Global Markets Research

Weekly Market Highlights

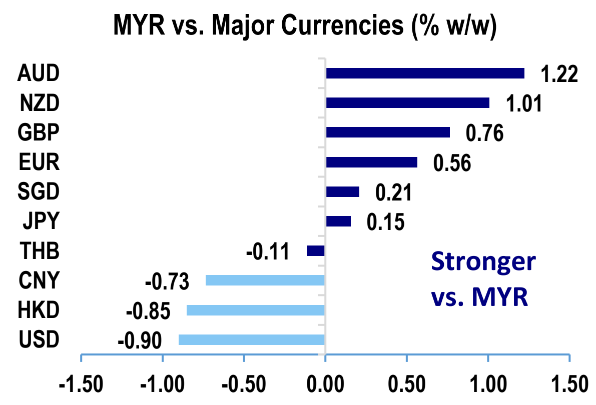
Markets

	Last Closing	WOW%	YTD %
Dow Jones Ind.	36,113.62	-0.34	-0.62
S&P 500	4,659.03	-0.79	-2.25
FTSE 100	7,563.85	1.52	2.43
Hang Seng	24,429.77	5.88	4.41
KLCI	1,569.51	2.36	0.13
STI	3,257.30	2.29	4.28
Dollar Index	94.79	-1.59	-0.92
WTI oil ($/bbl)	82.12	3.35	6.66
Brent oil ($/bbl)	84.47	3.02	8.60
Gold (S/oz)	1,821.40	1.80	-0.40

Source: Bloomberg

- Expectations for a faster pace of Federal Reserve's rate hikes remained intact this week despite last Friday's weaker than expected nonfarm payroll report. Investors digested a slew of Fed officials' remarks on a potential March rate hike as well as the elevated US CPI data. Chair Powell testified before the Senate and reaffirmed effort to fight inflation. A sharp selloff in tech shares pulled down the broader equity market on Thursday, leaving all US benchmarks lower compared to last week.
- JP Morgan, Citigroup and Wells Fargo will release their 4Q reports tonight, kicking off a new earnings season. China's 4Q and full year GDP data are out next week alongside its major monthly indicators. US data flow is on the lighter side with data concentrating mostly on the housing sector. The BOJ is expected to keep its ultra loose policy unchanged and BNM likely remains neutral in next week's MPC statement.

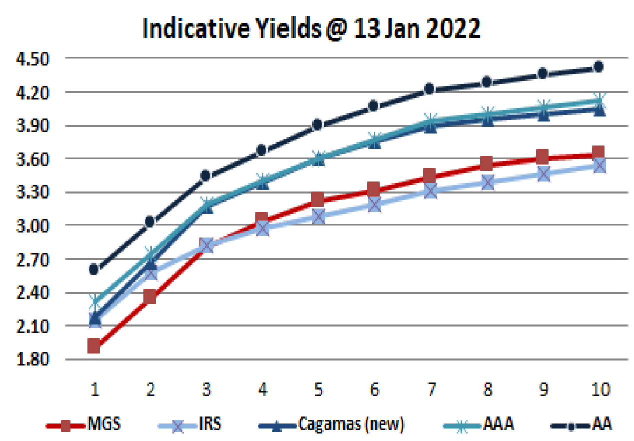
Forex



Source: Bloomberg

- **MYR:** USD/MYR trended lower in a steady manner for the 5th consecutive day, bringing about a 0.9% w/w loss on the back of broad USD weakness. The pair retreated from a week-high of 4.2175 on 7-Jan to as low as 4.1730 on 13-Jan, before settling near the weekly low at 4.1760 on Thursday's close, almost back to its YTD low. Moving on to next week, we expect a ***Neutral-to-Slightly Bearish*** outlook for USD/MYR overall, eyeing a range of 4.16-4.21. Expectations for a neutral BNM at next week's MPC meeting will be supportive of the MYR.
- **USD**: The Dollar Index weakened considerably by 1.5% w/w to 94.79 up till Thursday's close, below the 95.0 handle and pushing it back to its lowest level since 10-Nov. The broad-based underperformance of the greenback was due to disappointing US nonfarm job gains as well as a jump in US CPI. The break of the 95.0 handle has resulted in a ***Neutral to Bearish*** outlook in the Dollar Index, but downside is likely capped by 94.35-94.55, hence a potential range of 94.5-95.5 as the USD consolidates in the week ahead. The economic calendar will be lighter with focus on housing market data.

Fixed Income



Source: Bloomberg

- **UST:** USTs saw milder movement following multi-decade high inflation numbers, reinforcing the Fed's intention to hike rates as soon as March. The curve was slightly flatter as overall benchmark yields settled mixed between -3 to +2bps. The 2Y yield edged 2bps up at 0.90% whilst the 10Y bond inched 1bps lower to 1.71%. Meanwhile the Fed released its 3rd tapered Treasury purchase schedule denoting the cut in monthly buying from $60b to $40b. The brutal start for USTs in the new year may now reflect the view that the market may have repriced too much, too quickly given the uncertain economic outlook. We expect UST yields to be more sanguine next week on slight strength amidst bouts of profit-taking.
- **MGS/GII:** Local govvies ended generally stronger w/w with GII better-bid across the curve. Overall benchmark MGS/GII yields closed between 0-7bps lower (save for the 20Y MGS). The benchmark 5Y MGS 11/26 yield rallied 6bps to 3.22% whilst the new 10Y MGS 7/32 closed at 3.58%. The average weekly secondary market volume spiked 59% to RM19.9b. The 2nd auction of the year which consisted of the much-awaited new issuance 10Y MGS 7/32 saw strong participation from GLC's, Lifers and also offshore parties with bidding metrics @2.044x and awarded at 3.582%, on a short tail of 1.6bps. Expect govvies to range sideways next week whilst taking cue from global bond performances mainly UST.

Macroeconomic Updates

- **Fed rate hike expectation stayed intact:** Expectations for a faster pace of Federal Reserve's rate hikes remained intact this week despite last Friday's weaker than expected nonfarm payroll report. Investors digested a slew of Fed officials' remarks on a potential March rate hike and the US CPI data. A sharp selloff in tech shares pulled down the broader equity market on Thursday, leaving all US benchmarks lower compared to last week.

- **Powell to win confirmation easily:** Chair Powell testified before lawmakers this week and reassured markets that the central bank is serious in combatting the surging inflation. Powell, a Republican, was renominated to a second four-year term by President Biden last November and is expected to easily win the confirmation by a wide margin. He said that it is "really time" for the central bank to move away from emergency pandemic settings as the US economy no longer needs aggressive stimulus but added that the road to normal policy remained long. However, he did say that that the Fed would not hesitate to "raise interest rates more over time" if inflation is persisting at high levels for longer than expected.

- **US consumer inflation surged to a four-decade high:** The US consumer price inflation surged to 7.0% y/y in December, from 6.8% previously, matching the Bloomberg consensus forecast. The last time inflation was this high in June 1982, the US economy remained mired in a deep recession and the Iranian Revolution drove up global oil prices. This time around, inflation was driven by the prolonged supply chain bottlenecks resulting from the nearly two-year long global pandemic as well as the robust US consumer demand. The core CPI index rose 5.5% y/y, also faster than November's rate (+4.9%). Inflation did show signs of cooling down according to month-on-month data; CPI rate decelerated to 0.5% m/m, reflecting some easing in gasoline inflation while PPI rate slowed to 0.2% m/m, from 1% prior. On a y/y basis, however, PPI remained elevated at 9.7% (Nov: +9.8%).

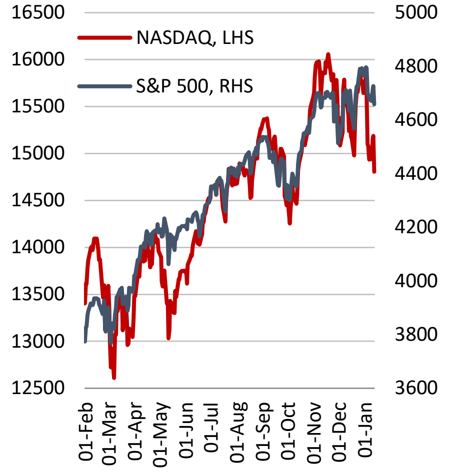
- **China's inflation softened in December**: Meanwhile in China, inflationary pressures moderated towards the end of the year, partly thanks to the government's targeted measures to curb soaring commodity prices although this could be attributed to weaker demand and its strict zero Covid policy. Consumer price index recorded its first m/m decline in six months of 0.3%, translating to a weaker annual CPI growth rate of 1.5% (Nov: +2.3%). Food prices slumped back to the deflationary trend as pork prices declined further. Factory gate inflation also eased in December as producer prices fell 1.2% m/m while the annual PPI rate dipped to 10.3% y/y (Nov: +12.9%).

- **Banks to kick off earnings season:** The earnings season kicks off this week, led as usual by the release of JP Morgan, Citigroup and Wells Fargo's fourth quarter reports tonight which are set to offer markets insights on how large financial institutions perform after nearly two years of global pandemic.

- **China's GDP in focus:** In the week ahead, focus will be on China's 4Q and full year GDP data as well as its higher frequency indicators such as industrial production and retail sales. Consensus estimate for 4Q GDP growth stands at 3.6% y/y currently, as economists expect further pull back in the mainland's economic growth (3Q: +4.9%). Other top-tiered economic data next week include a slew of US housing data, as well as CPI data from the Eurozone, UK, Japan, Hong Kong and Malaysia. Apart from that, the UK will report its latest job and retail sales data. Australia's employment figures are also slated for the same week's release.

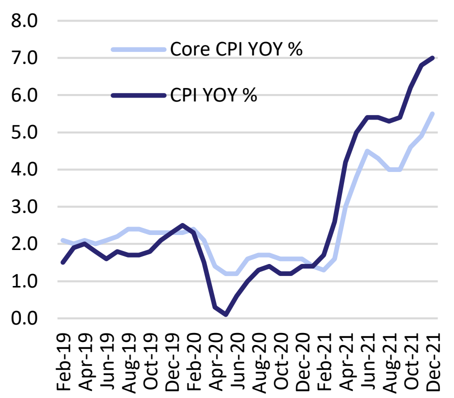
- **BOJ to keep policy framework; BNM to stay neutral:** In the last meeting in December, the BOJ had pledged to remove its pandemic driven stimulus, but the stubbornly low inflation (contrary to the global trend) means that the ultra loose policy is here to stay. On the local front, BNM is expected to conduct its first MPC meeting of 2022. We expect the central bank to remain neutral on policy stance, maintaining the OPR at 1.75% and prioritising Malaysia's economic recovery.

NASDAQ suffered steepest losses this week



Source: Bloomberg

US inflation surged to 7% in December



Source: Bloomberg

Foreign Exchange Market

- **MYR:** USD/MYR trended lower in a steady manner for the 5th consecutive day, bringing about a 0.9% w/w loss on the back of broad USD weakness. The pair retreated from a week-high of 4.2175 on 7-Jan to as low as 4.1730 on 13-Jan, before settling near the weekly low at 4.1760 on Thursday's close, almost back to its YTD low. Moving on to next week, we expect a ***Neutral-to-Slightly Bearish*** outlook for USD/MYR overall, eyeing a range of 4.16-4.21. Expectations for a neutral BNM at next week's MPC meeting will be supportive of the MYR.

- **USD**: The Dollar Index weakened considerably by 1.5% w/w to 94.79 up till Thursday's close, even breaking below the 95.0 handle and pushing it back to its lowest level since 10-Nov. The broad-based underperformance of the greenback was due to disappointing US nonfarm job gains as well as a jump in US CPI to an expected rate of 7.0% y/y for the month of December. Fed Chair Powell's comments which reaffirmed the Fed's stance in lifting rates to combat inflation but stopped short of signalling greater hawkishness also led the USD lower. The break of the 95.0 handle has resulted in a ***Neutral to Bearish*** outlook in the Dollar Index, but downside is likely capped by 94.35-94.55, hence a potential range of 94.5-95.5 as the USD consolidates in the week ahead. The economic calendar will be lighter with focus on housing market data.

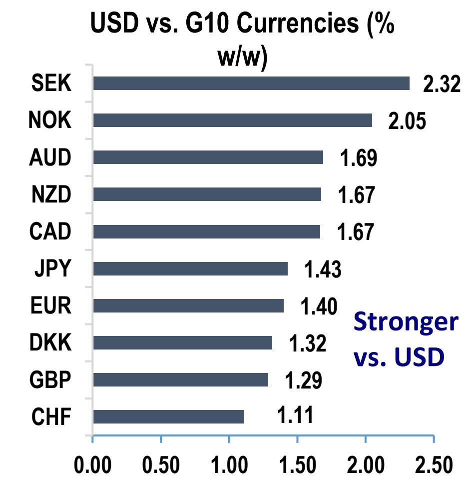
- **EUR**: EUR/USD traded two big figures higher and strengthened 1.4% w/w to 1.1455 on Thursday, marking its first weekly gain in four weeks, spurred by a sharp pullback in the USD. Eurozone data also largely surprised on the upside this week save for the bigger than expected pullback in confidence levels as Omicron related negativity continues to bite. For the week ahead, we foresee rather limited upside following last week's sharp move up, and are ***Neutral*** on the pair, eyeing a range of 1.1350-1.1450. Eurozone CPI will be key watch but unlikely alter the EUR/USD outlook.

- **GBP**: Mirroring the EUR outperformance and on the back of USD weakness, the sterling also traded two big figures up to a high of 1.3749 before dipping slightly to 1.3706 on Thursday's close. GBP/USD registered a 1.3% w/w advance, marking its 5th consecutive weekly gain sustained by hawkish BOE expectations. We expect the pair to trade on a more ***Neutral*** note in the week ahead as the pair is now at overbought levels after recent sharp moves signalling some reversals. Upside is capped by 1.3750 and we expect some pullback to the 1.36 handle, likely within a range of 1.36-1.3750. UK CPI and job data could potentially swing the sterling's performance next week.

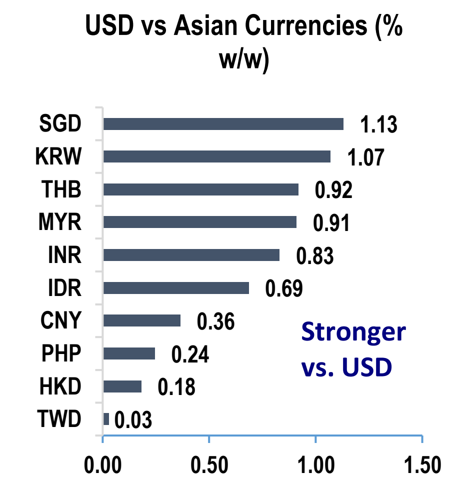
- **JPY**: USD/JPY closed 1.4% w/w lower at 114.20 as of Thursday, marking its first weekly decline in six weeks, as hefty decline in the greenback and cautious market sentiments boosted the appeal of the JPY. We are ***Neutral*** on USD/JPY, expecting the pair to trade in the 114-115 handles as USD consolidates. BOJ is scheduled to meet next week ahead of the Japanese CPI release. We expect the BOJ to maintain its ultraloose monetary policy stance as fundamental in the Japanese economy remains weak and fragile while inflation outlook remains very benign.

- **AUD**: AUD/USD was among the better performing G10 currencies, strengthening 1.7% w/w in tandem with gains seen in other commodity currencies. The pair broke the 0.73 handle in the process (high of 0.7314 on 13 January) before easing to 0.7283 on Thursday's close. AUD/USD outlook is ***Neutral to Slightly Bearish*** in the week ahead, potentially eyeing a range of 0.72-0.73. The Australian economic calendar is light with only employment data on the deck but we expect China 4Q GDP and other first tier data that will likely confirm further slowdown in the China economy to exert some drags on Aussie.

- **SGD**: USD/SGD closed 1.3% w/w lower at 1.3456 on Thursday amid broad USD weakness. The SGD outperformed all its major Asian peers as the island's well-contained virus infections and decent economic indicators shored expectations of continuous growth in the Singapore economy which would allow MAS to maintain its gradual appreciation policy stance. Weekly outlook ahead is ***Neutral to Slightly Bearish*** likely in a range of 1.34-1.35. Singapore NODX will be the key data to watch.



Source: Bloomberg



Source: Bloomberg

Forecasts

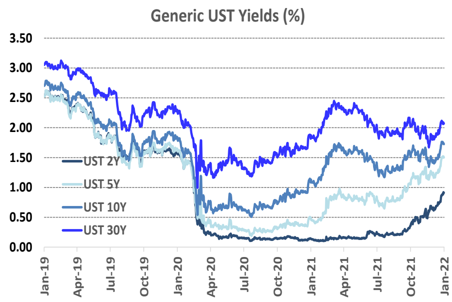
	Q1-22	Q2-22	Q3-22	Q4-22
DXY	96.15	96.40	96.30	96.30
EUR/USD	1.13	1.12	1.12	1.13
GBP/USD	1.34	1.33	1.35	1.36
AUD/USD	0.72	0.72	0.74	0.75
USD/JPY	115	116	115	114
USD/MYR	4.17	4.15	4.15	4.10
USD/SGD	1.35	1.34	1.34	1.33

	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

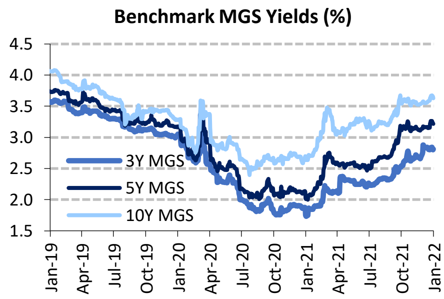
Fixed Income

- **UST:** USTs saw milder movement compared to prior week following multi-decade high inflation numbers for December, as earlier expectations were already being factored in and are may reinforce the Fed's intention to normalize and hike rates as soon as March. The curve was slightly flatter as overall benchmark yields settled mixed between -3 to +2bps. The UST 2Y yield edged 2bps up at 0.90% whilst the much-watched 10Y bond (which ranged between 1.70-76%) inched 1bps lower instead to 1.71%. The $22b 30Y auction picked up from the earlier disappointment of a week-long bond auctions (i.e. $52b 3Y and $36b 10Y) with bidding metrics at 2.35x. Meanwhile the Fed released its 3rd tapered Treasury purchase schedule denoting the cut in monthly pace of buying from $60b to $40b. The brutal start for USTs in the new year may now reflect the view that the market may have repriced too much, too quickly given the uncertain economic outlook. We expect UST yield movements to be more sanguine next week on slight strength amidst bouts of profit-taking.



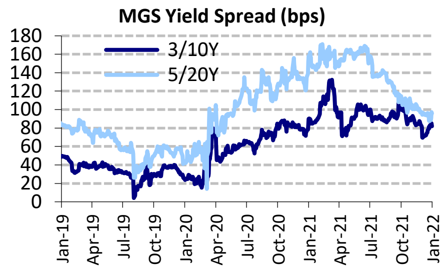
Source: Bloomberg

- **MGS/GII:** Local govvies ended generally stronger w/w with GII better-bid across the curve. Overall benchmark MGS/GII yields closed between 0-7bps lower (save for the 20Y MGS). The benchmark 5Y MGS 11/26 yield rallied 6bps to 3.22% whilst the new 10Y MGS 7/32 closed at 3.58% (the off-the-run MGS 4/31 closed at 3.64% levels). The average weekly secondary market volume spiked 59% to RM19.9b versus prior week's RM12.5b. The 2nd auction of the year which consisted of the much-awaited new issuance 10Y MGS 7/32 saw strong participation from GLC's, Lifers and also offshore parties with bidding metrics @2.044x and awarded at 3.582%, on a short tail of 1.6bps. The nation's foreign portfolio flows rebounded to an inflow of ~RM5.0b in December 2021 due mainly to bond inflows. Elsewhere, the quicker gains in Industrial production in November numbers coupled with the steady unemployment of 4.3% may reaffirm a positive growth in 4Q2021. Expect govvies to range sideways next week whilst taking cue from global bond performances mainly UST.



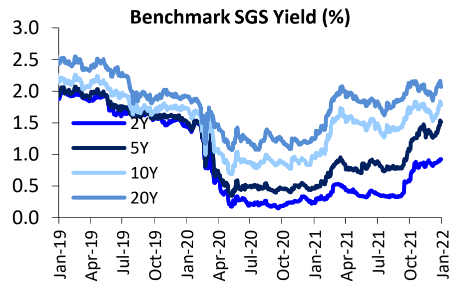
Source: Bloomberg

- **MYR Corporate bonds/ Sukuk**: The week under review saw better investor appetite for government-guaranteed bonds, Sukuk and corporate bonds transactions. Trades were seen mainly along the GG-AA part of the curve as yields closed mostly mixed-to higher amid the increase of 36% in average weekly market volume of RM2.14b compared to prior week's RM1.57b. Topping the weekly volume were SARAWAK Hidro 8/23 (AAA) which edged 2bps lower compared to previous-done levels at 2.56%, followed by PRASA 3/30 (GG) bonds, which rallied 10bps to 3.74%. The 3rd largest volume was LPPSA 4/33 which spiked 19bps instead to 4.00%. Higher frequency of bond trades was seen in DANA, MCIS, GENM Capital, Tropicana and YNH Properties. Meanwhile there were not many fresh issuances for the week with the prominent one consisting of Leong Hup Capital Sdn Berhad's unrated 3-5Y bonds totaling RM100m with coupons ranging from 3.12% upwards.



Source: Bloomberg

- **SGS:** SGS (govvies) saw the curve flatter w/w, as overall benchmark yields rose between 2-6bps higher save for the longer-end. The 2Y yield edged 2bps up at 0.92% whilst the 10Y (which ranged higher and traded within 1.75-1.83% range) similarly settled 2bps higher as well at 1.78%. Singapore has sold circa S$3.4b worth of sovereign bonds this year, up 11% compared to same period last year. Meanwhile traders and investors in the republic are anticipating that rates may rise especially in 2H2022 with the curve potentially flattening whilst the SGD is expected to benefit from inflation. The relatively light supply at the longer-ends may be an attraction for portfolio managers. Demand for Corporates is expected to persist in the light of a stronger macroeconomic outlook and efficient vaccination rollouts. The least-leveraged economy in Asia Pacific is expected to see further issuances to also meet pension fund needs. Elsewhere, Singapore Airlines sold $600m of 7Y bonds at a yield of 3.493%, a percentage point lower than the average yield for global airlines notes sold in 2021; considering that earlier IPT was around +210 area.



Source: Bloomberg

Rating Actions

Issuer	PDS Description	Rating/Outlook	Action
MEX II Sdn Bhd	RM1.3 billion Sukuk Murabahah Programme and RM150 million Junior Bonds	From C-IS to defaulted D	Downgraded
Bumitama Agri Ltd	RM2 bil Islamic MTN Sukuk Musharakah (2014/2029)	Upgrade from AA3/Stable to AA2/Stable	Upgraded
UEM Group Berhad	RM2.2 bil Islamic Medium-Term Notes (IMTN) Programme (2012/2042)	AA2/Stable	Reaffirmed
Dar Al Arkan Real Estate Development Company	Long and short-term corporate credit ratings	A3/Stable and P2	Reaffirmed
AMMB Holdings Berhad	Corporate credit ratings	AA3/Stable/P1	Reaffirmed
AmBank (M) Berhad	Financial Institution Ratings	AA3/Stable/P1	Reaffirmed
	RM7 billion Senior Notes Issuance Programme (2010/2040)	AA3/Stable/P1	
	RM4 billion Tier-2 Subordinated Notes Programme (2013/2043)	A1/Stable	
AmBank Islamic Berhad	Financial Institution Ratings	AA3/Stable/P1	Reaffirmed
	RM3 billion Senior Sukuk Musyarakah Programme (2010/2040)	AA3/Stable/P1	
	RM3 billion Subordinated Sukuk Murabahah Programme (2014/2044)	A1/Stable	
AmInvestment Bank Berhad	Financial Institution Ratings	AA3/Stable/P1	Reaffirmed
Point Zone (M) Sdn Bhd	Proposed Islamic Medium-Term Notes (Sukuk Wakalah) programme of up to RM3.0 billion	AA-IS/Stable	Assigned
Export-Import Bank of Malaysia Berhad	Financial institution ratings	gA2/Stable/gP1, seaAAA/Stable/seaP1 and AAA/Stable/P1	Reaffirmed
EXIM Sukuk Malaysia Berhad	USD1.0 bil Multi-currency Sukuk Issuance Programme	gA2(s)/Stable	Reaffirmed
Suria KLCC Sdn Bhd	RM600 mil Islamic Medium-term Notes (MTN) Programme (2014/2044)	AAA/Stable	Reaffirmed

Source: MARC/RAM

Economic Calendar

Date	Time	Country	Event	Period	Prior
17/01	07:50	JP	Core Machine Orders MoM	Nov	3.8%
	08:01	UK	Rightmove House Prices YoY	Jan	6.3%
	08:30	SG	Non-oil Domestic Exports YoY	Dec	24.2%
	10:00	CN	Industrial Production YoY	Dec	3.8%
	10:00	CN	Fixed Assets Ex Rural YTD YoY	Dec	5.2%
	10:00	CN	GDP SA QoQ	4Q	0.2%
	10:00	CN	GDP YoY	4Q	4.9%
	10:00	CN	Retail Sales YoY	Dec	3.9%
18/01	12:30	JP	Industrial Production MoM	Nov F	7.2%
	15:00	UK	ILO Unemployment Rate 3Mths	Nov	4.2%
	15:00	UK	Employment Change 3M/3M	Nov	149k
	18:00	EZ	ZEW Survey Expectations	Jan	26.8
	21:30	US	Empire Manufacturing	Jan	31.9
	23:00	US	NAHB Housing Market Index	Jan	84.0
	00:00	JP	BOJ Policy Balance Rate	18 Jan	-0.1%
19/01	05:45	NZ	Card Spending Retail MoM	Dec	9.6%
	07:30	AU	Westpac Consumer Conf Index	Jan	104.3
	15:00	UK	CPI YoY	Dec	5.1%
	20:00	US	MBA Mortgage Applications	14 Jan	1.4%
	21:30	US	Building Permits MoM	Dec	3.6%
	21:30	US	Housing Starts MoM	Dec	11.8%
20/01	07:50	JP	Trade Balance	Dec	-¥954.8b
	07:50	JP	Exports YoY	Dec	20.5%
	08:01	UK	RICS House Price Balance	Dec	71%
	08:30	AU	Employment Change	Dec	366.1k
	08:30	AU	Unemployment Rate	Dec	4.6%
	09:30	CN	1-Year Loan Prime Rate	20 Jan	3.8%
	15:00	MA	BNM Overnight Policy Rate	20 Jan	1.8%
	16:30	HK	CPI Composite YoY	Dec	1.8%
	18:00	EZ	CPI YoY	Dec F	4.9%
	21:30	US	Initial Jobless Claims	15 Jan	230k
	21:30	US	Philadelphia Fed Business Outlook	Jan	15.4
	23:00	US	Existing Home Sales MoM	Dec	1.9%
21/01	05:30	NZ	BusinessNZ Manufacturing PMI	Dec	50.6
	07:30	JP	Natl CPI Ex Fresh Food YoY	Dec	0.5%
	08:01	UK	GfK Consumer Confidence	Jan	-15.0
	12:00	MA	CPI YoY	Dec	3.3%
	15:00	UK	Retail Sales Inc Auto Fuel MoM	Dec	1.4%
	23:00	EZ	Consumer Confidence	Jan A	-8.3
	23:00	US	Leading Index	Dec	1.1%

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
Email: HLMarkets@hlbb.hongleong.com.my