

Market Monitor – United States

Inflation Accelerates Further



Inflation accelerates amid persistent supply chain bottlenecks and labour shortage

US inflation accelerated to a three-decade high in October, with year-on-year growth of headline consumer price index (CPI) rising further to 6.2%, up from the 5.4% in the previous month. The core CPI, which excludes volatile categories of food and energy, also registered a 4.6% annual growth during the month, which is the largest rise in nearly 30 years. Price increases were widespread, with higher costs for new and used vehicles, gasoline and other energy costs, as well as for furniture, rent, and medical care. Persistent supply-chain bottlenecks and labour shortages resulting from the Covid-19 pandemic have been the key drivers of inflation. A survey by the Wall Street Journal revealed that 80% of small businesses reported higher labour costs and more than half experienced higher costs for raw materials and other inputs. In addition, the S&P Case-Shiller 20-City Composite Home Price Index recorded 19.1% year-on-year growth in September, implying that rents may also continue to rise.

While retail sales recorded a 1.7% month-on-month rise in October, much of the increase reflected higher prices. Consumer confidence continues to be adversely impacted by elevated inflation and goods shortages. The University of Michigan Consumer Sentiment Index dropped to 67.4 in its final reading in November, down from 71.7 in the previous month and now at a decade low.

The US labour market has seen marked improvement in its hiring momentum in October. Nonfarm payrolls added 531,000 jobs in October, building on an upward revision of 312,000 added jobs in the previous month. The retreat of new infections boosted demand for in-person services, with payrolls in leisure and hospitality rising by a notable 164,000, while jobs in food services and drinking establishments were up 119,000. At the same time, the unemployment rate declined further to 4.6% during the month, a new

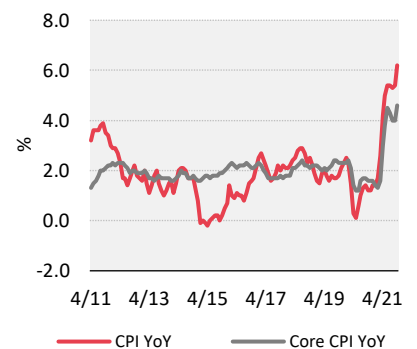
Jobs market improves in October.

Inflation hits three-decade high amid continued supply chain bottlenecks and strong consumer demand.

Upcoming social and climate spending bill and recently passed infrastructure bill may add to inflationary pressure.

New virus variant may pose additional risk to economic outlook.

US Inflation



Source: Bloomberg, data as of 18/11/2021

low since the pandemic outbreak.

The USD 1.2 trillion infrastructure spending bill was finally passed by the House of Representatives in early November and was signed into law in mid-November. The bill includes about USD 550 billion in new funding for infrastructure projects like roads, ports, and broadband and for previously approved spending that is normally allocated each year for infrastructure-related projects. US Congress will now shift its focus to the upcoming social spending and climate bill with a price tag of about USD 1.75 trillion, which had been also passed by the House of Representatives in November.

Together, the recently passed infrastructure bill and the forthcoming social spending and climate bill are expected to provide some support to the US economic recovery in the medium term. However, the increase in fiscal spending may also risk further pushing up inflation and the Federal Reserve (Fed) may be forced to normalise interest rates faster than previously anticipated. Faster interest rate hikes will push up financing costs and hence undermine business and consumer confidence. This could offset the boost from fiscal spending and act as a drag on economic growth. Besides, the new Omicron variant will also pose potential risks to the economic outlook.

Stock market sees volatility amid new virus variant and hawkish comments by chair of the Fed

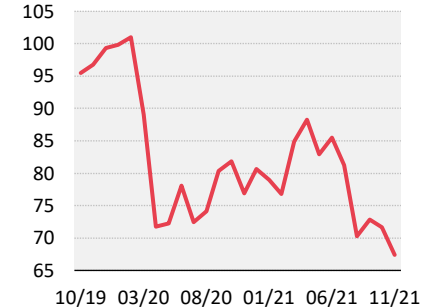
The US equity market saw increased volatility in November. Although the latest nonfarm payrolls increase beat market expectations, the new Omicron variant detected in late November spurred some worries over the recovery trajectory. In addition, Chairman of Federal Reserve (Fed), Jerome Powell, signalled that he would support accelerating the tapering of asset purchase programme to combat soaring inflation and hinted that the inflation might not be transitory in his testimony before the senate committee, further adding downward pressure in the stock market. As of 30th November, the S&P 500 Index and Dow Jones had dropped by 0.8% and 3.7%, respectively, from the level at the end of October. Meanwhile, Nasdaq still recorded 0.3% gain over the same horizon.

US dollar strengthens while Treasury yields drop due to risk aversion stemming from new virus variant

Accelerated inflation in October is fuelling market expectation that the Fed may soon start normalising interest rates. Towards the end of November, risk aversion prevailed as Omicron variant was reported, resulting in a stronger US dollar. As of 30th November, the dollar index had risen to 95.994, about 2.0% higher than the level at the end of October. Meanwhile, bond yields drop in November, as investors seek safe haven assets amid worries over economic outlook stemming from Omicron variant. As of 30th November, the 10-year treasury yield stood at 1.447%, about 11 basis point lower than the level at the end of October.

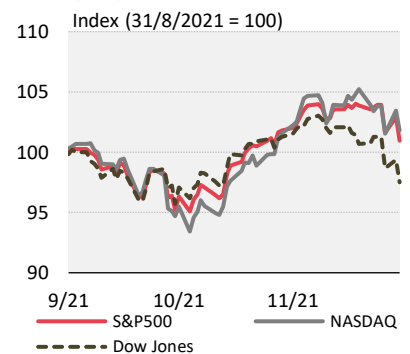
Looking ahead, supply chain bottlenecks and inflationary pressure will persist until the Covid-19 pandemic is under control. If the Fed needs to normalise interest rates earlier to curb inflation, the US dollar may strengthen further. As for Treasury yields, the upward trend induced by interest rate normalization expectation may be partly offset by risk aversion stemming from the uncertainties associated with the new Omicron variant.

University of Michigan Consumer Sentiment Index



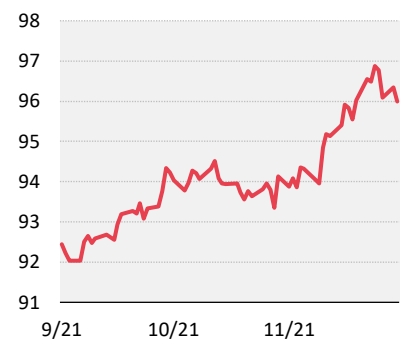
Source: Bloomberg, data as of 30/11/2021

US Equity Indices



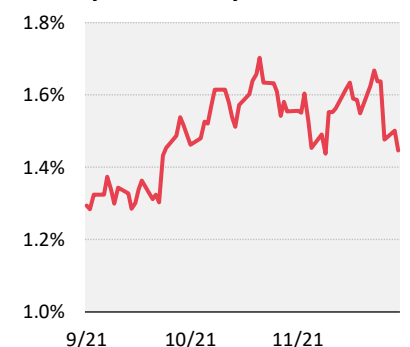
Source: Bloomberg, data as of 30/11/2021

Dollar index



Source: Bloomberg, data as of 30/11/2021

US 10-year Treasury Yield



Source: Bloomberg, data as of 30/11/2021

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