Global Markets Research

Daily Market Highlights

Key Takeaways

- **US stocks retreated further while treasury yields and the dollar soared after the Federal Reserve maintained its policy setting but signalled earlier-than-previously-expected rate hike.** Stocks sold off immediately after the Fed released its statement and the accompanying new dot plot and projections, but rebounded to trim some losses as Fed Chair Jerome Powell spoke to the press. **Fed officials now expect two rate hikes in 2023,** compared to in March when they predicted rates to be maintained at the currently near zero level. The Dow closed the session 0.8% lower while the S&P 500 shed 0.5%. NASDAQ was down by 0.2%. Wednesday marked US stocks' second consecutive losing session. The selling was broad-based, except for the small 0.2% gain in the S&P 500's consumer discretionary sector, supported by higher online retailing (Amazon, EBay) and automobile (Tesla, GM, Ford) shares.

- In the bond market, the short-to-medium end treasury yields shot up as much as 11.5bps. The yield on the 2Y notes rose 4.2bps to 0.21% while the 10s was 8.3bps higher at 1.58%. **Futures showed that markets have priced in a 93.5% chance of a hike as early as February 2023.** The dollar strengthened in tandem with higher yields, **gold prices tanked.** Spot gold was down by 2.6% to $1811.5/oz. Futures settled higher (+0.3%) overnight but tanked this morning to $1812.7/oz as of writing. **Crude oil prices extended gains as the US' EIA reported 7.4mil barrels draw in crude stocks, adding to signs of firmer consumption outlook.** Brent crude rose 0.5% to $74.39/barrel although the US WTI was little changed at $72.15/barrel.

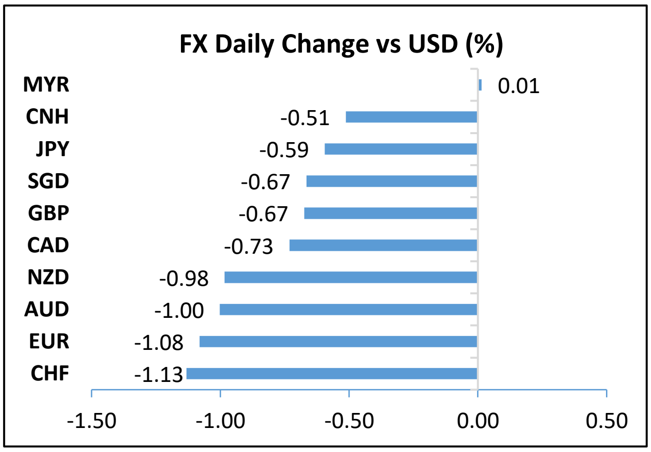
- **Data flow continued to stay mixed.** US' homebuilding data reflected the impact of supply chain issues as housing starts recovered modestly while building permits fell. UK's CPI soared to 2.1% y/y rate. China's May indicators posted steady growth but lacked the robust trend. New Zealand's 1Q GDP beat estimate at 1.6% q/q.

- USD strengthened after FOMC decision. DXY rose by 0.65% on Wednesday, closing at 91.13 after a 91.40 high. With market concerns regarding tighter US monetary policy likely to linger on, we continue to see some **gains in the USD**. Focus now turns to initial jobless claims data.

- USD/MYR closed on a flat note at 4.1165 ahead of the FOMC meeting. **USD/MYR** is expected to move **higher** as a result of the post-FOMC bullish dollar sentiment. We expect the pair to breach 4.12, likely heading towards 4.14 levels with 4.15 being a key resistance.

Market Snapshots

	Last Price	DoD %	YTD %
Dow Jones Ind.	34,033.67	-0.77	11.20
S&P 500	4,223.70	-0.54	12.45
FTSE 100	7,184.95	0.17	11.21
Hang Seng	28,436.84	-0.70	4.43
KLCI	1,578.32	-0.19	-3.00
STI	3,139.57	-1.11	10.40
Dollar Index	91.13	0.65	1.33
WTI oil ($/bbl)	72.15	0.04	48.70
Brent oil ($/bbl)	74.39	0.54	43.61
Gold (S/oz)	1,859.50	0.27	-4.35
CPO (RM/tonne)	3,508.00	1.05	-7.39



Source: Bloomberg

Overnight Economic Data

US	→	UK	↑
CN	↑	AU	↓
NZ	↑		

Up Next

Date	Events	Prior
17/06	SG Non-oil Domestic Exports YoY (May)	6.0%
	AU Employment Change (May)	-30.6k
	AU Unemployment Rate (May)	5.5%
	EZ CPI YoY (May F)	1.6%
	US Philadelphia Fed Business Outlook	31.5
	US Initial Jobless Claims (12 Jun)	--
	US Leading Index (May)	1.6%
18/06	JP Natl CPI Ex Fresh Food YoY (May)	-0.1%
	JP BOJ Policy Balance Rate (18 jun)	-0.1%
	UK Retail Sales Inc Auto Fuel MoM (May)	9.2%

Source: Bloomberg

Macroeconomics

Fed brought forward rate hike to 2023; officials discussed tapering but gave no formal signal:

- The Federal Reserve signalled that it would raise rates the earliest by 2023, from the near zero level to 0.5%, meaning two 25-bp rate hikes in 2023. It had in March expected to keep rates unchanged at current levels (at near zero) through 2023.
- The new dot plot showed a significant shift in officials' rates expectations for 2022 and mostly in 2023. All 18 members expect rates to be kept at near zero through 2021. For 2022, seven members indicated that they would lift rates, versus three in March's FOMC. For 2023, the number rose to 13 members, compared to just seven in March.
- In the press conference, Fed Chair Jerome warned against reading too much into the dot plot. He also revealed that officials did discuss the issue of tapering its bond-buying program but gave no formal indication as to when this scaling back would happen. He said this meeting could be viewed as a "talking about talking about" (bond tapering) meeting. He mentioned that the Fed was still "ways off" from achieving the progress needed to trigger a tapering.
- The Fed adopted a new, more upbeat language in its statement, adding that the progress of vaccination in the US would likely reduce the effects of the health crisis (pandemic) on the economy. However, it said risks to the economic outlook remain. It also changed its inflation assessment, acknowledging that inflation "having run persistently below" 2%, instead of the previous "running persistently below" 2%.
- In the latest set of quarterly projections, the Fed has revised its 2021's real GDP growth forecasts to +7.0% (vs +6.5% prior). It also expects stronger growth in 2023 (+2.4% vs +2.2% prior). The 2021's core PCE inflation was revised up sharply (+3.0% vs +2.2% prior) but inflation is expected to stay steady at 2.1% through 2022 and 2023 after the pandemic base effects dissipated. Meanwhile, the unemployment rate forecast was unchanged at 4.5% for 2021, but revised slightly lower for 2022 (3.8% vs 3.9% prior).

US' home building activity stalled by supply chain delays:

- Housing starts rose 3.6% m/m to a seasonally adjusted annual rate of 1.57mil units in May, little changed from the revised 1.52 mil units in the previous month. This represents only a minor increase in new constructions especially after the sharper 12.1% decline in April.
- New building permits issued fell for the second month (-3.0% m/m) to 1.68mil in May (Apr: 1.73mil), Developers had trouble sourcing raw materials amid the supply chain bottleneck; they might have also delayed starting some projects, until prices of raw materials eased from the recent high levels.
- In a separate release, MBA mortgage applications bounced back by 4.2% last week (prior: -3.1%) after three weeks of declines, as both refinancing and purchases segments picked up.

UK's CPI soared in May:

- The UK's consumer price inflation came in higher than expected at 0.6% m/m in May, compared to the consensus estimate of 0.3%. This followed the 0.6% gain in April and marked its fourth consecutive monthly climb since February.
- The annual rate of inflation jumped to 2.1% y/y (Apr: +1.5%), versus estimates of 1.8%. The core CPI rate also soared to 2% y/y (Apr: +1.3%), also beating estimates of 1.5%. The sharp advance in prices were driven by rising prices for clothing, motor fuel, recreational goods as well as dined-in meals as the UK government lifted restrictions following the easing of the pandemic situation at the

Forex

MYR (Bearish)

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USD (Neutral-to-Bullish)

- USD strengthened after FOMC decision. DXY rose by 0.65% on Wednesday, closing at 91.13 after a 91.40 high. With market concerns regarding tighter US monetary policy likely to linger on, we continue to see some gains in the USD. Focus now turns to initial jobless claims data.

EUR (Neutral-to-Bearish)

- EUR/USD plummeted by 1.08% on Wednesday's session, closing below the 1.20 big figure at 1.1995. Pair was weighed down by USD strength post-FOMC. The break now shifts attention towards the next support at 1.1910. Resistance at 1.2070.

GBP (Neutral-to-Bearish)

- GBP/USD retreated by around 1-2 big figures the previous session to a 1.3988 close. Pair looks set to stay on an offer tone post-FOMC. The break in previous support levels now shifts attention towards the support around the 1.3910 level, with resistance at 1.4080. Focus shifts to retail sales data on 18 June.

JPY (Neutral-to-Bearish)

- USD/JPY was up by 0.59% on Wednesday, closing at 110.71 after a decisive reaction after US FOMC meeting. Pair may test 31 March's high of 110.97 before forays above the 110 big figure. Support at 110. Data focus is on Japan's CPI and Bank of Japan's policy decision, both on 18 June.

AUD (Neutral-to-Bearish)

- AUD/USD pulled back sharply the last session, down by 1.0% to close at 0.7610. This is the lowest level seen since 13 April. The breakaway from the 0.77 to 0.78 range now shifts focus towards a 0.7560 support, while resistance is at 0.7700. Immediate focus is on employment figures that may distinguish AUD from other currency movements.

SGD (Neutral-to-Bearish)

- USD/SGD was up by 0.67% on Wednesday, closing at 1.3366 in the process. Pair is likely to be supported by market concerns on tighter US monetary policy. Besides, focus is on whether Singapore will reopen further following increased Covid-19 cases past week. A delay may threaten resistance at 1.3410, while support is at 1.3310.

restrictions following the easing of the pandemic situation at the point of time. The readings were also inflated by last year's low bases.

China's key indicators showed steady but unimpressive growth:

- China's key May data showed that the economy continues to expand at a steady pace, without much improvements or deterioration compared to April.
- Retail sales growth slowed to 12.4% y/y in May, from 17.7% in April. The underlying expansion continued to improve from a month ago, at around 4.5% (2019-2021 CAGR), compared to 4.3% prior.
- Industrial production eased to an 8.8% expansion, slower than the 9.8% previous print while its underlying growth eased to 6.6% (2019-2021 CAGR) from 6.8% prior.
- Fixed asset investments registered a 15.4% y/y YTD rise, but the pace was significantly lower than the 19.9% result in the previous month. This meant that fixed asset investment may have contracted in May on a y/y basis. It appeared that there is some degree of K-shaped recovery in China, with some sectors coping better after the downturn brought about by Covid-19.

New Zealand's economy staged strong rebound in 1Q21 after year-end dip:

- New Zealand's first quarter GDP growth came in stronger than expected at 1.6% q/q, versus the consensus estimate of 0.5%. This followed the unrevised 1.0% q/q contraction in the previous quarter, as the rebound in agricultural (+1.1%), manufacturing (+1%) and construction (+6.6%) sectors alongside a firmer services sector (+1.1%) growth helped prevent the economy from slumping into a double-dip recession.
- The year-on-year rate also beat forecast (+0.9%) at 2.4% y/y in 1Q, following the upwardly revised 0.8% decline.
- The services sector which made up about two third of the economy was the main driver behind the strong comeback as households spent more on accommodation, eating out as well as big ticket items according to StatNZ, leading the wholesale trade industry to grow 4% q/q and retail trade/accommodation industry to expand by 2.3 q/q.
- From the expenditure perspective, household spending rose 5.5% q/q alongside the 6.4% gain in capital investment; net export remained a drag on GDP due to falling exports and higher imports. Exports of services still reported a double-digit 20.2% q/q decline, reflecting the impact of border restrictions on the foreign tourism and education spending.

Australia's Westpac leading index showed easing growth rate:

- The Westpac Leading Index's 6-month annualised growth rate eased to 1.47% in May, from 2.86% previously as it continued to normalise to signal a more sustainable above-trend growth rate through 2021 and 2022.

Singapore's NODX missed expectations:

- Singapore's non-oil domestic exports rose 8.8% y/y in May compared to a 6.0% increase in April. This was despite low base effects last May. Hence, the result fell below expectations of a 16.0% expansion. Electronics exports rose by 11.0% y/y, remaining steady from 10.9% in April. Growth was supported by exports to China, and many Asian economies. However, exports to the US, Japan and EU fell.

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