Market Comment_16Nov2022

US October CPI slows "more than expected"; Biden, Xi meet during G20 summit, and the communication lines are back open; non-US currencies and global stocks "raise eyebrows".

1. US CPI slows "more than expected" in October; Non-US currencies and stocks finally "bottom out" and start a big rally.

The US CPI data for October, released last Thursday (10 November), recorded an annual rate of 7.7%, well below expectations of 8.0% and September's 8.2%. The US core CPI yearly rate for October was recorded at 6.3%, also below the expected 6.5% and September's 6.6%; the US core CPI monthly rate for October was recorded at 0.3%, also significantly below the expected 0.5% and September's 0.6%. The market judged that an "inflection point" in US inflation might have been confirmed, so this triggered a sharp rise in risk appetite in the market, with the US dollar index plunging 4.53% (from 110.50 to 105.50). The US 10Y Treasury Yield plunging 45 basis points (from 4.25% to 3.80%) significantly eased the pressure on risky assets. The "non-US" currencies, which had been falling for about a year and a half, finally "rose" and rallied sharply. Global equity markets, led by a surge in US stocks, were boosted and rose to vary degrees.

Data released on Tuesday (15 November) saw the US Producer Price Index (PPI) at an annual rate of 8% in October, below expectations of 8.3% and the lowest level since July last year. Meanwhile, the core PPI was recorded at an annual rate of 6.7%, below expectations of 7.2% and the lowest level since August last year. The October PPI data further reinforced expectations that inflation will continue to fall, which may also dampen expectations for more big rate hikes. Following the release of the PPI data, the US Dollar Index fell below 106, hitting a low of 104.90. At this stage, it is currently quoted at 106.17 at 9.30 am Singapore time (16 November).

Investor confidence in betting on a shift in overall monetary policy by the Federal Reserve has increased significantly. If inflation continues to fall, the terminal rate could be lower than expected. Interest rate markets are now revising the "terminal rate" for the Fed's rate hike path significantly, with the Fed's policy rate expected to reach 4.875% by May 2023, down from the 5.135% forecast after the Fed meeting in November.

The US dollar peaked in current stage, and stock indices and non-US currencies bottomed in current stage. The USDJPY was also severely depressed. The JPY rose sharply due to the sharp downward revision in the US 10Y Treasury yield and recorded one of the worst one-day performances in the last decade and the worst one-week performance since the start of COVID-19 in early 2020. Gold, the three major US stock indices, and non-US currencies generally rose sharply, and the following is a record of the gains and losses over the past two weeks.

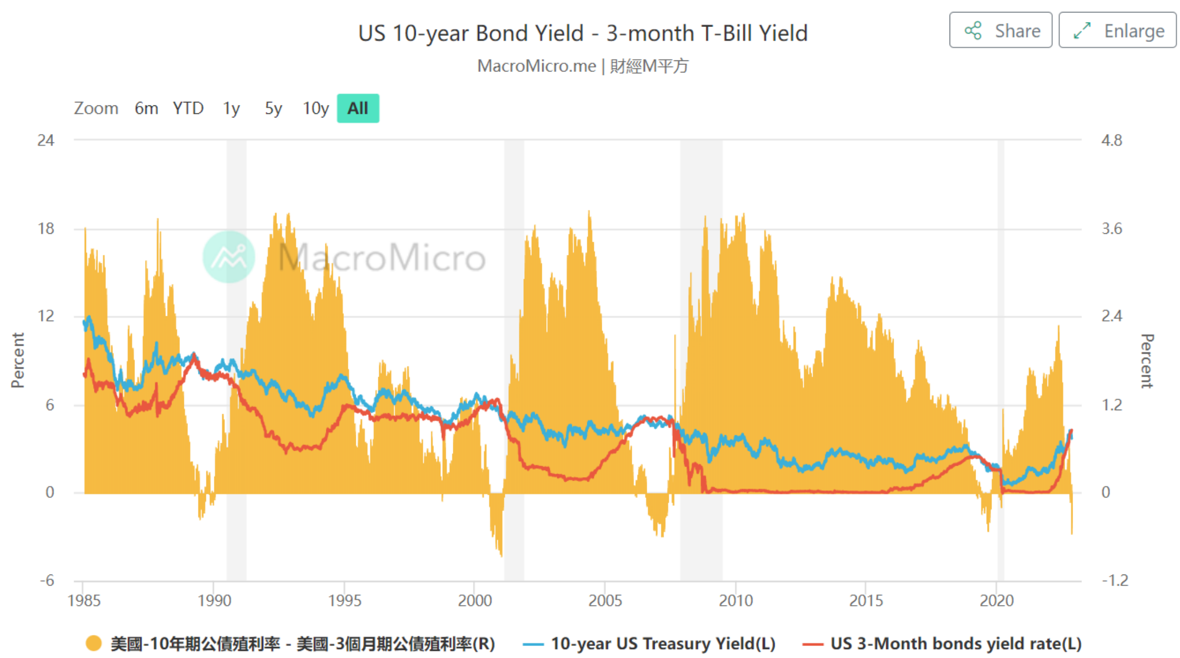
- *DXY Index down 760 pips (112.50-104.90), or 6.76%*
- *Dow Jones surges 2300 pips (31,700-34,000), or 7.26%*
- *The S&P 500 index rose 340 pips (3700-4040), or 9.19%*
- *Nasdaq up 1480 pips (10600-12080), or 13.96%*
- *Gold surged US$165 per ounce (1620.50-1785.50) or 10.18% against the US dollar (XAUUSD)*
- *EURUSD up 750 pips (0.9730-1.0480), or 7.71%*
- *GBPUSD up 870 pips (1.1150-1.2020), or 7.80%*
- *AUDUSD up 530 pips (0.6270-0.6800), or 8.45%*
- *NZDUSD up 450 pips (0.5750-0.6200) or 7.83%*
- *USDJPY down 1070 pips (148.50-137.80) or 7.21%*
- *USDCHF down 800 pips (1.0150-0.9350) or 7.88%*
- *USDCAD down 570 pips (1.3800-1.3230), or CAD rose 4.13%*
- *USDCNH down 3330 pips (7.3530 - 7.0200), or CNH rose 4.53%*
- *USDSGD down 600 pips (1.4250 - 1.3650), or SGD rose 4.21%*

The global stock market has "bottomed out" in current stage, with Asia-Pacific stocks and European countries following the US stock market, which has also started a sharp rally of varying degrees over the past two weeks.

- *SING30 up 2,800 pips (273.50-301.50), or 10.24%*
- *JP225 up 1,300 pips (27,000-28,300), or 4.82%*
- *AUS200 up 410 pips (6770-7180), or 6.06%*
- *GER30 up 1430 pips (13000-14430), or 11.00%*
- *EU50 up 380 pips (3550-3930), or 10.70%*
- *UK100 up 370 pips (7050-7420), or 5.25%*
- *NL25 up 6,300 pips (655.50-718.50), or 9.61%*
- *FRA40 up 500 pips (6190-6690), or 8.08%*
- *CH20 up 610 pips (10620-11230), or 5.74%*
- *ES35 up 410 pips (7790-8200), or 5.26%*
- *TWIX up 92 pips (483-575), or 19.05%*

Overall, the US CPI in October was recorded at an annual rate of 7.7% and was 8.2%, 8.3%, 8.5% and 9.1% in September, August, July and June, respectively, which may have triggered the market to witness the conclusion that "inflation has peaked". It also validates the initial results of the Fed's fight against inflation since the start of the current "rate hike" cycle in March this year. However, if think it over, this is still a long way from the Fed's inflation target of 2.0%, and the Fed's "tightening monetary policy" will continue to "suppress inflation", and more and more large companies in the US have recently started a "wave of layoffs". "This is the most direct manifestation of pessimism about the economy's future. The futures market is currently expecting the FOMC to raise rates by 50 basis points at its December meeting, the same as before the October CPI data was released.

<u>The US 10Y/3Month Treasury yield curve recently saw the sharpest inversion since late 2019.</u> As recently as around 15 November, the 10Year/3Month Treasury Yield Spread, which is often referred to by the New York Fed, saw a deep inversion of 46 basis points, again warning that the risk of a recession in the US economy in the next 12 months may already be as high as 100%. The Conference Board Measure of CEO Confidence released last month also showed that 98% of US CEOs are preparing for a US recession in the next year to year and a half. The US has recently seen a wave of layoffs at major companies, with Twitter, Facebook, Amazon, Salesforce and other major technology giants starting to make significant job cuts.



Source: MacroMiro, at 15 November-11:20 pm SGT time, the US 10Y Treasury yield was 3.79%, and the US 3Month Treasury yield was 4.25%, with the 10 Year/3month Treasury Yield Spread showing a deep inversion of 46 basis points, again warning of the increasing risk of a recession in the US economy over the next 12 months.

The words in the picture above:

Yellow: 10 Year-3 Month Treasury Yield Spread

Blue: US 10Year Treasury Yield

Red: US 3Month Treasury Yield

The US dollar fall in the current stage, may also reflect "The Dollar Smile Theory". According to Stephen Jen, a former Morgan Stanley currency strategist, the Dollar Smile Theory is that the dollar strengthens in both bad and good times. In one scenario, the "US economic boom" drives the dollar's appreciation. The other scenario is that "risk aversion" drives the dollar's appreciation. The expected outlook that the US economy will likely fall into recession over the next 12 months may guide the US dollar into a somewhat weaker market.

Global risk assets strengthen sharply, but only crude oil rises sluggishly.

This time, the US CPI and PPI for October may have doubly verified that "inflation may have peaked". The US dollar has sharply revised downwards, market risk sentiment has risen sharply, and global "risk assets" have strengthened sharply in the past two weeks but failed to boost crude oil. WTI Oil is currently oscillating in the 85.50-93.50 range. The reasons are:

1) With global inflation high and monetary tightening by most central banks around the world, the outlook for global growth is bleak. Forecasts from significant institutions, including the IMF, for the world economy to fall into recession next year are "all over the place", and crude oil prices, which are linked to economic growth, continue to weaken, and remain inclined to fall and consolidate at lower levels.
2) On 14 November, OPEC revised world oil growth demand for the full year 2023 downwards to 2.24 million barrels per day, a reduction of 100,000 barrels per day from its previous forecast.
3) The EU ban on imports of Russian crude oil, which will come into effect on 5 December, will accompany a ban on imports of Russian crude oil products starting in February 2023.
4) The International Energy Agency (IEA) forecasts that Russian oil production will fall by 1.4 million barrels in 2023, meaning that average crude oil production capacity will fall below 10 million barrels per day as buyers avoid Russian supplies.
5) The G7 group will announce the Russian oil price cap level in the coming weeks, having previously mentioned a price cap of US$44 per barrel.

Source: tradingview

WTI Oil may continue to be limited to around US$93.50 per barrel in the short term. If it fails to break effectively above that level, it could point to the low around 76.50 around 26 September-27 September this year, where crude oil was earlier this year. Brent Oil may continue to be limited to around US$99.50

per barrel in the short term. If it fails to break effectively above 99.50, it could point to the low of around 83.50 on 26 September-27 September this year. The price earlier this year was about 77.50.

- *WTI Oil oscillates in a range of 85.00-93.50, with a volatility of 9.36%*
- *Brent Oil oscillates in the 92.50-99.50 range, with a volatility of 7.57%*

2. FTX has gone bankrupt, Cryptocurrencies plunge, Binance CEO Changpeng Zhao sets up 'recovery fund' to save crypto.

After reports of a possible "liquidity crisis" at FXT were revealed by cryptocurrency news site CoinDesk on 2 November, Binance's founder, Changpeng Zhao, tweeted in the early hours of 9 November that he intended to acquire FXT. SBF (Sam Bankman-Fried), the founder of FXT, also tweeted that it had reached a strategic acquisition agreement with Binance. FTT (the token for FTX) surged and rallied to around US$25; BNB (the token for Binance) also jumped 20% within an hour. While everything was going in the desired direction, a rumour that FTX, Binance Deal Draws Antitrust Concern made the acquisition uncertain. Amidst the market panic, FTT directly fell more than 70% in 24 hours.

Binance was founded by Chinese-Canadian Changpeng Zhao in 2017 and is now the largest cryptocurrency exchange in the world. FTX, which SBF created in 2019, had become the fourth-largest cryptocurrency exchange in terms of trading volume prior to this incident. A Bloomberg report on 8 November showed that SBF's net worth fell 93% in one day.

On 9 November, a few tweets from the founder of Binance, Changpeng Zhao, left the crypto exchange on the brink of collapse and raised the alarm again about the safety of investing in cryptocurrencies, even the crypto exchange, which is already the fourth largest in terms of trading volume, is still hazardous. The event, considered to be the most enormous "black swan" event in the cryptocurrency world since 2022, also "shook" many large traditional investment institutions such as Temasek, Sequoia Capital, Softbank and Canada's third largest pension fund, and must have cost some of them a lot of their investment capital. The incident also brought FXT, valued at US$32 billion, to the brink of collapse and left dozens of companies in the cryptocurrency community with significant losses. FTX filed for "bankruptcy" last Friday, an event that severely undermined investor confidence in investing in "cryptocurrencies", with most digital currencies falling sharply this week, reducing their total market capitalization by around US$150 billion.

On 14 November, Binance CEO Changpeng Zhao didn't want the FTX bankruptcy crisis, which continues to fester and affect the entire industry, while urgently tweeting a statement: "Binance is forming an industry recovery fund, to help projects who are otherwise strong, but in a liquidity crisis. Also welcome other industry players with cash who wants to co-invest. Crypto is not going away. We are still here. Let's rebuild. " Following this tweet, Bitcoin returned above US$16,000. The market is currently cautious about investing in cryptocurrencies and this may limit the rise of all cryptocurrencies.

Source: tradingview,

On 4 November, the price of one bitcoin was US$21,300. Just a week later, on 10 November, it fell to US$15,600 a piece, a 26.76% drop.

3. The results of the US mid-term elections may help the Biden administration to continue its stable rule for the next two years.

The 2022 US mid-term elections have primarily resulted in a narrow win for the Republicans over the Democrats. The previously expected "red wave" for Republicans never came. The result favors a "Democratic Party" with a "Biden" president for the next two years. The overall political and economic environment in the US is generally favorable. However, the widening differences between the "Republicans" and "Democrats" over the "Russia-Ukraine war" may lead to a reassessment of the Biden administration's opportunities for significant military assistance to Ukraine. There may be new policy changes in "Russia-Ukraine relations" and "US-Russian relations" in favor of a "negotiated settlement" rather than a "military war" to end the "costly" war.

4. Biden and Xi meet during the G20 summit, and the communication lines are back open.

The 17th G20 Heads of State and Government Summit was held in Bali, Indonesia, on 15 -16 November. President Biden and President Xi Jinping met face-to-face for the first time as heads of state. The discussions focused on three areas: Firstly, extensive discussions on their respective strategic visions; and secondly, a mandate for high-level officials on both sides to address issues of disagreement. Although it does not immediately resolve the substantive issues that divide the two sides, it helps to moderate the deterioration of bilateral relations. Thirdly, it reiterated that the " Taiwan issue is 'first red line' that must not be crossed."

Biden: " Wish the two sides can manage the ‘differences’, this competition should not veer into conflict and maintain open lines of communication. And the United States and China must work together to address transnational challenges – such as climate change, global macroeconomic stability including debt relief, health security, and global food security – because that is what the international community expects."

Xi Jinping: " Currently, the state of China-U.S. relations is not in the fundamental interests of our two countries and peoples. It is not what the international community expects from us either. As leaders of two major countries, we need to play the leadership role, set the right course for the China-U.S. relationship and put it on an upward trajectory. In this time and age, great changes are unfolding in ways like never before. Humanity is confronted with unprecedented challenges. The world has come to a crossroads. The world expects that China and the United States will properly handle their relationship. Our meeting today has attracted the world’s attention. We should work with all countries to bring more hope to world peace, greater confidence in global stability, and stronger impetus to common development. I also look forward to working with you to bring China-U.S. relations back to the track of healthy and stable growth to the benefit of our two countries and the world as a whole."

US Treasury Secretary Yellen attended the meeting and gave a speech in which she asked China to "understand" the US, improve relations, and hold regular dialogues between the two countries. At the same time, the White House announced that Secretary of State Blinken would plan a visit to China early next year. The meeting and negotiations between the two heads of state, Xi Jinping and Biden, at the G20 summit, which opened the first meeting since the outbreak of the COVID-19 pandemic in 2019, marked the communication lines are back open between China and the United States and was of great significance, favouring the return of the global economy to a track of healthy competition and boosting and benefiting global stock markets, including those in China.

Amidst high inflation in countries around the world, China instead saw a fall in inflation in October, with the recent (9 November) announcement of CPI inflation (annual rate) falling from 2.8% in September to 2.1% in October, against expectations of 2.4%. Meanwhile, Retail Sales in China plunged to a -0.5% annual rate in October, down from 2.5% in September and expectations of 1.0%. China's industrial production expanded 5.0% YoY in October 2022, also down from 6.3% in September and expectations of 5.2%.

This is a harbinger of a weakening market due to the shrinking property sector and the "zero-Covid policy" in China. In the report of the 20th National Congress of the Communist Party of China, the phrase "Adhering to the principle that housing is for living in and not for speculation", as proposed in the 19th National Congress, is still retained. The boom in the property market may not return in the near future. Although China's anti-pandemic policy has been slightly adjusted recently, the overall consideration is still the "zero-Covid policy".

On Friday (11 November), China announced China's "20 optimized measures for combating COVID-19", demonstrating a marginal easing of pandemic prevention and control, which was an additional boost to global risk appetite sentiment. The results of the US mid-term elections were favorable to the Biden-led ruling party, the Democratic Party, against the backdrop of a favorable "Biden-Xi meeting". Reflected in the financial markets, these factors have favored and boosted the RMB and the Chinese market. Chinese stocks also enjoyed a general surge after a sluggish performance over the past 20 months. In particular, CHINAH and HK50 rallied sharply by 23.53% and 21.38%, respectively. The following records the gains and losses over the past two weeks.

- *CHINA50 up 1,150 pips (11500-12650), or 10.00%*

- *CHINAH up 1,200 pips (5,100-6,300), or 23.53%*
- *HK50 up 3,250 pips (15,200-18,450), or 21.38%*
- *USDCNH down 3330 pips (7.3530-7.0200), or a 4.53% rise in offshore RMB*

Short-term risks:

Please pay attention to the United States Non-Defense Capital Goods Orders Ex Aircraft for October, the United States Durable Goods Orders for October, and the United States Initial Jobless Claims to be released next Wednesday (23 November). Non-Defense Capital Goods Orders Ex Aircraft is the total number of orders received by manufacturers for producing durable goods excluding defense and aviation, which are goods intended to last for three years or more. "Durable Goods Orders (DGO)" are the total number of orders received by manufacturers to produce durable goods, which are also goods scheduled to last for three or more years, such as heavy industrial products like motor vehicles and aircraft. Because the production of these durable goods often requires significant human, material, and financial resources, they substantially impact the development of the US economy. These two figures indicate the level of activity in the US manufacturing sector. If they are significantly better than expected, they may be positive for the US dollar. The number of US initial jobless claims at the beginning of October is expected to climb sharply as a large number of US high-tech companies have recently made significant job cuts. It is also essential to keep an eye on the details of last month's "FOMC Minutes" to be released next Thursday (24 November) to see if there is more guidance on the Fed's policy shift.

Please be wary that the "dollar" decline in current stage may be limited in recent weeks and that there is still a need to be "moderately bullish on the dollar". The FOMC is expected to raise interest rates by 50 basis points at its December meeting, and the current US inflation figure of 7.7% is still a long way from the Fed's 2.0% inflation target. The Fed's basic policy of continuing to "tighten monetary policy" to "reduce inflation" remains unchanged.

By Sandy Wang,

12:50 pm SGT time 16 Nov 2022