1 July 2022

Global Markets Research

Daily Market Highlights

01-July: Stocks closed lower ahead of new quarter

Bonds rallied as risk aversion spurred ongoing flight to safe assets

Dollar reversed gains; oil posted second consecutive loss

US consumer spending slowed alongside core PCE inflation

- Global stocks fell and bonds rallied on the last day of a volatile second quarter as investors parsed the latest US spending and inflation data. The Dow Jones and S&P 500 fell 0.8% and 0.9% respectively, whereas the tech-focus NASDAQ closed 1.3% lower. Stocks fell in both Europe and Asia earlier where a number of European benchmarks lost over 1.7%.

- The ongoing recession fear was made worse by the weaker consumer spending data overnight, prompting a flight to safe assets such as US treasuries. The yield on the benchmark 10 dipped another 7bps to 3.02% while the short-term 2Y yield fell 8bps to below 3.00% at 2.96%.

- The dollar weakened modestly against nearly all G10 currencies on weaker US data. JPY was the best performing currency, notching 0.6% gain. The EUR and GBP appreciated by 0.4-0.5%. CHF stabilised after the recent strength. The dollar index edged lower by 0.4% to 104.69.

- The greenback traded mixed against Asian currencies, where SGD and CNH were seen higher on Thursday. MYR slipped 0.2% against the dollar, closing at the two-week low of 4.4085 alongside the weaker THB and IDR. The reversal in the broad dollar is likely to cap the downside for the MYR as investors await next week's BNM OPR decision.

- Oil shifted lower for the second consecutive session. Brent crude fell 1.3% to $114.81/barrel while WTI underperformed with a 3.7% decline at $105.76/barrel. OPEC+ reaffirmed the plan to produce an extra 648k barrels a day in August. Oil benchmarks posted their first monthly losses this year.

US consumer spending slowed alongside inflation; initial jobless claims at 231k

- Consumer spending and inflation growth eased in May, offering evidence that US price pressure may be peaking and the economy is heading towards a rapid slowdown. Personal spending rose 0.2% m/m in May, underperforming the consensus forecast of 0.4% while April's number was revised lower to 0.6% m/m. Personal income growth held steadily at 0.5% m/m, matching expectations.
- The core PCE price index, the Fed's favoured inflation gauge, rose 0.3% m/m (Apr: +0.3%) and 4.7% y/y (Apr: +4.9%). The y/y rate was below forecast of 4.8% y/y.
- Initial jobless claims fell by 2k to 231k for the week ended 25 June (prior: 233k), meaning that new claims have now been hovering at circa 230k for the past four weeks, compared to 200-220k levels seen in May. The 4-week moving average climbed for the 11th time within a 12-week period, adding to signs that hiring demand is slowing.
- The MNI Chicago PMI ticked down to 56.0 in June, from 60.3 in May, implying weaker operating conditions for businesses.

Key Market Metrics

	Level	d/d (%)
Equities		
Dow Jones	30,775.43	-0.82
S&P 500	3,785.38	-0.88
NASDAQ	11,028.74	-1.33
Stoxx Eur 600	407.20	-1.50
FTSE 100	7,169.28	-1.96
Nikkei 225	26,393.04	-1.54
Hang Seng	21,859.79	-0.62
Straits Times	3,102.21	-1.04
KLCI 30	1,444.22	-0.50
FX		
Dollar Index	104.69	-0.40
EUR/USD	1.0484	0.40
GBP/USD	1.2178	0.45
USD/JPY	135.72	-0.64
AUD/USD	0.6903	0.33
USD/CNH	6.6941	-0.21
USD/MYR	4.4085	0.21
USD/SGD	1.3905	-0.23
Commodities		
WTI ($/bbl)	105.76	-3.66
Brent ($/bbl)	114.81	-1.25
Gold ($/oz)	1,807.30	-0.56

Source: Bloomberg, HLBB Global Markets Research

Eurozone's unemployment rate hit new low; UK 1Q22 GDP growth unrevised:

- The Eurozone's unemployment rate fell to a fresh record low of 6.6% in May, beating the consensus forecast of 6.8%. April's rate was revised lower to 6.7%, from 6.8%. The reading affirmed the current tightness in the Euro area labour market.
- The UK first quarter GDP growth was unrevised at 0.8% q/q according to a final estimate (4Q: +1.3%). The y/y growth rate was also unchanged at 8.7% (4Q: +6.6%). Positive contributions from household consumption and investment were offset by the negative net exports.

Improving Japanese job data; mixed inflation and Tankan business outlook:

- Jobless rate unexpectedly rose a notch to 2.6% in May (Apr: 2.5%) and has been oscillating between 2.5-2.8% in the past 11 months. Job to applicant ratio inched up a notch to 1.24 (Apr: 1.23) as expected, marking its 5th straight month of climb indicating an improving labour market. Total applicants increased for the first time in four months (+1.1% vs -0.1% m/m) while job offers jumped 1.9% in May (Apr: +0.9%).
- Tokyo CPI unexpectedly eased to 2.3% y/y in June (May: +2.4%) but core CPI ex-fresh food and CPI ex-fresh food and energy ticked higher to 2.1% and 1.0% y/y respectively as expected, pointing to underlying price pressure in the system.
- Tankan survey turned in mixed pointing to diverging outlook between large and small setups, as well as manufacturing and non-manufacturing industries. Both large manufacturing and non-manufacturing outlook missed expectations, ticking up slower than expected in 2Q. Meanwhile, small manufacturing outlook sustained a -5 print but small non-manufacturing saw lesser pessimism (-5 vs -10). The positive takeaway comes from large all industry capex, which picked up more than expected by 18.6% (1Q: +2.2% and consensus +8.3%), pointing to prospects of pick-up in investment.

China's PMI showed rebounding economic activity; HK retail sales fell:

- China's economic activity rebounded in June according to the latest set of official PMI data, following the reopening of Shanghai after the successful containment of the Covid-19 outbreak. The NBS manufacturing PMI rose to 50.2 in June (May: 49.6), reflecting stronger new orders and improvement in suppliers' delivery time. The non-manufacturing PMI gained substantially to 54.7 (May: 47.8), driven by both construction and services activity.
- Hong Kong's retail sales fell 1.7% y/y in May, after jumping by 11.7% in April during which demand was boosted by the relaxation of Covid restrictions. The government said that as long as the local pandemic situation is under control, retail businesses should continue to survive. Sales of consumer durable goods dropped the most at -11.9% y/y among the key categories, dragged down by sales of motor vehicles which fell nearly 32% y/y.

New Zealand sentiment slumped in June:

- The ANZ business confidence dipped to -62.6 in June, from -55.6, its worst reading since April 2020 during the initial pandemic shock. Business activity outlook fell to -9.1, from -4.7 and profitability expectations were said to be dire in New Zealand.
- A separate ANZ survey showed that consumer confidence fell to 80.5 in the same month, down from 82.3 prior, as consumers downgraded family finance and economic outlook for the year ahead.

House View and Forecasts

FX	This Week	2Q-22	3Q-22	4Q-22	1Q-23
DXY	103-106	106.00	108.00	105.00	103.00
EUR/USD	1.04-1.06	1.02	1.00	1.01	1.03
GBP/USD	1.22-1.24	1.21	1.20	1.22	1.24

AUD/USD	0.67-0.70	0.69	0.68	0.69	0.70
USD/JPY	134-137	133.00	135.00	133.00	132.00
USD/MYR	4.39-4.42	4.38	4.40	4.38	4.35
USD/SGD	1.38-1.40	1.39	1.40	1.38	1.37

Rates, %	Current	2Q-22	3Q-22	4Q-22	1Q-23
Fed	1.50-1.75	1.50-1.75	2.50-2.75	3.00-3.25	3.00-3.25
ECB	-0.50	-0.50	0.00	0.50	0.50
BOE	1.25	1.25	2.00	2.00	2.00
RBA	0.85	0.85	1.60	1.60	1.60
BOJ	-0.10	-0.10	-0.10	-0.10	-0.10
BNM	2.00	2.00	2.50	2.75	2.75

Source: HLBB Global Markets Research

Up Next

Date	Events	Prior
01/07	MA S&P Global Malaysia PMI Mfg (Jun)	50.1
	VN S&P Global Vietnam PMI Mfg (Jun)	54.7
	JP Jibun Bank Japan PMI Mfg (Jun F)	52.7
	CN Caixin China PMI Mfg (Jun)	48.1
	EZ S&P Global Eurozone Manufacturing PMI (Jun F)	54.6
	UK S&P Global/CIPS UK Manufacturing PMI (Jun F)	54.6
	EZ CPI Estimate YoY (Jun)	8.1%
	US S&P Global US Manufacturing PMI (Jun F)	57.0
	US Construction Spending MoM (May)	0.2%
	US ISM Manufacturing (Jun)	56.1
04/07	AU Home Loans Value MoM (May)	-6.4%
	EZ Sentix Investor Confidence (Jul)	-15.8
	SG Purchasing Managers Index (Jun)	50.4

Source: Bloomberg

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