

Higher for longer

KEY MARKET MOVES

					23 September, 2022				
Name	WTD	MTD	YTD	Last px	Name	WTD	MTD	YTD	Last px
MSCI ACWI Index	-4.97%	-7.38%	-24.77%	567.86	US Generic Govt 10 Year Yield	0.07	0.17	1.47	3.72
S&P 500 Index	-4.65%	-6.62%	-22.51%	3,693.23	Euro Generic Govt Bond 10 Year	0.15	0.31	(12.44)	2.02
Dow Jones Industrial Average	-4.00%	-6.09%	-18.57%	29,590.41	Japan Generic Govt 10Y Yield	(0.08)	0.12	2.56	0.25
NASDAQ Composite Index	-5.07%	-8.03%	-30.53%	10,867.93	MARKIT CDX.NA.HY.32 06/24	7.66%	6.57%	93.84%	568.14
EURO STOXX 50 Price EUR	-4.34%	-4.79%	-22.10%	3,348.60	MARKIT CDX.NA.IG.32 06/24	18.77%	14.66%	113.65%	105.91
STOXX Europe 600 Price Index EUR	-4.37%	-5.95%	-19.97%	390.40	MARKIT CDX.EM.31 06/24	1.15%	-2.92%	69.61%	317.41
Nikkei 225	-1.50%	-5.58%	-7.88%	26,523.25	EUR-USD X-RATE	-3.28%	-3.99%	-15.10%	0.97
Tokyo Stock Exchange Tokyo Price Index TOPIX	-1.16%	-4.43%	-5.83%	1,876.11	GBP-USD X-RATE	-4.91%	-9.17%	-21.99%	1.06
MSCI AC Asia Pacific Index	-3.47%	-8.48%	-24.87%	145.09	CHF-USD X-RATE	-1.71%	-0.44%	-7.09%	1.02
MSCI AC Asia Pacific Excluding Japan Index	-4.34%	-9.64%	-25.41%	469.78	USD-JPY X-RATE	0.27%	3.48%	24.96%	143.80
MSCI Emerging Markets Index	-4.05%	-8.88%	-26.47%	905.84	USD-CNY X-RATE	2.02%	3.71%	12.43%	7.15
Shanghai Shenzhen CSI 300 Index	-1.95%	-6.11%	-22.48%	3,829.60	USD-HKD X-RATE	0.00%	0.01%	0.68%	7.85
Hang Seng Index	-4.42%	-10.89%	-24.00%	17,781.87	USD-INR X-RATE	1.56%	1.93%	8.95%	80.99
India NSE Nifty 50 Index	-1.16%	-2.43%	-0.15%	17,327.35	NYMEX Light Sweet Crude Oil	-7.48%	-12.06%	4.71%	78.75
Taiwan Stock Exchange Index	-3.04%	-8.22%	-23.95%	13,854.56	ICE Brent Crude Oil Future	-5.69%	-10.73%	10.75%	86.14
Korea KOSPI Index	-3.89%	-9.69%	-25.02%	2,232.53	VIX Index	13.76%	15.66%	73.75%	29.92
Singapore Straits Times Index STI	-1.26%	-0.14%	3.00%	3,217.26	Gold Spot	-1.86%	-4.13%	-10.32%	1,640.43
Thailand SET Index	0.08%	-0.44%	-1.56%	1,631.71	Silver Spot	-3.67%	4.06%	-19.68%	18.72
Jakarta Stock Exchange Composite Index	0.14%	0.00%	9.07%	7,178.58	Palladium Spot	-3.05%	0.02%	9.65%	2,088.58
Philippines Stock Exchange PSEI Index	-4.42%	-4.92%	-12.12%	6,259.54	Bitcoin/USD	-4.15%	-6.46%	-59.23%	18,891.88
Vietnam Ho Chi Minh Stock Index / VN-Index	-2.49%	-6.03%	-19.69%	1,203.28	Etherum/USD	-5.79%	-16.88%	-64.60%	1,305.64

Source: Bloomberg

MACRO OVERVIEW

Global

The week ended being the worst 2 weeks since June for US markets as fears of continued aggressive Fed tightening furiously shifted investors' bets to expect a brutal economic road ahead.

Both the S&P 500 and the Nasdaq Composite are closing in on wiping out all of its gains in the summer as hopes of a softening in Fed policy dissipates, with a hard landing looking inevitable. The Dow Jones registered the year's low on Friday.

"Higher rates for longer" nailed the coffin on sentiment post FOMC last Thursday morning. 2 year Treasury yields rose to 4.2% its highest since pre GFC 2007 with the 10-years briefly flirting 3.8% highest since 2010. Global central banks are raising rates aggressively to tame highest inflation in a generation that could lead to a global recession.

Cyclicals wore the brunt of the selloff on expectations of demand slowdown globally – the Philly semiconductor index was down 6% for the week and crude fell to WTI\$77 a barrel.

The Fed on Thursday lifted rates by its third 75 bps jumbo hike to 3.25% and indicated another hike of the same magnitude could be in store for Novem-

ber. According to the latest dot-plot, it expects that rate to be a full percentage point higher by year end, and signaled that he would risk a recession to fight inflation. When pressed on what it could take to slow the pace of tightening, Powell cited three conditions: 1) A period of below trend growth, 2) a better balance between supply and demand, (3) clear evidence that inflation is moving back down to 2.0%. The Fed expects to see the unemployment rate rise to 4.4% next year from 3.7%, growth to slow to 0.2% this year and a pick up to 1.8% in 2023.

Sentiment also soured further during the week when Russia's Putin declared a "partial mobilization" as the Kremlin moved to annex parts of Ukraine that its occupied.

Other data during the week saw housing starts and building permits underwhelming whilst continuing claims were lower than expected. All three components of the S&P Global PMI's for the US were higher than expected, something that is continuing to force the Fed's hands. This week will see key releases in the final GDP Q2 reading and PCE and personal spending and income data Friday.

Geopolitics

Geopolitical tensions are also making headlines as western nations warn of a response against Russia over referendums in Ukraine's east and President Putin's threat to deploy nuclear weapons. US warns of "catastrophic consequences" if Russia uses nuclear weapons.

Putin announced a partial mobilization ahead of referenda in four occupied regions of Ukraine while also reiterating threat to use nuclear weapons. Flights out of Russia have sold out following the call on reservists. Protests across Russia continued over the weekend against President Vladimir Putin's decision to mobilise the armed forces' reserves, in the starkest sign of popular discontent since he ordered the invasion of Ukraine in February.

China brought up Taiwan at the UN. Foreign minister Wang Yi told the organization on Saturday that the democratically governed island is China's sovereign territory, but stopped short of calling out recent US action in Taiwan.

The UK lifted its ban on fracking amid Russia's war in Ukraine. The government cited the need to secure energy supplies. Meanwhile, France opened its first offshore wind farm.

North Korea fires short-range ballistic missile into sea.

The US is preparing to hold a preliminary meeting this week for the proposed Chip 4 initiative with Japan, Taiwan and South Korea.

Asia

Global risk-off started ahead of FOMC, and continued in the week. Stocks tumbled after the Federal Reserve announced a third consecutive 0.75 percentage point increase in interest rates and signaled borrowing costs would remain high for an extended period. MSCI Asia Ex Japan was down 3.47% for the week. The worst performer was Hang Seng, taking a 4.42% hit. The Hang Seng hit its lowest level in eleven years. Thailand and Indonesia were left unbruised, flat for the week.

The Bank of Japan intervened in the FX markets. It was the first time since 1998 its central bank

stepped in to strengthen the currency as it maintains a negative-rate policy.

Japan's Core CPI rose 2.8% y/y in August, compared to consensus 2.7% and 2.4% in the previous month. Highest since October 2014. Historically, a weak yen has been a boon for Japan Inc. It provided a boost to the country's sprawling export sector by making Japanese goods cheaper for foreign buyers. However, corporate Japan has changed since the last time the yen was this cheap in 1998. Almost a quarter of manufacturing has shifted overseas and the old relationships with an exchange rate that once ruled supreme have now been broken. Japan factory activity expands at slowest pace in 20 months.

Separately, Japan Prime Minister Kishida announced Japan will remove the 50K daily cap on foreign arrivals on 11-Oct, as well as visa requirements for tourists and the condition they be part of a tour group.

PBOC signed memorandum with Kazakhstan and Laos to establish RMB clearing arrangements. Adoption of RMB by local companies in Kazakhstan has been increasing this year. As western countries imposed sanctions on Russia, many companies transferred their Russian businesses to Central Asia. There has also been increasing bilateral trades with China. RMB settlement is often preferred given the exchange rate between the USD and Kazakhstani Tenge has been volatile, while the yuan is relatively stable and directly convertible to the Tenge.

Monetary Authority of Singapore (MAS) said world facing four risks to global outlook and hinted MAS, other central banks could be 'firefighting' for some time. Ravi Menon named four risks as: severity of economic downturn, trajectory of inflation in medium term, impact of geopolitics on markets, and climate risk on portfolios. MAS expected by most analysts to hike rates again in October following four hikes in the past 12 months, including two surprise hikes. Singapore's dollar has established itself as Asia's most resilient currency.

Singapore overtakes Hong Kong in Global Financial Centres Index.

Taiwan raised rates. The hike was more modest at

12.5 bp, taking discount rate to 1.625%. Taiwan's inflation is mild compared with US; August CPI came in at just 2.66%, coupled with the lowest growth in six months, it is possible inflation could fall to below 2.0% next year according to Governor Yang Chin-long

Bank Indonesia raised key deposit facility rate by 50 bps versus expectations of a 25 bp hike, and its 7D reverse repo to 4.25% from 3.75% as country continues to battle sinking rupiah and inflation outside bank's policy band.

Philippine's central bank, raised base rate Thursday by 50 bp to 4.25%, as largely expected, in bid to quell inflation and prop up ailing peso. Fifth time this year bank has raised policy rate but has so far failed to stop devaluation of peso, which is at record lows.

Sri Lanka saw inflation surge to 70% in August.



FX AND COMMODITIES

DXY The USD Index rose 0.70% to 109.764 with both headline and core US CPI surprising to the upside. Headline CPI came in at 6.3% (C: 6.1%) and Core CPI came in at 8.3% (C: 8.1%). US terminal rate pricing approaches 4.5%, while 10yrs real yields rose to 1.01%, a high since 2018. On Other US data, August retail sales were mixed as headline retail sales came in above consensus but control retail sales were below consensus. Initial jobless claims were resilient at 213k (C: 227k). We have the FOMC meeting this Wednesday, where FED is expected to hike 75 bps.

EURUSD fell 0.26% to 1.0016 due to broad based USD strength. EUR was the best performing currency within the European currencies bloc, as ECB Chief Economist Lane reiterates that the ECB expects "to raise interest rates further, because inflation remains far too high," and is likely to stay above target for an extended period. Data wise, EU final August CPI came in line with the flash estimate at 9.1%.

GBPUSD fell 1.46% to 1.142, while **EURGBP** rose 1.17% to 0.8768 after UK retail sales ex-autos fell 1.6% mom in August (C: -0.7%), the largest monthly decline since July 2021. At one point, **GBPUSD**

touches 1.135 intra-week, the lowest level since 1985. UK headline CPI slips to 9.9% yoy (P: 10.1%) in August. We have the BOE rate decision this Thursday, where BOE is expected to hike 50 bps.

USDJPY rose 0.32% to 142.92, as BOJ conducts rate checks for the FX market, a perceived final warning prior to actual FX intervention. As US terminal rate pricing reached 4.5%, USD/JPY traded close to 143.00 relative to its implied fair value of 145.00. This suggests the possibility of actual FX intervention could be weighing on USD/JPY. We see USDJPY at 145 (key resistance level) as the level for BOJ to intervene.

Oil & Commodity. Bloomberg Commodity index fell 1.50% on demand concerns after the strong US CPI, which deteriorate risk sentiment. WTI and Brent fell 1.94% and 1.60% respectively to 85.11 and 91.35. Aluminium and Copper fell 0.37% and 0.56%, while Iron Ore rose 0.14%.

Gold was down 3.0% for the week, still near to two-year lows despite a bit of strength Friday.

ECONOMIC INDICATORS

M – EU Construction Output, CA Indust. Product Price

T - JP CPI, CH LPR, AU RBA Mins., EU ECB Current Acc, US Housing Starts/ Building Permit, CA CPI

W – AU Westpac Leading Index, US Existing Home Sales/ FOMC Rate Decision

Th – JP BOJ Rate Decison, NZ Trade Balance, US Initial Jobless Claims/ Leading Index, EU Cons. Confid.

F – AU/EU/UK/US PMI Comps/Svc/Mfg Sep Prelim, CA Retail Sales

Sources – Various news outlets including Bloomberg, Reuters, Financial Times, Associated Press

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