediates pressured the most. Overall benchmark MGS/GII yields closed between 1-14bps higher whilst GII settled mixed between -3 to +6bps across. The benchmark 5Y MGS 11/26 jumped 14bps to 3.28% whilst the 10Y MGS 4/31 closed 6bps higher at 3.66%. The average weekly secondary market volume tripled to RM12.5b versus prior week's RM3.67b. The inaugural i.e. 1st auction of the year consisting of the 5Y MGS despite drawing a long tail; surprisingly notched strong bidding metrics of 2.329x and awarded at 3.273%. We note that some earlier policy adjustments to the Budget 2022 pertaining to the proposed foreign-sourced income for tax-exempt individuals and dividend income may prompt the government to view funding availabilities via govvies issuance. The 2s5s spreads for Malaysia, Indonesia and Philippines are higher than other EM counterparts as these central banks have prioritized growth over inflation. Expect govvies to take cue from global bond performances i.e. mainly UST yield movements next week.

- **MYR Corporate bonds/ Sukuk**: The week under review saw improved investor appetite for govt-guaranteed bonds, Sukuk and corporate bonds transactions as portfolio managers returned from the year-end holidays and festivities. Trades were seen mainly along the GG-AA part of the curve as yields closed mostly mixed-to higher amid the doubling of average weekly market volume of RM1.57b compared to prior week's RM750m. Topping the weekly volume were PRESS Metal 10/24 (AA3) which edged 2bps lower compared to previous-done levels at 3.80%, followed by TNB WE (AAA) bonds, which spiked 44bps to 3.64%. The 3rd largest volume was MAYBANK 2117NC26 perps which declined 8bps instead to 3.88%. Higher frequency of bond trades was seen in DANA, MAHB, TNB WE, MCIS, IMTIAZ and energy-related bonds i.e. TG BIN Energy. Meanwhile the prominent issuances for the week consisted of FELDA Global Ventures Bhd's unrated 1-7Y bonds totaling RM5000m with coupons between 4.47-5.63% and also Maxis Broadband Sdn Berhad's unrated 4-8Y bonds amounting to RM1.1b with coupons ranging within 3.76-4.20%.

- **SGS:** SGS (govvies) saw the curve shift higher w/w, largely influenced by UST movements; as overall benchmark yields jumped between 3-13bps higher. The 2Y yield moved 3bps up at 0.90% whilst the 10Y (which ranged higher and traded within 1.68-1.76% range) spiked 13bps to 1.76%. Meanwhile the republic notched strong economic data with its manufacturing PMI for December holding steady for the 18th consecutive month above 50 and its retail sales for November notching 1.9% y/y. 2021 saw total sovereign issuances end at SGS147.8b whilst also notching a higher total corporate bond issuances of ~S$25b; mainly due to the stronger macroeconomic outlook and efficient vaccination rollouts. There was a sizeable number of issuances within the 6-15y tenures followed by perps; mainly by GLC's and real estate. Elsewhere, S&P Global Ratings affirmed its AA- long-term currency insurer financial strength and issuer credit ratings on NTUC Income Insurance Co-operative Ltd with a Stable outlook. It also affirmed it's a+ long-term issue rating on NTUC Income's SGD callable subordinated notes.



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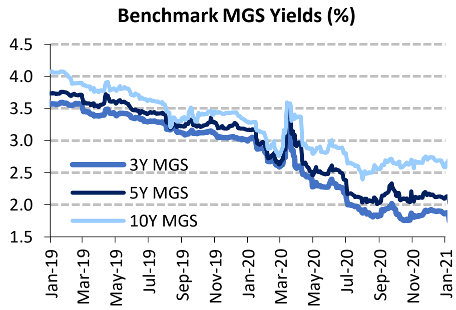

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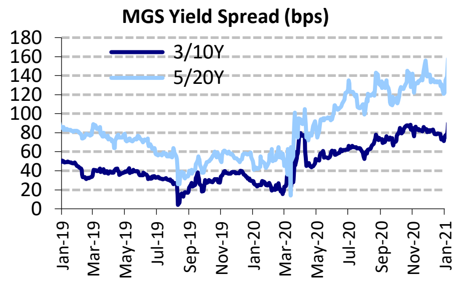

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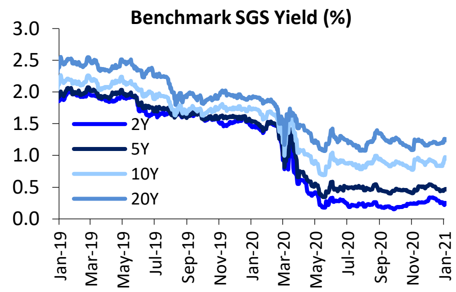

Source: Bloomberg

Rating Actions

Issuer	PDS Description	Rating/Outlook	Action
Citibank Berhad	Financial institution rating	AAA/Stable/P1	Reaffirmed
Silver Sparrow Berhad	RM515 mil Guaranteed MTN Programme (2011/2023)	AAA(fg)/AAA(bg)/Stable	Reaffirmed
Petroleum Sarawak Berhad	Corporate credit ratings	AAA/Stable/P1	Reaffirmed
Petroleum Sarawak Exploration & Production Sdn Bhd (PSEP)	Multi-Currency Islamic Medium-Term Notes of up to RM15 billion (2021/2051)	AAA/Stable	Reaffirmed
Sabah Development Berhad	Islamic Medium Term Notes Programme of up to RM10.0 bil	AAA/Stable	Reaffirmed
Hong Leong Assurance's (HLA or the Insurer)	Insurer financial strength (IFS) rating	AA2/Stable/P1	Reaffirmed
	RM2.0 billion Subordinated Notes Programme(2020/-)	AA3/Stable	Reaffirmed

Source: MARC/RAM

Economic Calendar

Date	Time	Country	Event	Period	Prior
10/01	12:00	MA	Industrial Production YoY	Nov	5.5%
	17:30	EC	Sentix Investor Confidence	Jan	0.0
	18:00	EC	Unemployment Rate	Nov	7.3%
11/01	08:30	AU	Exports MoM	Nov	-3.0%
	08:30	AU	Retail Sales MoM	Nov	4.9%
	19:00	US	NFIB Small Business Optimism	Dec	98.4
12/01	09:30	CH	PPI YoY	Dec	12.9%
	09:30	CH	CPI YoY	Dec	2.3%
	18:00	EC	Industrial Production SA MoM	Nov	1.1%
	20:00	US	MBA Mortgage Applications	07 Jan	-5.6%
	21:30	US	CPI YoY	Dec	6.8%
13/01	03:00	US	U.S. Federal Reserve Releases Beige Book		
	08:01	UK	RICS House Price Balance	Dec	71%
	21:30	US	PPI Final Demand YoY	Dec	9.6%
	21:30	US	Initial Jobless Claims	08 Jan	207k
14/01	08:30	AU	Home Loans Value MoM	Nov	-2.5%
	15:00	UK	Monthly GDP (MoM)	Nov	0.1%
	15:00	UK	Industrial Production MoM	Nov	-0.6%
	15:00	UK	Visible Trade Balance GBP/Mn	Nov	-£13934m
	18:00	EC	Trade Balance SA	Nov	2.4b
	21:30	US	Retail Sales Advance MoM	Dec	0.3%
	21:30	US	Import Price Index YoY	Dec	11.7%
	22:15	US	Industrial Production MoM	Dec	0.5%
	23:00	US	U. of Mich. Sentiment	Jan P	70.6
	00:00	CH	Exports YoY	Dec	22.0%

Source: Bloomberg

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