MARKET UPDATE

03/11/2022

Asian Stocks Slammed by Hawkish Fed, China Rally Pauses

Asian stock markets tumbled on Thursday after the Federal Reserve espoused a more hawkish outlook than expected, with Chinese equities cutting short a two-day rally amid uncertainty over the country's plans to scale back COVID lockdowns.

China's bluechip Shanghai Shenzhen CSI 300 index fell 1%, while the Shanghai Composite index shed 0.4%. Both indexes rallied nearly 3% each this week on speculation that China plans to eventually phase out its strict zero-COVID policy by next year. But Chinese authorities offered no official comment on the matter.

Hong Kong's Hang Seng index was the worst performer for the day, tumbling 3% as technology stocks were sold off on the Federal Reserve rate hike. Hong Kong's Monetary Authority also hiked interest rates on Thursday to keep pace with the Fed, a move that is negative for local stocks.

Oil Falls on Weak Chinese Data, Hawkish Fed Also Weighs

Oil prices retreated from a three-week high on Thursday after weak economic data from China pointed to more trouble in the world's largest crude importer, while the outlook for demand was also dimmed by the prospect of higher U.S. interest rates.

A private survey showed that China's massive services sector shrank for a second straight month in October, heralding more economic weakness for the country as it struggles with containing new COVID outbreaks.

Speculation over a possible easing of COVID curbs had somewhat brightened sentiment towards China this week. But lack of official word on the matter swiftly reversed this.

Slowing crude demand in China weighed on oil prices this year, as a series of COVID lockdowns ground local economic activity to a halt. China's crude imports have fallen steadily this year, with the country also increasing its oil export quotas on weakening local demand.

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Hong Kong raises rates after Fed, flags more increases in borrowing costs

The Hong Kong Monetary Authority (HKMA) on Thursday raised its base rate charged via the overnight discount window by 75 basis points to 4.25% and said households should brace for a period of higher commercial rates and carefully manage financial risks.

The HKMA's move prompted the city's largest commercial bank HSBC, to also increase its best lending rate by 25 bps to 5.375% effective Nov. 4. It follows the bank's 12.5-bps hike in September, the first increase in four years.

Analysts expect other banks will follow suit after HKMA's decision came hours after the U.S. Federal Reserve delivered a rate hike of the same margin. Hong Kong's monetary policy moves in lockstep with the United States as the city's currency is pegged to the greenback in a tight range of 7.75-7.85 per dollar.

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