Market comment_08Mar 2023

Powell's Congressional Testimony Boosts the US Dollar, higher Terminal Rate May Be Locked in at 5.50-5.75%.

Key Points:

- *Powell's congressional testimony boosts the US dollar; higher terminal rates may be locked in at 5.50-5.75%;*
- *Discussion on the policies of former Federal Reserve Chairman Paul Volcker during the era of high inflation.*
- *Highlights of Fed Chair Powell's congressional testimony.*
- *The Japanese yen remains weak, with USDJPY breaking above 137;*
- *The Two Sessions set China's economic growth at 5% for 2023, focusing on technology and ESG.*

1. Powell's congressional testimony boosts the US dollar; higher terminal rates may be locked in at 5.50-5.75%.

1) US 1-year Treasury yield break 5%, and 2-year/10-year yield curve inversion deepens.

Data released last week showed a strong recovery in the US service sector while manufacturing economic activity continued to contract slightly. Overall, the US economy remains in a healthy range of volatility and is quite resilient, supporting the Fed to continue to raise interest rates to curb inflation. The US 6-month, 1-year, 2-year, 10-year and 30-year Treasury yields collectively climbed to their highest levels since 2007, hitting recent highs of 5.35%, 5.27%, 5.08%, 4.08% and 3.93%, respectively. In fact, since the beginning of February this year, US Treasury yields have started to rise slightly as a new round of selloff of US Treasuries has taken place. Of particular note is the rapid downward retracement of the US two-year Treasury yield after surpassing the peak of 4.88% set in November 2022, with the current quote at 5.08%. The 10-year US Treasury yield hit 4.08%, a new high since January 2023, but still below the "peak range" of 4.25-4.35% set in October-November last year. The 25bps 'inversion' in US 10-year/2-year Treasury yields, which began in July last year, has continued for eight months and recently widened to a new high of 100bps. The weekly candlestick charts and RSI indicators of the US 6-month, 1-year, and 2-year Treasury yields have all formed a "regular bearish divergence" pattern, indicating that the US Treasury market may be at a critical "turning point." In this state of indecision, investors need to closely observe whether "the US 10-year/2-year Treasury yield curve inversion" gradually narrows over the next few

months. At the same time, investors need to be cautious about whether the market's re-pricing of the Federal Reserve's hawkish stance has already peaked.

Source: TradingView

The US 1-year Treasury yield is currently around 5.27%. If the Federal Reserve raises interest rates to the "terminal rate" of 5.5% before September, the US 1-year Treasury yield could rise to around 5.5%. The US 2-year Treasury yield is currently at 5.08%, which is already "higher than" the peak of 4.88% set in early November last year. The weekly candlestick charts and RSI indicators of the US 1-year and 2-year Treasury yields show a bearish divergence, suggesting their rise may be losing momentum. The 10-year and 30-year US Treasury yields hovered around their respective ranges from October to November last year (3.8%-4.10%). Of course, the stagnant trend may also mean a brief pause in price movements before further yield increases. However, in the absence of a clear bullish catalyst, the path of least resistance for US Treasury yields seems to be oscillating downward.

- *In February, the United States Services Purchasing Managers' Index (PMI) rose to 50.6, reaching a new high since July 2022.*
- *The final value of the Institute for Supply Management (ISM) Services PMI for February was 55.1, higher than the expected 54.5.*
- *The ISM non-manufacturing Employment Index for February recorded 54.0, higher than the expected 50.0 and the previous value of 49.8.*
- *The February ISM non-manufacturing New Orders Index recorded 62.6, higher than the expected 58.5 and the previous value of 60.4.*
- *The ISM non-manufacturing Prices Paid index for February recorded 65.6, higher than the expected 64.5 but slightly lower than the previous value of 67.8.*

- *The ISM Manufacturing PMI for February recorded 47.7, higher than the previous value of 47.4, ending the trend of consecutive declines in the last eight months. Still, the result was below the expected value of 48.*
- *The February ISM manufacturing Prices Paid index recorded 51.3, significantly higher than the expected 45.0 and the previous value of 44.5, suggesting rising inflation.*
- *In February, the US manufacturing Purchasing Managers' Index (PMI) recorded 47.3, slightly lower than the expected 47.8 and the previous value of 47.8.*
- *The US manufacturing Employment Index for February recorded 49.1, lower than the expected 51.0 and the previous value of 50.6.*

In the past two weeks (24 Feb - 06 Mar), the US dollar index has fluctuated from 104.10 to 105.30. After Powell's hawkish speech in Congress on 07 March, the highest reached 105.85, and it is currently around 105.55. To assess the outlook for the US dollar index and US Treasury bonds, it is essential to closely monitor the release of the US nonfarm payroll data on Friday (10 March), which may provide further guidance. Suppose the US economy shows significant resilience in February. If the job market remains tight and inflation shows more stickiness, then the Fed's monetary policy on 23 March may be more aggressive, and US Treasury bond yields may continue to rise. Conversely, if the market lowers its expectations for the Fed's terminal rate and the duration of high rates, US Treasury bond yields may begin to adjust. According to CME Fed Watch tools, the market's expectation for peak rates is still within the range of 5.50-5.75%, and the anticipation for year-end rates this year is also within the scope of 5.50-5.75%.

2) Discussion on the policies of former Federal Reserve Chairman Paul Volcker during the era of high inflation

Paul Volcker served as the President of the Federal Reserve Bank of New York from 1975 to 1979, during which time he also served as a member of the Federal Reserve Board and as Vice Chairman of the Federal Open Market Committee. From 1979 to 1987, he served as the Chairman of the Federal Reserve Board during the Carter and Reagan administrations. During his tenure as Chairman, he brought inflation down from around 13% in 1979-1980 to about 4% in 1982, and inflation remained stable for the rest of his time at the Fed. Thus, the Fed was able to reverse the trend of rising inflation that had persisted for the previous 15 years in just a few short years. In managing inflation expectations, the Fed monitored inflation expectations through changes in bond yields and improved communication with the capital markets, enhancing the credibility of

monetary policy and the stability of market expectations. The monetary policy framework that emerged after the Volcker era achieved long-term success in price stability, leading to the age of Great Moderation from 1984 to 2007.

Source: Wind, Ping An Securities Research Institute

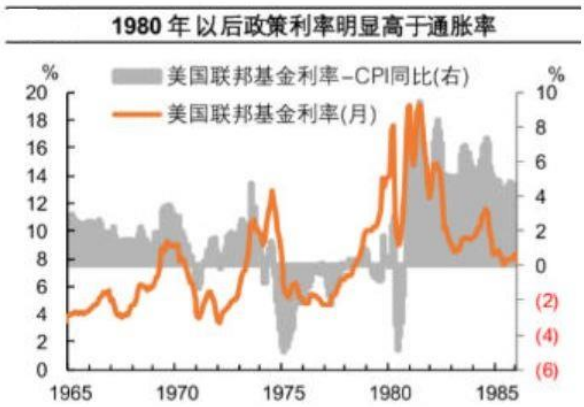
The words in the picture above:

In the 1970s and 1980s, the United States experienced a high inflation crisis, with the <u>speed and level of CPI inflation similar to the current situation.</u>

US CPI
MoM

Post-war recovery 1970s-1980s high inflation Moderate inflation Real estate bubble After the COVID-19 pandemic

Learning from history, today we will discuss the experience of the Volcker era: he led the Federal Reserve to clarify the central role of monetary policy in maintaining price stability and incorporated the growth rate of money supply (M1) into the monetary policy target, and then sharply raised interest rates to make the federal funds rate higher than the CPI inflation rate, to achieve the goal of controlling the money supply. In the current round of US inflation data, the US January CPI (annualised) is 6.4%, while US interest rates are in the range of 4.50-4.75%, which is still lower than 6.4%. Therefore, according to the experience of former Federal Reserve Chairman Paul Volcker during the period of high inflation, the Federal Reserve needs to continue to raise interest rates and keep the federal funds rate higher than the CPI inflation rate for a period of time to bring down inflation.



Source: Wind, Ping An Securities Research Institute

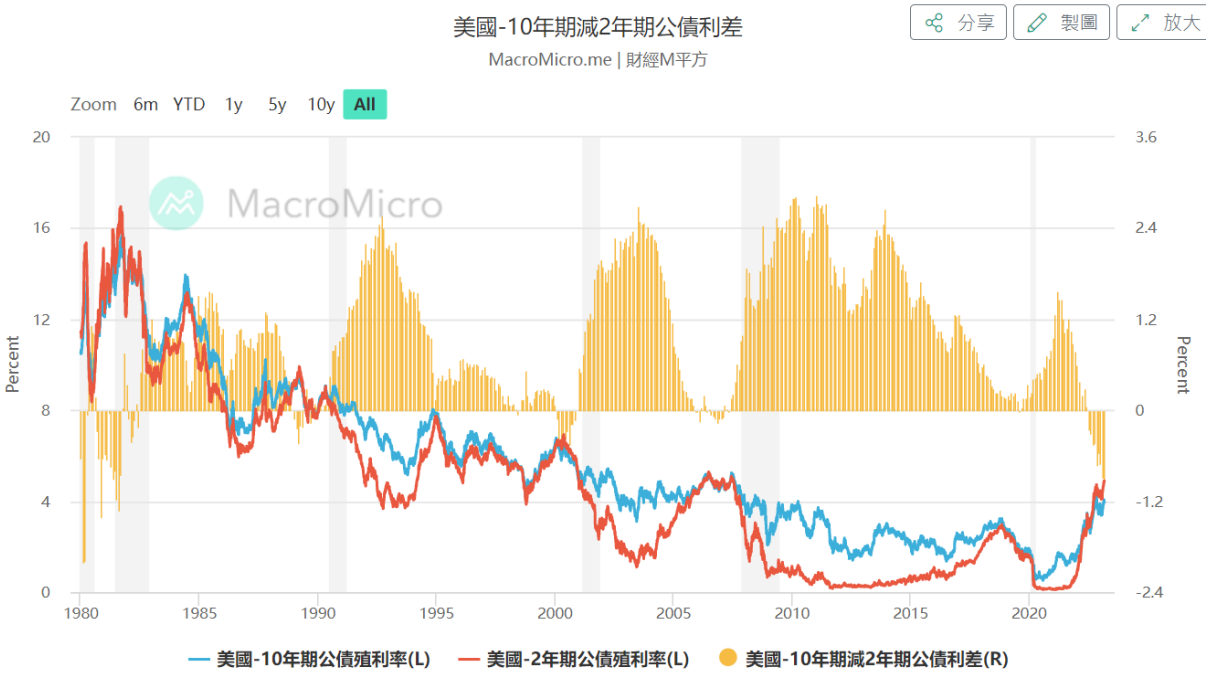
The words in the picture above:

In the 1970s, US policy rates and inflation rates were relatively synchronized. *Orange: US CPI MoM* *Grey: US federal funds rate: monthly average*	*After 1980, policy rates were significantly higher than inflation rates.* *Grey: US federal funds rate-CPI (YoY) (right)* *Orange: US federal funds rate (Monthly)*

According to the experience of former Federal Reserve Chair Paul Volcker in the 1980-1985 inflation period, the federal funds rate was higher than the CPI inflation rate to suppress inflation effectively.

During Paul Volcker's tenure as Chair of the Federal Reserve, the central bank was constrained by "inflation," with the primary goal being to "combat inflation" rather than "economic growth." When studying the yield curve of US 10- and 2-year Treasury bonds, investors should focus on the "short term" of the bond market, that is, the yield on 2-year US Treasury bonds, rather than the "long term" of the bond market, that is, the yield on 10-year US Treasury bonds. This is because the "short term" is guided by the Federal Reserve; for example, the terminal rate of interest for the Fed's current round of rate hikes is 5.5%, and the yield on 2-year Treasury bonds will end up at around 5.5% in the last two years of the cycle. Currently, the target range for the federal funds rate in the United States is 4.50% to 4.75%, and the yield on 2-year Treasury bonds is quoted at around 5.08%. Looking back at the era of high inflation during Paul Volcker's

tenure, the central bank constantly guided the "short term" upward, causing the yield curve of US 10- and 2-year Treasury bonds to invert. Still, the highest level of the inverted spread (around February 1980) was probably around 200 bps.



Source: MacroMicro

The words in the picture above:

US 10-2 Year Treasury Yield Spread

Blue line: US 10-year Treasury yield (L)
Red line: US 2-year Treasury yield (L)
Orange Bar: US 10-2 Year Treasury Yield Spread (R)

Observing the period around 1980, the spread of the inverted yield curve for the US 10-year/2-year Treasury bond yield (around February 1980) was approximately highest at 200bps. Currently, the inverted yield curve for the US 10-year/2-year Treasury bond yield has been in place for eight months since July of last year, with a 25bps inverted yield curve expanding to a new high of 100bps.

If the Federal Reserve's "short-term" interest rate hikes reach 5.50%, the US 2-year Treasury bond yield will ultimately settle around 5.5%. As the "spread" cannot expand infinitely, the short end will be pulled up (from the current 5.08% to 5.5%) with significant rate hikes from the Federal Reserve, causing the long end to follow suit. It is also necessary to observe what will happen to the long

end if the short end remains stagnant in the long term (e.g. staying at 5.5%). The spread cannot expand infinitely, and the long end will likely be pulled back and fluctuate in a range. The overall inverted yield curve will continue to fluctuate until this constraint is broken, moving towards flattening the curve or moving away from it. Therefore, our observation focuses on whether the spread of the inverted yield curve for the US 10-year/2-year Treasury bond yield continues to expand or when it begins to narrow. This is a significant "critical value" that we need to pay attention to in 2023, or a critical value for a trading strategy's "profit or loss".

Volcker summarised the lessons he learned from his time as Chair of the Federal Reserve, as well as an economist and even a politician, on how to deal with high inflation. First, moderate inflation is an essential cornerstone of a stable economy. Second, central banks can keep inflation low if they are credible and persistent enough to inflationary psychology and anchor inflation expectations at a lower level. Finally, suppose central banks want to become credible. In that case, they need some room to make monetary policy decisions and a certain degree of independence from the influence of short-term political pressure. Volcker's successor, Alan Greenspan, accepted these principles and made controlling inflation and maintaining the hard-won anti-inflation reputation of Volcker the core of his monetary policy. (Excerpt from "Monetary Policy in the 21st Century - Bernanke")

3) Discussion on the impact of US & Germany 10-year bond yield spread on the US dollar index

The US & Germany 10-year bond yield spread refers to the "difference between the yield on US 10-year Treasury bonds and the yield on German 10-year Treasury bonds". Generally speaking, in the absence of significant "risk events", the movement of funds determines exchange rates, and the main driving force behind the movement of funds is the yield spread, such as the US & Germany 10-year bond yield spread and the Japan 10 Years / United States 10 Years Government Bond spread. As the euro is the main component of the US dollar index, the US & Germany 10-year bond yield spread also guides international capital flows to a certain extent. When the US & Germany 10-year bond yield spread rises, investors tend to be bullish on the US dollar, and when it falls, investors tend to be bullish on the euro. As seen in the chart below, the US & Germany 10-year bond yield spread trend is generally consistent with that of the US dollar index. If one wants to hedge, "safe-haven assets" such as the US dollar are still the preferred option. The US dollar has been in an uptrend since February of this year and is still ongoing.

Source: MacroMicro

The US & Germany 10-year bond yield spread refers to the "difference between the yield on US 10-year Treasury bonds and the yield on German 10-year Treasury bonds". The long-term yield reflects changes in a country's economy, while the US & Germany 10-year bond yield spread reflects the relative strength or weakness of the US and Eurozone economies. When the US & Germany 10-year bond yield spread rises, it indicates that the economic gap between the US and the Eurozone is widening. In contrast, a decrease in US & Germany 10-year bond yield spread suggests that the Eurozone is gradually catching up with the US. Historically, when the economy is in a bullish cycle, a downward reversal of the US & Germany 10-year bond yield spread represents other economies gradually catching up with the US and can be seen as a precursor to the end of the bullish trend. The US & Germany 10-year bond yield spread usually leads to the reversal of European stocks by 1 to 2 years, as was the case in 2000 and 2008.

4) Key points from Federal Reserve Chairman Powell's Congressional Testimony

Powell last submitted a monetary policy report to Congress in June of last year, during the early stages of the Fed's current interest rate hike cycle. On Tuesday, 7 March, Federal Reserve Chairman Powell delivered an important speech to Congress on the latest monetary policy report, with the following key points:

- *The FOMC's terminal rate may be higher than initially expected, and policymakers are prepared to increase the pace of tightening as necessary. The Fed may need to raise interest rates more than expected to address recent robust data. If "all" information indicates the need for stricter*

control measures, the Fed is prepared to take more significant steps to combat inflation.

- *The US Consumer Price Index (CPI) rose to an annual rate of 9.1% last June before falling to 6.4% in January of this year. The Fed uses the Personal Consumption Expenditures (PCE) price index as the basis for its 2% target, which reached a peak of nearly 6.8% in June and fell to 5.4% in January.*
- *The latest economic data have come in stronger than expected, which suggests that the ultimate level of interest rates is likely to be higher than previously anticipated, and "If the totality of the data were to indicate that faster tightening is warranted, we would be prepared to increase the pace of rate hikes." However, inflation has been slowing since reaching its peak last year, and bringing the inflation rate down to 2% will still be a long and bumpy road.*
- *There is little sign of disinflation thus far in the category of core services, excluding housing. A weaker labour market may be needed to win the battle against inflation. Much of the impact of the central bank's monetary policy is likely to be still brewing, with the labour market maintaining an unemployment rate of 3.4%, the highest level since 1969, and strong wage growth.*
- *The labour market may need to weaken in order for inflation to decline throughout the entire service sector, which is the labour-intensive part of the economy where prices continue to rise. "To restore price stability, we will need to see lower inflation in this sector, and there will very likely be some softening in labour market conditions. "*

The current market consensus is that the Fed will not cut rates in 2023 and expects the Fed terminal rate to rise to 5.50% - 5.75%. Fed Chairman Jerome Powell's Semiannual Monetary Policy Report to Congress, reiterating the need to maintain a hawkish stance and laying the groundwork for higher peak rates to address upside risks to inflation, reinforces market expectations for a 50bps hike in the Fed's March meeting or at the same time may drive the terminal rate up from the current 5.50% to an expected near 6.0%. According to the newly released CME FedWatch Tool, the probability of the Fed raising rates by 25bps to the 4.75%-5.00% range in March is only 30.2%. The likelihood of raising rates by 50bps to the 5.00%-5.25% range soared to 69.8%, with the Fed maintaining the terminal rate at the end of this year in November and December. Interest rates are expected to be unchanged at 5.50-5.75%. The market expects the Fed to continue to maintain a solid determination to suppress inflation and expects the Fed to keep interest rates high and unchanged for a more extended period, which favours a strong upward movement of the US dollar.

Reflecting on the financial markets, the US Dollar Index rose sharply after Fed Chairman Powell's Semiannual Monetary Policy Report (7 March). The US 10-year Treasury yield was again tested at 4%, currently, at 3.987% (please note that the high set in October-November last year was around 4.25%-4.35%), the US two-year Treasury yield is now at 5.034% (please note that the high set in November last year was about 4.88%). Non-US currencies have fallen to varying degrees. US stocks, gold, and crude oil have also started to decline. The three major US stock indices are also under pressure from expectations of high-interest rates, leading to different degrees of decline. Here is the gain and loss record for the past week:

- The DXY dollar index has fluctuated and risen by nearly 150 pips (104.10-105.60) and is now reported at 105.64.
- *Dow Jones index fluctuated by +1000/-700 pips (32500-33500-32800), now trading at 32830.*
- *S&P 500 fluctuated by +145/-90 pips (3925-4070-3980), now quoting at 3990.*
- *Nasdaq fluctuated by +650/-300 pips (11800-12450-12150), now trading at 12157.*
- *XAUUSD rose by +45/-45 dollars per ounce (1810-1855-1810), now quoting at 1813.*
- *USDJPY rose by 200 pips (135.50-137.50), now trading at 137.47.*
- *USDCNH increased by 1300 pips (6.8650-6.9950), now quoting at 6.9815.*
- *USDSGD rose by 150 pips (1.3400-1.3550), now trading at 1.3550.*
- *EURUSD fluctuated by +150/-160 pips (1.0550-1.0700-1.0540), now quoting at 1.0545.*
- *GBPUSD fluctuated by +150/-250 pips (1.1920-1.2070-1.1820), now trading at 1.1835.*
- *AUDUSD decreased by 200 pips (0.6780-0.6580), now quoting at 0.6600.*
- *NZDUSD fell by 170 pips (0.6270-0.6100), now trading at 0.6110.*
- *USDCHF fluctuated by -160/+150 pips (0.9440-0.9280-0.9430), now trading at 0.9420.*
- *USDCAD rose by 200 pips (1.3550-1.3750), now quoting at 1.3749.*
- *Bitcoin fell by 2000 pips (23950-21950), now trading at 22130.*

2. AUD weakness remains, and the " Head and Shoulders" pattern remains valid.

Recent data releases may suggest a slowdown in Australian domestic economic activity. Australia's trade balance for January was A$11.688 billion, less than the

expected A$12.7 billion and the previous value of A$12.237 billion, while Australia imports for January were at a monthly rate of 5%, higher than the previous value of 1%. Australia exports for January were at a monthly rate of 1%, higher than the previous value of -1%. The quarterly rate of GDP in the fourth quarter of Australia announced on March 1 was 0.5%, lower than the expected 0.80% and the previous value of 0.60%; Australia's fourth quarter GDP annual rate is 2.7%, unchanged from the expected 2.70% and below the previous 5.90%. The Australian economy's lower-than-expected GDP growth in the final quarter of last year hints that the multiple interest rate hikes by the Reserve Bank of Australia have or are beginning to impact economic activity and that rising borrowing costs may begin to dampen domestic consumption.

Reserve Bank of Australia's interest rate decision in March (7 March): A 25bps increase to 3.6%, in line with market expectations. Despite the US dollar's dominance in the market, the Reserve Bank of Australia's continued rate hikes could not prevent the weakness of the Australian dollar. In the March monetary policy statement, the Reserve Bank of Australia announced a 25bps interest rate increase to 3.6%. The committee expects to tighten monetary policy further and remains committed to restoring inflation to target levels. When evaluating policies, the Reserve Bank of Australia will consider CPI, expenditure, and the labour market.

The committee is determined to bring the inflation down to the target level and will take all necessary measures to bring CPI back to the target range. Monthly CPI data shows that inflation has peaked and is expected to decline over the next two years. Wage growth is still in line with the inflation target, consumer spending growth has slowed, the labor market remains very tight, and the unemployment rate is close to its lowest level in 50 years. Wage growth continues accelerating, and the committee remains vigilant about the wage-price spiral. Global inflation is still high but is slowing overall, and service price inflation in many economies remains stubbornly high. It is expected that it will take some time to reach the inflation target. GDP growth has slowed down, with a 0.5% increase in the fourth quarter and a 2.7% increase for the year as a whole. The growth rate is expected to be below the trend level in the coming years.

Source: TradingView

Two weeks ago, the author warned of the "head and shoulders" technical pattern on the daily candlestick chart of the AUDUSD currency pair, which was perfectly broke below the "neckline", accelerating the downward momentum. Currently, the AUDUSD is seeking support near the low of 0.6600. If it continues to break below this level, it may further test the range of 0.6550-0.6500. On the other hand, if it rebounds, it may retest the level of 0.6800-0.6900 and even further pay attention to the previous high of 0.7000.

3. The Japanese yen remains weak, with USDJPY breaking above 137.

The United States 10 Years / Japan 10 Years Government Bond spread continues to support the USDJPY move upside. In recent weeks, solid and robust US economic data combined with Fed Chair Powell's Semiannual Monetary Policy report on 7 March, which reiterated the hawkish stance of maintaining a foundation for higher interest rates to address the upward risks of inflation, has strengthened the market's expectation of a 50bps rate hike at the FOMC meeting on 23 March, which may also push terminal rate from the current 5.50% to close to 6.0%. The market is repricing the Fed's hawkish rate hike path, resulting in a general rise in US bond yields and the US dollar index breaking free from the narrow range of 104.00-105.00 in the past week, strongly breaking through 105.50 and currently trading at 105.65. The Bank of Japan maintains its dovish stance, keeping Japanese bond yields unchanged within the +0.5%/- 0.5% range. New BOJ Governor Kazuo Ueda recently stated that considering the current economic environment, it is not yet a good time to abandon the current policy and supports the Bank of Japan's continued large-scale quantitative

easing and will not significantly adjust its yield curve control, which also limits the attractiveness of the yen. USDJPY has broken free from the previous range of 135.50-137.00, strongly breaking through 137.00 and reaching a high of 137.50, currently trading at 137.30.

Critical points from Bank of Japan Policy Board member Takada's statement: Continual easing is essential, and the benefits of loose policies outweigh the negatives. Measuring the impact of the December actions on the market will take some time. It is hoped that there will be improvements in bond market operations. There is some uncertainty in the wage growth trend, and the Bank of Japan's bond market survey shows that the situation is deteriorating. The Bank of Japan will continue to monitor the bond market situation closely.

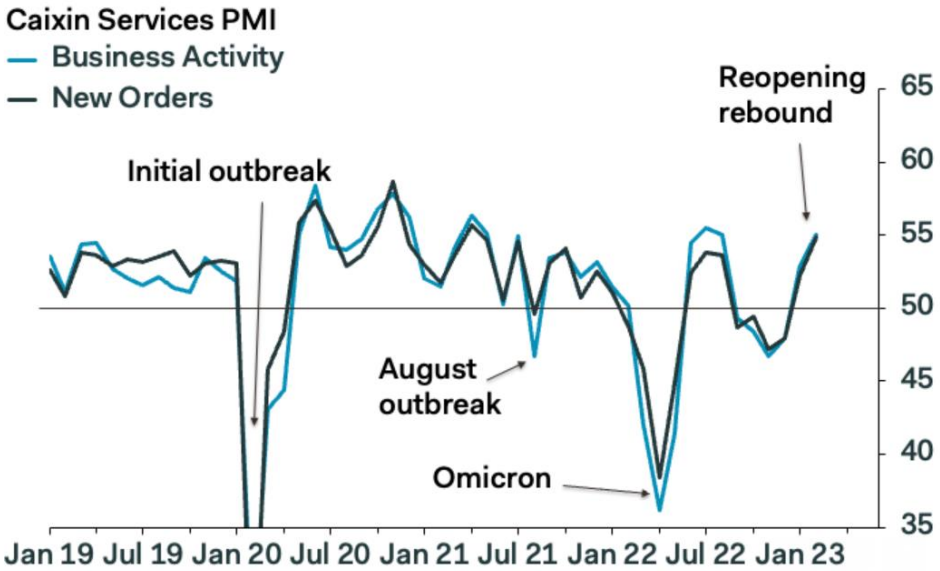
Source: TradingView

The "regular bearish divergence" formed by the weekly candlestick chart and RSI indicator of USDJPY between May and October 2022 still holds. The current rebound, which started from around 127.50 in early February, has approached the Fibonacci 50% retracement level at about 138.50. Next, it may target the Fibonacci 61.8% retracement level at around 141.50. However, beware that the "regular bearish divergence" is still in play, and a reversal of USDJPY, or a renewed strength of the yen, may occur at some point this year.

4. The Two Sessions set China's economic growth at 5% for 2023, focusing on technology and ESG.

At the National People's Congress (NPC) of China held on 5 March in Beijing, a more conservative forecast for GDP growth in 2023 was set with a target of

around 5%, lower than market expectations. This year's policies will focus mainly on ESG (Environment, Social Governance) and technological self-reliance. The mention of weak external markets may pose challenges for China's export-related industries. Infrastructure growth is slowing down. The target scale for issuing local government special bonds for infrastructure investment is 3.8 trillion yuan, lower than the expected 4 trillion yuan. Only previously planned or initiated projects may be implemented in the future, with a greater focus on transportation infrastructure projects. The government budget deficit for 2023 is set at 3% of GDP, higher than last year's 2.8%, because last year's fiscal deficit was very high, accounting for 8% to 9% of GDP from a historical perspective. The government hopes to slow the growth of the fiscal deficit during the economic recovery. The annual growth rate of the Consumer Price Index (CPI) for 2023 is set to be around 3%, the same as in 2022. According to data released by the National Bureau of Statistics of China in January, CPI increased by 2.0% last year, lower than expected. A target of 12 million new jobs was proposed. Considering the number of graduates this year, which is approximately 11.58 million people according to the government's earlier announcement, it means that some graduates and some existing unemployed labor force will not be able to find work. Employment is crucial during the recovery period, as it is the cornerstone of consumption growth, and the government hopes that more startups will fill this gap. The importance of "technology and ESG" for long-term growth was emphasized, with green energy receiving more attention from the government in the ESG sector. These two industries will receive relevant government support measures, and the private sector will attract more investment. The military budget for this year is 1.5537 trillion yuan, a year-on-year increase of 7.2%.



Source: Pantheon Marco

As China's Covid-19 measures continue to be optimised and the effects of economic measures steadily emerge, the country's economic sentiment levels have rebounded sharply, and business confidence has risen to a two-year high. China's recent financial data releases suggest that the China economy is recovering strongly. China Caixin Services Purchasing Managers' Index (PMI) reaffirmed the strong rebound. The Caixin Services PMI climbed to 55.0 in February from 52.9 in January, confirming China's strong early recovery prospects. The relaxing of the Zero-Covid policy led to a surge in business activity and a reduction in operational disruptions, with the vital business activity figure matching previous highs in mid-2022, mid-2021 and late 2020.

- *China Caixin Services PMI climbed from 52.9 in January to 55.0 in February;*
- *Manufacturing PMI rose from 50.6 in January to 52.6 in February, also reaching a new high since April 2012;*
- *Non-manufacturing PMI climbed to 56.3 in February from 54.4 in January;*
- *China Caixin Manufacturing PMI rose to 51.6 in February from 49.2 in January.*

Yesterday (7 March), Powell stated that there would be a higher peak for the terminal rate, causing a sharp surge in the US dollar, which in turn led to a sharp decline in CNH and commodities such as gold, silver, copper, and crude oil. Among them, silver suffered the most significant decline, hitting its lowest level since November 2022. Reflected in the financial markets, here is the performance record for the past week:

- *USDCNH up 1300 pips (6.8650-6.9950), now at 6.9815.*
- *CHINA50 +490/-480 pips(13100-13590-13110), now at 13560.*
- *CHINAH +550/-400 pips (6550-7100-6700), now at 6705.*
- *HK50 +1250/-1020 pips (19750- 1000-19980), now at 19980.*
- *WTI Oil +480/-380 pips (76.00-80.80-77.00), currently quoted at 77.50.*
- *Brent Oil +400/-380 pips (82.80-86.80-83.00), presently quoted at 83.65.*
- *XAUUSD down below 1820, currently quoted at 1809.00 per ounce.*
- *XAGUSD plunged by over 4%, fell below US$20 and is presently quoted at US$19.91.*

5. Short-term risks

On Tuesday (7 March), in the Semi-annual Monetary Policy Report, Fed Chair Powell reiterated the hawkish stance to lay the foundation for higher peak interest rates in response to the upward risk of inflation, strengthening market expectations for a 50bps rate hike at the March meeting and possibly pushing terminal rate from the current 5.50% to near 6.0%. The market expects the Fed to continue its determination to suppress inflation and maintain high rates unchanged for a long period, which is favourable for the continued strong

appreciation of the US dollar. The dollar opened a sharp rally, and whether the rally will continue, the current market focus turns to the US February ADP employment change data to be released on Wednesday (8 March) and the US February non-farm payroll data to be released on Friday (10 March) at 9:30 pm. Also, please pay attention to the US Core Consumer Price Index for February next Tuesday (14 March). If the US non-farm and February CPI perform below expectations, it may lead the market to bet on more rate hikes and a later "policy shift" by the Fed.
For Asia Pacific, please focus on Japan Q42022 GDP data on Thursday (9 March) and the Bank of Japan's rate decision and monetary policy statement to be announced on Friday (10 March), as well as the minutes of the Bank of Japan's monetary policy meeting next Wednesday (15 March). Attention is also given to China February Consumer Price Index data on Thursday (9 March) and China February retail sales annual rate data to be released next week. Please pay attention to the release of Australia February unemployment rate, February employment change, and February full-time employment change data on Thursday (16 March).

The US dollar is expected to continue to appreciate and experience minor depreciation next week, with US fundamentals supporting dollar appreciation, but economic development requires dollar depreciation. It is also necessary to be vigilant that the US dollar's downtrend may re-emerge at any time when the market fully digests and prices in the Fed's tightening policy for this year.

By Sandy Wang,

08 Mar 2023 at 12:00 pm SGT