Market Comment_11 Jan2023

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US jobs report positive; US stocks and other risk assets rise sharply; China's stock market rally potential begins to emerge.

Key Points:
US non-farm payrolls are better than expected, but the dollar accelerates its decline, non-US currencies and US stocks rebound; Chinese stocks and offshore RMB make a good start and rise in the new year; yen appreciation potential is still in place.

1. US non-farm payroll data are better than expected, but the dollar accelerated its decline.

At 9.30 pm on Friday (6 Jan), the US Department of Labor reported that US non-farm payrolls added 223,000 in December, better than the 200,000 expected but lower than the 256,000 in the previous month. The unemployment rate was also released at 3.5%, better than the expected 3.7% and better than last month's 3.6%. This implies that the US job market is still relatively solid. The US ISM Non-Manufacturing Index (also known as the Services PMI), released at 11 pm on the same day, was reported at 49.6 in December, sharply below the previous reading of 56.5 and the expectation of 55.0, which was also a new low since May 2020. The US Non-Manufacturing New Orders Index and the US Non-Manufacturing Employment Index were released at the same time at 45.2 and 49.8, respectively, both falling below 50-the threshold separating contraction from expansion and also significantly below expectations of 56.0 and 51.5 respectively, as well as the previous values of 58.5 and 50.2. Such poor data may be a precursor to the US economy falling into recession.

Dollar Index (Source: Tradingview)

Dollar Index's retreat since October 2022 may have confirmed that the dollar's "downward trend" may not be reversed in 2023. The first target, the Fibonacci 38.2% retracement, has been reached at around 105.50, and the second target may look towards the Fibonacci 50% retracement, at about 102.50 (It is also close to being reached shortly and is currently quoted at 102.97). The third target may look towards the Fibonacci 61.8% retracement, probably around 99.50-100.50.

Reflecting this on the financial markets, the Dollar Index, after first moving a little higher and touching a high of 105.30, started a sharp decline to a low of 102.50. The non-US currencies counteracted this with a strong wave of gains. Over the next few days, the Dollar Index has been oscillating between 102.50 - 103.00, and technically, it is showing signs of stabilizing and starting a rally. The following is a record of the past week's gains and losses.

- *USD Index down 280 pips (105.30 - 102.50), or 0.97%, now quoted at 102.95*
- *EURUSD up 270 pips (1.0480 - 1.0750), or 2.58%, now quoted at 1.0730*
- *GBPUSD up 350 pips (1.1850 - 1.2200), or 2.95%, now quoted at 1.2150*
- *AUDUSD up 260 pips (0.6690 - 0.6950), or 3.89%, now quoted at 0.6890*
- *NZDUSD is up 210 pips (0.6190 - 0.6400), or 3.93%, now quoted at 0.6370*
- *USDJPY down 340 pips (134.70 - 131.30) or 2.52%, now quoted at 132.30*
- *USDCHF down 230 pips (0.9400- 0.9170) or 2.45%, now quoted at 0.9230*
- *USDCAD down 300 pips (1.3650 - 1.3350), or 2.20%, now quoted at 1.3430*

- *USDCNH down 1800 pips (6.9370 - 6.7570), or 2.60%, now quoted at 6.7870*
- *USDSGD down 200 pips (1.3480 - 1.3280), or 1.48%, now quoted at 1.3320*
- *Dow Jones up 1030 pips (32900 - 33930), or 3.13%, now quoted at 33750*
- *The S&P 500 up 150 pips (3800 - 3950), or 3.95%, and is now at 3925*
- *The Nasdaq up 620 pips (10,680 - 11,300), or 5.81%, and currently traded at 11,210*
- *XAUUSD up US$50 per ounce (1830.00 - 1880.00), or 2.66%, and traded at 1872.00*
- *Bitcoin surged by 800 pips (16600 - 17400), or 4.82%, and is now traded at 17,435*

Rising oil prices are usually closely related to rising inflation in the US. Supported by a joint policy of the US and EU countries, oil prices have fallen sharply and steadily over the past six months, laying the groundwork for weaker inflation in the US, and inflationary pressures have been eased to some extent. Although the market for the United States inflation expectations continues to cool, a number of Federal Reserve officials recently spoke in support of raising interest rates to 5.25 % at least. In an interview on Monday (9 January), President of the Federal Reserve Bank of Atlanta Bostic said, "Fed was committed to tackling high inflation and this warrants raising interest rates into a 5% to 5.25% range to squeeze excess demand out of the economy. " "The central bank should raise interest rates above 5% by early in the second quarter and then go on hold for a long time, until well into 2024. "The same day, San Francisco Fed President Mary Daly, speaking in a live-streamed interview with the Wall Street Journal, "4.75% to 5.25% was a reasonable range for where policymakers could lift interest rates and then go on hold, "though the ultimate level is unclear and will depend on incoming data on inflation," "Have not seen core services inflation come down as we would like, " and “changing the inflation target is not on the table.”.

Following the meeting between the US and China at the Leaders Summit in mid-November 2022, the relationship between the world's two largest powers is increasingly returning to a stable and healthy development, which will also give new impetus to the stability of financial markets and the recovery of national economies. China's economic recovery is expected to accelerate after relaxing its Covid controls and fully reopening, and these "benefits" may continue in the short term. It is expected that there may be some upside to crude oil prices in the short term. However, in the medium to long term, the chances of the global economy falling into recession in 2023, particularly in the US, have increased significantly. It may already be a "certainty". Combined with the fact that the replacement of "petrol cars" with "electric cars" has become an unstoppable trend, oil prices may fall back and look towards $65-70 per barrel. The following is a record of the rise and fall in oil prices over the past week.

- *WTI Oil down 11.04% (81.50 - 72.50), currently quoted at 74.50*
- *Brent Oil fell by 10.92% (87.00 - 77.50) and is presently quoted at 79.50.*

2. Chinese stocks and offshore RMB make a good start and rise in the new year.

Since 8 January, investors' confidence in China's growth prospects and in investing in Chinese equities has increased with the relaxing of its Covid controls and full reopening and refocusing of Chinese government policy on economic growth. Since the first week of 2023, Chinese stocks and the offshore RMB have recorded a "New Year surge", with the China A50, Hang Seng and Hang Seng TECH Index up 6.25%, 10.26% and 11.21%, respectively, and the CNH up 2.60%. In fact, since the fourth quarter of last year, against the backdrop of a weakening US dollar "topping out", the offshore RMB has recovered the important psychological level of 7.0000 since the beginning of December 2022, which has dramatically stimulated renewed capital flows into the RMB, Hong Kong stocks and Chinese equities, and has started to brew a resumption of the upward trend.

The top of the current USDCNH rally was in the 7.3500 - 7.3700 range, touched in late October to early November last year. The offshore RMB rally that has started since 2022 November is either underpinned by: (1) US inflation may have peaked, while the US dollar has also "peaked", and the Fed is nearing the end of its current round of interest rate hikes; (2) as well as the gradual adjustment of China's pandemic control measures until its recent full opening, refocusing economic growth and increasing investors' confidence in investing in China; (3) In addition, next Saturday (21 January) is the Chinese Lunar New Year's Eve. The Chinese New Year atmosphere that follows may generally continue until at least the end of January. The joyous atmosphere of the New Year may further stimulate domestic consumption and investment in China. Reflecting on the financial markets, the following are the record gains and losses for the past week.

- *USDCNH down 1,800 pips (6.9370 - 6.7570), or CNH rose 2.60%, currently quoted at 6.7870*
- *CHINA50 up 800 pips (12,800 - 13,600), or 6.25%*
- *CHINAH up 740 pips (6600 - 7340), or 11.21%*
- *HK50 up 2000 pips (19500 - 21500), or 10.26%*

USDCNH (Source: Tradingview)

From the technical analysis: The weekly chart of the USDCNH, between September and November 2022, has confirmed the formation of a "Head & Shoulders Top" pattern. It has broken below the 7.0000 "right shoulder" and is currently quoted at 6.7890, with the possibility of another retest of 7.0000 or the 6.8450-6.8500 range, after which it may start a more dramatic downtrend. The first target is the Fibonacci 50% retracement at around 6.8500 (already reached), the second target is the Fibonacci 61.8% retracement at about 6.7150, and the third target might point to the early 2022 low of 6.3050.

At the same time, it is essential to be aware that the Chinese market still faces potential challenges, such as the effectiveness of "herd immunity" still to be confirmed, the real estate sector is still not out of the "woods", expectations of a global recession are increasing in 2023, and weakening external demand may drag down Chinese exports. These factors may slow down the pace of China's economic recovery.

In the short term, please look out for the Bank of China's interest rate resolution next Friday (20 January), China's December retail sales data and the release of China's real GDP data for the fourth quarter of last year. The Chinese central bank's current quoted one-year loan prime rate (LPR) was held unchanged at 3.65%, while the five-year rate was maintained at 4.3%.

Fed Chair Powell is still on the "hawkish" side, and there is a high probability that interest rates will be raised to at least 5.25% in 2023, currently at 4.5%. China's central bank policy is, to a certain extent, constrained by the space for the US dollar to raise interest rates and may not cut the Chinese central bank's interest rate further.

3. USDJPY drops below 130.00 near at hand.

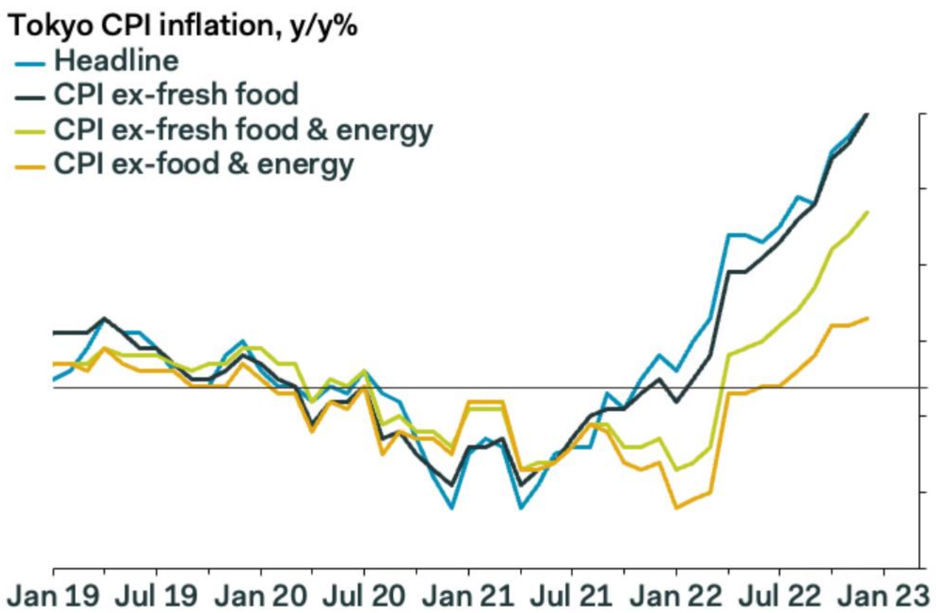
The Bank of Japan's unexpected revision of its yield-curve-control policy on 20 December 2022 triggered a spike in the yen. Between 20 December and 3 January, USDJPY fell 800 pips (137.50 - 129.50). It then launched a sharp retracement to a high of around 134.70 last Friday (6 January). Next, the Bank of Japan's ability to continue its accommodative policy is expected to be highly scrutinized.

In the past, the BoJ has faced the challenge of inflation, which has now become increasingly high, by insisting that the nature of inflation is externally driven and cost-push rather than demand-pull. Although the downward trend is likely to be slower than the current outlook, the BoJ sees monetary stabilization and weaker international energy and food prices as underpinning the outlook for a gradual easing of inflationary pressures in 2023, But the longer the headline CPI rises, the greater the expected risk of higher inflation for the private sector.

So investors will need to keep a close eye on the Bank of Japan's monetary policy statement next Wednesday (18 January), the Bank of Japan's interest rate resolution announcement and the Bank of Japan press conference. Let's see if the Bank of Japan will announce an "exit from negative interest rates" or keep its easing policy unchanged. If the BOJ turns "hawkish" and exits negative interest rates, it could trigger another wave of gains for the yen. USDJPY may be close to falling below 130.00, currently quoted at around 132.20.

Looking back to 2022, the world's major developed country central banks have started rate hikes, tightening monetary policy and only the Bank of Japan, independently and exceptionally, kept the easing unchanged. In particular, the divergence between the basic guidelines of the Bank of Japan and the Federal Reserve supported the USDJPY all the way up. Since the beginning of 2022, it has been rising until late October, surprisingly rising 33.48% (113.50 - 151.50) before it started to fall. As of now, it has declined 13.86 % (151.50-130.50). Currently USDJPY stabilized in the 129.50 - 130.50 range before launching a slightly upward retracement. Here are the record gains and losses of non-US currencies against the JPY over the past week, with GBPJPY, CHFJPY and EURJPY leading the way, with GBPJPY gaining the most.

- *USDJPY up 530 pips (129.50 - 134.80), or 4.09%, now quoted at 132.35*
- *GBPJPY up 550 pips (155.50 - 161.00), or 3.54%, now traded at 160.75*
- *EURJPY up 430 pips (137.50 - 142.00), or 3.27%, currently quoted at 142.05*
- *AUDJPY up 430 pips (87.50 - 91.80), or 4.91%, now traded at 91.18*
- *NZDJPY up 350 pips (81.00 - 84.50), or 4.32%, currently quoted at 84.30*
- *CADJPY up 350 pips (95.50 - 99.00), or 3.67%, currently traded at 98.50*
- *CHFJPY up 450 pips (139.00 - 143.50), or 3.24%, currently quoted at 143.25*
- *SGDJPY up 150 pips (97.00 - 99.50), or 2.58%, now quoted at 99.35*



Japan's inflation level remains high and shows no sign of "peaking". (Source: Pantheon Macro)

The Tokyo CPI (Consumer Price Index) was recently released (10 January) at an annualized rate of 4.0% in December, the highest level in almost 40 years. Meanwhile, Tokyo's headline CPI came in at an annualized rate of 2.7% in December, in line with market expectations. Japan's core CPI accelerated to an annualized rate of 4.0% in December, beating market expectations of 3.8% and the previous value of 3.6%. These figures suggest that inflation in Japan appears to be accelerating on the upside. Food prices provided varying degrees of support for the Bank of Japan's current view that inflation will soon peak. Prices of non-perishable foods rose by 4.3% year-on-year in December, down from 7.7% in November. But this was offset by an acceleration in fresh food prices from 6.7% to 7.5% and gained momentum last year. The critical issue is that the base of domestic demand needs to be stronger. Haruhiko Kuroda pointed out that the failure of wage increases to keep up with inflation was hurting households. The Ministry of Health, Labor and Welfare of Japan estimates that real wages fell by 3.8% year-on-year in November, worse than the 2.6% decline in October. In addition, higher prices for essential goods encouraged households to curb discretionary spending. Household spending fell by 1.2% year-on-year in December, down from a 1.2% increase in November and below expectations of a 0.5% increase.

4. Short-term risks

This week, please focus on the performance of CPI to be released on Thursday (12 January). The market expects the overall CPI and core CPI will be reduced to 6.5% and 5.7%, respectively, from the previous 7.1% and 6.0%. According to a Bloomberg survey, economists expect the US CPI to come in at an annual rate of 6.7% in December. Meanwhile, the risk that many countries around the world may fall into recession in 2023 has increased, forcing the Federal Reserve to slow the pace of interest rate hikes. Goldman Sachs also recently commented, "Price inflation is slowing sharply. Over the past two months, sequential core PCE inflation has averaged 2.6% at an annual rate—half the pace of the prior year". What can be expected next is that in 2023 the Fed will continue to raise interest rates but slow the pace and maintain high rates for an extended period, while the gap between the market's expected peak interest rates and the Fed's terminal rate expectations may exist, which will continue to influence the volatility of financial markets.

The US Consumer Price Index (CPI) data for December 2022, released by the US Department of Labor, will be a very crucial figure for the market as Federal Reserve officials have indicated that this data will be critical to their decision at the FOMC (Federal Open Market Committee) meeting in February this year. CPI data shows that inflation continues to cool will allow the Federal Reserve to make a moderate decision on the February interest rate resolution. The data will have a significant impact on the short-term trend of the dollar and will determine whether the dollar index can reverse and rally or continue to fall.

Investors will also need to pay close attention to the Bank of Japan's monetary policy statement next Wednesday (18 January), the Bank of Japan's interest rate resolution announcement and the Bank of Japan press conference. Let's see if the Bank of Japan will announce an "exit from negative interest rates" or keep its easing policy unchanged. If the BOJ turns "hawkish" and exits negative interest rates, it could trigger another wave of gains for the yen.

Although China has eased its zero-Covid policy and reopened its borders in an attempt to restore the state of economic activity that existed before the outbreak of Covid, the effectiveness of "herd immunity" has yet to be confirmed. Several countries are concerned that the large number of Chinese tourists entering the country may lead to another surge in infection rates. In addition, the war between Russia and Ukraine has turned into a "protracted war" that has been fueling fears of a deeper recession in the global economy.

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