HongLeong Bank

Global Markets Research

Daily Market Highlights

Key Takeaways

- **US stocks rallied overnight despite the sharp 5.0% jump in US' annual CPI rate, as investors viewed the surging inflation as transitory, thus expecting the Fed to maintain its policy support**. This came as the **ECB kept its monetary policy intact and maintained its previous pledge to purchase assets at a higher pace and warned of a risk of premature tightening.** Meanwhile, the initial jobless claims data were considered lacklustre, reaffirming views that the Fed would not yet withdraw stimulus. The S&P 500 (+0.5%) finally broke a new record after several subdued sessions. The Dow eked out a small gain of less than 0.1%, hovering at near-record levels, while NASDAQ rose 0.8%, still shy of its late April's all-time high.

- **Treasury yields retreated again on Thursday** even as inflation soared; overall yields were down by 1.2 to 5.9bps, with the yield on 10Y UST falling the most (-5.9bps) to 1.43%, its lowest level in more than three months. **European bond yields fell after the ECB meeting.** In the FX market, EUR/USD spiked to just under 1.22 before retreating to close little changed d/d at 1.2170 following the ECB's accommodative statement. GBP led the gains as the dollar largely weakened. **Gold futures closed on a flat note** at $1894.2/oz while spot price gained 0.5% to $1898.5/oz. **Crude oil benchmarks gained over 0.4% on higher US CPI alongside the strong oil consumption outlook.** Brent crude rose to $72.52/barrel and WTI to $70.29/barrel. **President Biden met with Prime Minister Johnson on the sideline of the G7 Summit, reaffirming the US and UK's so-called "special relationship". The UK and the EU are currently engaged in a trade row concerning Northern Ireland.**

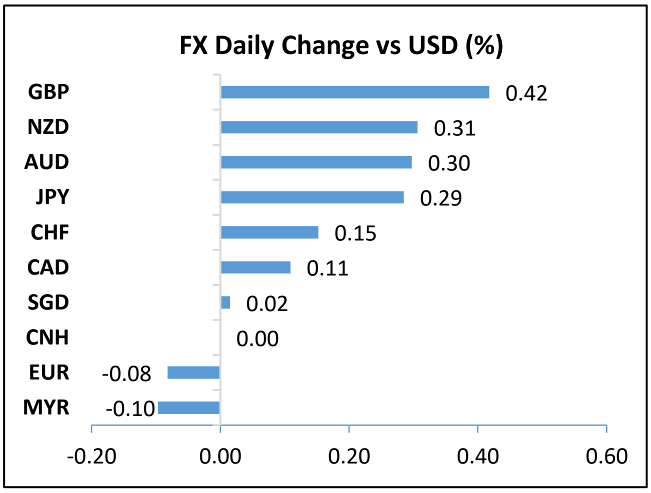
- In the US, CPI inflation rose 0.6% m/m in May which translates to a 5.0% increase in the annual rate. The core reading surged to 3.8% y/y. Initial jobless claims fell to 376k last week, slightly missing expectation of 370k. New Zealand's BNZ manufacturing PMI rose in May, indicating stronger growth, but the pain of the supply chain bottlenecks was felt throughout the sector.

- The USD weakened against some G10 currencies, but a soft EUR meant that DXY was little changed. DXY was 0.05% down to a close of 90.08. We are **slightly bearish on the DXY** on some possible EUR catch-up in the coming session. This comes after strong inflation data for the US but initial jobless claims did not fall much further.

- USD/MYR rose 0.1% to 4.1210 on Thursday. We continue to expect a **subdued trading of USD/MYR** following the modest FX movements overnight, anticipating the pair to stay within a tight range ahead of the weekend.

Market Snapshots

	Last Price	DoD %	YTD %
Dow Jones Ind.	34,466.24	0.06	12.61
S&P 500	4,239.18	0.47	12.86
FTSE 100	7,088.18	0.10	9.72
Hang Seng	28,738.88	-0.01	5.54
KLCI	1,579.90	-0.10	-2.91
STI	3,162.50	0.29	11.21
Dollar Index	90.08	-0.05	0.15
WTI oil ($/bbl)	70.29	0.47	44.87
Brent oil ($/bbl)	72.52	0.42	40.00
Gold (S/oz)	1,894.20	0.05	-0.05
CPO (RM/tonne)	4,122.00	-1.33	8.82



Source: Bloomberg

Overnight Economic Data			
US	↑	NZ	↑

Up Next

Date	Events	Prior
11/06	MA Industrial Production YoY (Apr)	9.3%
	UK Monthly GDP (MoM) (Apr)	2.1%
	UK Industrial Production MoM (Apr)	1.8%
	UK Visible Trade Balance GBP/Mn (Apr)	-
	US U. of Mich. Sentiment (Jun P)	82.9
14/06	NZ Performance Services Index (May)	61.2
	JP Industrial Production MoM (Apr F)	2.5%
	EZ Industrial Production SA MoM (Apr)	0.1%

Source: Bloomberg

Macroeconomics

ECB left policy unchanged; reconfirmed accommodative stance:

- The ECB left all its key interest rates and other policy measures unchanged as expected. While expressing optimism over the Eurozone's growth outlook particularly in the services sector reopening and faster vaccination rates, it warned of a premature tightening of financing conditions that may pose a risk to recovery and inflation outlook. It thus decided to confirm its very accommodative monetary policy stance.
- The ECB maintained that the net purchases under its €1850b PEPP program "over the coming quarter" would be conducted at a "significantly higher pace". Some analysts had expected it to drop this language after bond yields stabilised in recent months.
- It also upgraded its growth projections, expecting the euro area economy to grow 4.6% in 2021, and 4.7% in 2022. The risks surrounding the euro area growth outlook were now "broadly balanced", also an upgrade from April's statement of seeing near-terms risks on the downside.
- Headline inflation is expected to rise further in 2H2021; underlying inflation will also "increase somewhat" this year. Price pressures will likely remain subdued overall, in part reflecting low wage pressures. HICP inflation is forecasted to be at 1.9% in 2021 and 1.5% in 2022, on temporary factors and higher energy prices.

US' CPI soared to 5.0% y/y in May:

- CPI rose 0.6% m/m in May (Apr: +0.8%), above expectations for a 0.4% increase as the currently strong consumer demand and to some extent the supply chain constraints helped drive up prices.
- Core CPI also came in higher at 0.7% m/m (Apr: +0.9%), compared to the expected 0.4%. Inflation was supported by sustained gain in prices of food and larger gain in prices of new vehicles as well as apparel. Prices of used cars and trucks climbed further (+7.3%) after having just risen sharply in the previous month (+10%).
- The annual CPI rate soared to 5.0% y/y (Apr: +4.2%), well above the forecast of 4.7%, partly reflecting a favourably low base. The core reading surged to 3.8% y/y (Apr: +3.0%), vs the forecast of 3.4%.

US' initial jobless claims continued to trend low:

- Initial jobless claims fell to 376k last week (prior: 385k), slightly missing the consensus estimate of 370k. The upbeat data did not come as a surprise as the job markets continued to see fewer layoffs last week amid a hiring boom. The latest data brought the 4-week moving average down to 402.5k (prior: 428k).

New Zealand's manufacturing PMI picked up in May:

- The Business NZ manufacturing Index rose slightly to 58.6 in May, from 58.3 prior. This reflects higher output and new orders. Like most parts of the world, the supply chain delay plagued New Zealand's manufacturing sector as well. BNZ said that the survey's numerous mentions of raw materials shortage highlighted the issue.

Japan's BSI survey highlight week business condition in 2Q:

- Japan's BSI Large Manufacturing Index turned negative at -1.4 in 2Q (1Q: +1.6), reflecting the deteriorating current business conditions in the sector that are currently facing a supply chain delay, rising material costs and the reimposition of the State of Emergency in some parts of Japan.
- The similar gauge for large firms in all industries edged lower to -4.7 (1Q: -4.5), suggesting that business conditions are not getting any better in the services industry.

Forex

MYR (Neutral)

- USD/MYR rose 0.1% to 4.1210 on Thursday. We continue to expect a subdued trading of USD/MYR following the modest FX movements overnight, anticipating the pair to stay within a tight range ahead of the weekend.

USD (Neutral-to-Bearish)

- The USD weakened against some G10 currencies, but a soft EUR meant that DXY was little changed. DXY was 0.05% down to a close of 90.08. We are slightly bearish on the DXY on some possible EUR catch-up in the coming session. This comes after strong inflation data for the US but initial jobless claims did not fall much further.

EUR (Neutral-to-Bullish)

- EUR/USD was down 0.08%, helped by the ECB's more dovish than expected stance. Pair closed at 1.2170. Post-meeting, we watch a range of 1.2104 (support) to 1.2254 (resistance). We see some potential for catch-up trades after the EUR underperformed, as dollar weakness is likely to continue.

GBP (Neutral)

- GBP/USD was up by 0.42% to an elevated 1.4177. This was helped by a lower-than-expected US initial jobless claims figure, although inflationary concerns are still present. Pair is now close to its YTD highs around the 1.42 big figure and we do not anticipate further breakthroughs from the recent 1.4100 to 1.4200 range.

JPY (Neutral)

- USD/JPY was down by 0.29% to a close of 109.33. This broke 2 successive sessions of upward movements. The pair continues to remain around the 109s, which we affirm with our current immediate neutral view. We place support at 109.10 and resistance at 109.90.

AUD (Neutral)

- AUD/USD recovered by 0.30% to close 0.7754 on Thursday's session. The pair has stayed within the 0.77-0.78 range mostly, hence looks anchored unless the dollar swings significantly. We anticipate the range to continue near-term.

SGD (Neutral)

- USD/SGD was 0.02% down, closing at 1.3240, as the SGD stayed relatively anchored. Singapore announced reopening measures after Phase 2 Heightened Alert, but they are gradual and done in two phases. We anticipate a 1.3189 support and 1.3280 resistance.

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