Alpha Capital Group

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ALPHA
MONTHLY REVIEW

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September 2022 - Highlights

1. US inflationsurprises markets yet again as equities extend decline
2. ECB raises rates by a historic 0.75%, rules out immediate use of QT
3. UK tax cut proposal sparks mayhem in the market as BOE intervenes
4. HK and Japan lower travel restrictions to revive tourism activity
5. GBP/USD hits record low as the USD continues to extend gains

Sep 2022 MoM Market Snapshot

DOW JONES	28,725	- 8.8%
FTSE 100	6,893	- 5.4%
HANG SENG	17,222	- 13.7%
WTI OIL	79.70	- 11.0%
GOLD	1,672	- 1.4%
EUR / USD	0.98	- 3.1%
US 10YR T-NOTE	3.829	+ 0.635

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FEATURES

US Markets Review

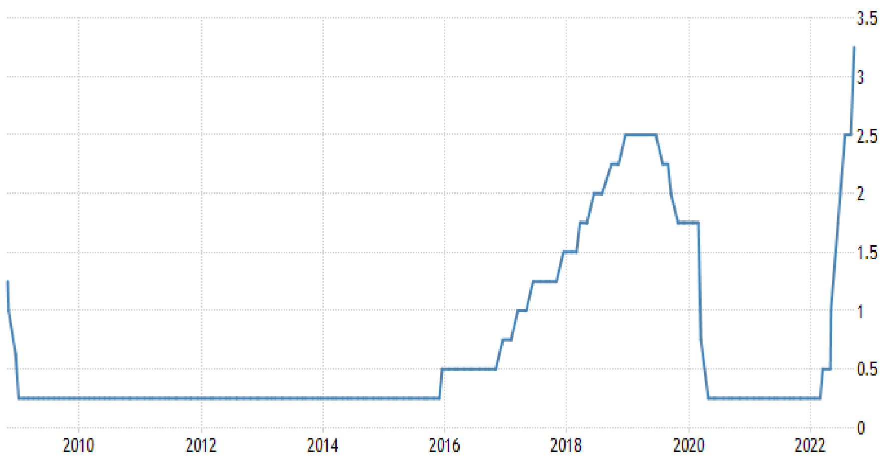
DOW JONES	28,725	- 8.8%
S&P 500	3,585	- 9.4%
NASDAQ	10,575	- 10.5%

MoM Sep 22

US equities continued to trend downwards with increased volatility this month after declines triggered by the Fed's hawkish stance in August. The market's focus remained on inflation and the pace of interest rate hikes, but the downward trend in inflation that the market had been hoping for did not materialise this month. The CPI inflation rate for August was 8.3%, down 0.2% from 8.5% in July, but still above the 8.1% expected, and up 0.1% on a monthly basis. In addition, food prices rose at the sharpest rate since 1979, while core CPI inflation also rose at an average rate above market expectations. The high inflation data clearly removed any room for the Fed to slow down interest rate hikes, reviving risk aversion and fears of a recession, triggering heavy losses in US stocks and weighing heavily on foreign equities. The Dow Jones index plunged 8.8% to close at 28,725; the S&P 500 index plunged 9.4% to close at 3,585; and the NASDAQ index plunged 10.5% to close at 10,575.

US rate hikes since the start of the year have been the quickest in its modern economic history

US Federeal Reserve Funds Rate Oct 2008 - Oct 2022



Non-farm payrolls rose by 315,000 in August, largely in line with expectations, although still down significantly from the previous month's 528,000. However, the market interpreted the rise as a result of hundreds of thousands of people re-entering the labour force after not actively seeking work. The positive trend in the job market remains solid, with the unemployment rate still hovering at a historically low level.

The Fed's beige book, released this month also provides market commentary on the Fed's internal comments on the current inflationary situation facing the economy. While it communicates that inflation in the US has cooled slightly, a number of Fed officials, including the vice chairman, continue to emphasise the need to raise interest rates in the near term. The beige book also states that high prices and labour market tensions will put downward pressure on the US economic outlook in the near term, with upward pressure on prices continuing until at least the end of the year, but that austerity will be maintained until inflation falls back.

The Fed's decision to raise interest rates again this month by 0.75% was in line with expectations, reiterating a strong commitment to bring inflation back down to 2%. After digesting the Fed's comments and the beige book, it became clear that the market's original expectation that rate rises could slow in Q4 was vacuous, as markets declined. Continued hikes have pushed the US dollar to a near two-decade high by the end of the month but it remains to be seen whether the Fed can truly ignore the fall in equity markets amidst its strong-armed attack on inflation.

European Markets Review

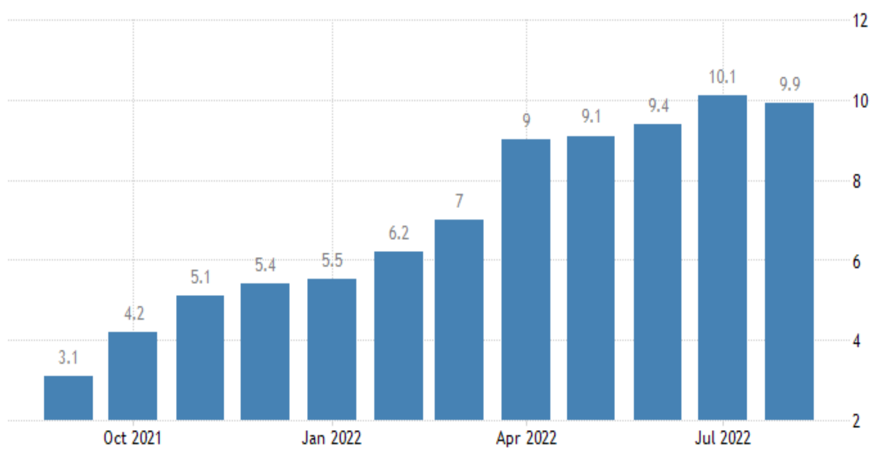
FTSE 100	6,893	- 5.4%
DAX	12,114	- 5.6%
CAC 40	5,762	- 5.9%
STOXX 600	387	- 6.7%

MoM Sep 22

In Europe, inflation data for August came in at a record high of 9.1%, up 0.2% from 8.9% in July, and accelerating from 0.1% to 0.5% on a monthly basis, but still largely in line with market expectations. In the face of stubbornly high inflation, the ECB raised all three interest rates by a historic 0.75% this month, the highest single monthly rate increase in its history. ECB President Lagarde conveyed that rate hikes are expected to continue in the coming meetings, but also indicated that there is no intention to consider quantitative tightening through balance sheet reduction. The market expects the ECB to raise all three interest rates to a neutral level of 2% by the end of the year, that could potentially drag the EU into recession. The STOXX600 index fell 6.7% to close at 387 this month.

Inflation in the UK surprisingly slowed in August, recording its first decline in the past 12 months

UK Inflation Rate Sep 2021 - Aug 2022



UK markets' focus of the month was inevitably on the death of Queen Elizabeth, adding to the recent wave of political turmoil in the UK. In addition, new Prime Minister Truss took office this month with the introduction of a £130 billion Energy Price Guarantee Bill and a highly controversial tax reduction scheme. In addition, the UK inflation rate unexpectedly fell to 9.9% in August, down from 10.1% in the previous month and below expectations of 10.3%, mainly due to the fall in crude oil prices. However, the central bank persisted with another 0.5% rate hike, raising interest rates to 2.25%, in line with market expectations, as it prepares for tapering in October. The FTSE 100 index fell 5.4% to end the month at 6,893.

Germany's central bank made it clear this month that the economy is experiencing a contraction, indicating that it will not be able to rely on Russian energy supplies this winter. In addition, the ZEW economic sentiment index fell to -61.9 in September from -55.3 in August, below expectations of -60, which not only fell below the lows seen during the pandemic, but was also the lowest level since the GFC in 2008. In addition, the German inflation rate was unable to maintain the downward trend seen last month, rising to a 50-year high of 7.9% in August. The DAX index fell by 5.6% to end the month at 12,114.

The French Finance Minister, Le Maire, boldly stated this month that "France will not fall into recession this year" and raised his growth forecast for the year from 2.5% to 2.7%, stating that inflation could start to slow by next summer, but also lowering the growth rate for 2023 to 1% from 1.4%. The French government is also persisting with its plan to run a deficit of up to 5% of GDP next year, mainly due to higher corporate tax revenues. The CAC 40 index fell 5.9% to end the month at 5,762.

Asian Pacific Markets Review

HANG SENG	17,222	- 13.7%
SSE	3,024	- 5.6%
TAIEX	13,424	- 11.0%
NIKKEI	25,937	- 7.7%

MoM Sep 22

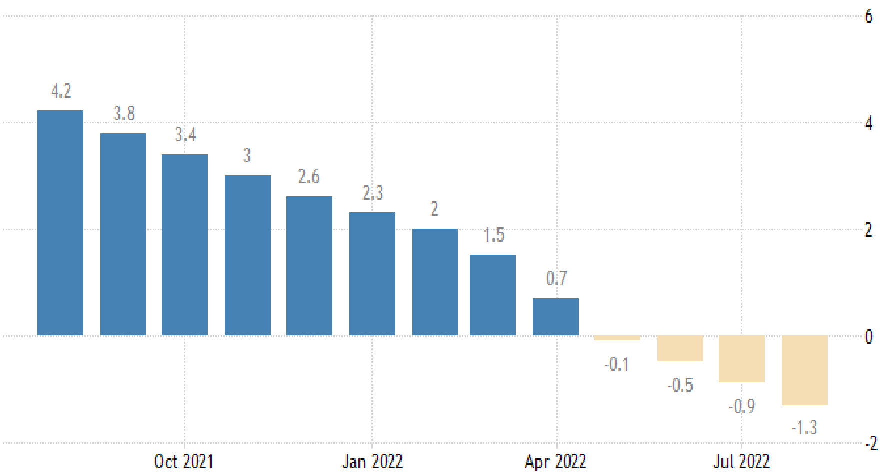
The Chinese government has introduced a number of policies to stabilize the economy, and signs of a slight stabilisation can be seen this month. Retail consumption increased by 5.4% this month, a doubling of the previous month's 2.7%. In addition, total fixed investment rose by 5.8% in August, slightly higher than the 5.7% increase in July, but the main driver of investment came from state-owned enterprises, with private sector investment on a more conservative trend. However, the property market, a key concern for investors, remained down, with total property investment falling by 7.4% in August, down from 6.4% in July, as th efficacy of stimulus remains questionable. On the other hand, a number of cities in China including Chengdu and Shenzhen, were partially locked down at one point this month due to rising Covid cases as sceptics continue to doubt China's Covid-Zero policy. The Shanghai Composite Index (SSE), down 5.6% this month to close at 3,024.

Hong Kong's Ministry of Finance this month sharply increased its forecast of a deficit of over HK$100 billion for the year, making it the second highest deficit in Hong Kong's history and nearly doubling the original February forecast of a HK$56.3 billion deficit. Despite this, the unemployment rate remained on a downward trend, with the seasonal unemployment rate for June to August at 4.1%, down 0.2% from 4.3% in the previous month. On the other hand, the government decided to further relax quarantine restrictions on entry into the country, changing the previous "3+4" measure to "0+3", as it aims to boost its tourism sector once again. However, the Hang Seng Index fell 13.7% to end the month at 17,222.

The Japanese government announced this month that its inflation rate rose unexpectedly to 3% in August, significantly higher than July's 2.6% and a new high since 2014, leading investors to believe that Japan, which has maintained price stability over the past year, may also be starting to fall into a vicious cycle of inflation. Moreover, the downward trend in Japan's trade exacerbated as total exports grew by just 0.7% in August, down from 1.7% in July, while the country's trade deficit reached a record high of JPY2.8 trillion in August, the thirteenth consecutive month of deficit, a trend that may be difficult to reverse in the near future. However, the Japanese government announced at the end of the month that it would reopen the country in to regular inbound travel from October onwards, expected to attract a large number of tourists amidst a lower yen, as the government aims to support its economic recovery through stimulating tourism activity. The Nikkei index fell 7.7% to end the month at 25,937.

China's newly built housing construction growth rate has slowed significantly over the past year

China Newly Built Housing - Annual Rate of Change Aug 2021 - Aug 2022



Commodities and Forex Review

GOLD	1,672	- 3.1%
SILVER	19.03	+ 6.4%
WTI OIL	79.70	- 11.0%
EUR / USD	0.98	- 2.0%
USD / JPY	144.72	+ 4.1%

MoM Sep 22

Crude oil remained under pressure this month as international markets were forced to face the reality of unabated inflationary pressure from many central banks, amidst the possibility of a collective global recession in major economies. In addition, the three major international energy agencies (EIA/IEA/OPEC) issued another forecast for a short term slowdown in crude oil demand, as the mid-month announcement of a partial military mobilisation order by Russia to call up some 300,000 reservists for war to exacerbate the Russia-Ukraine conflict failed to boost crude oil prices. WTI crude oil ended the month at 79.7, down a substantial 11.0%.

Volatility in the foreign currency exchange market this month was a major focus in the financial markets. Shortly after the new UK Prime Minister Truss took office, the UK announced the most radical tax cut in nearly 50 years, claiming to be leading the UK economy into a "new era", but with the Bank of England continuing on its tightening path and raising interest rates simultaneously, the implementation of the tax cut proposal has led to fears of increased fiscal instability and the potential of long-term deficits in the future, leading the Pound to fall to a record low of almost 1.03 against the US dollar at one point. The GBP/USD ended the month at 1.11, down 3.9%, as the Bank of England announced a temporary intervention in the bond market at month end to restore stability.

In contrast to the unexpected economic turmoil in the UK, Europe also faced new uncertainties. Italy's election results this month brought in its first far-right government since World War II, and market projections suggest that new leader Meloni's attempt to overturn Western sanctions against Russia may also exacerbate the divergent positions of EU member states on the Russia-Ukraine conflict, further weakening the appeal of the Euro, as the EUR/USD hovers around its lowest point in almost two decades.

With the Pound falling close to one to one against the dollar and the Euro falling below parity with the dollar, the Chinese Yuan was also under downward pressure. While the Fed has raised interest rates sharply, China has been gradually lowering rates, casuing the Yuan to fall by around 10% against the US dollar since the start of the year, with USD/RMB breaking the 7 barrier in the middle of the month to close up 3.3% at 7.12 by month end. After all, the US 10-year bond yield was approaching 4% at month end, making the US dollar much more attractive and extending the recent rare rise in the greenback. The bullishness of the DXY index was evident as it surpassed 114 in the middle of the month, before retreating slightly to close at 112.17 at the end of the month, up 3.2%.

The Pound was decimated after the UK's latest tax cut proposals as the GBP/USD hit historic lows

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