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Global Markets Research

Daily Market Highlights

04-July: 10Y UST yield pulled back to sub-3%

Bond yields retreated further as markets mulled recession risk

Dollar firmed up against most G10 currencies; JPY strengthened for 2nd session

US manufacturing PMIs showed easing demand conditions

- US stocks rose on Friday to start the third quarter of 2022. The Dow Jones and S&P 500 shed over 1.0% while tech-focus NASDAQ was down by 0.9%. Equities had closed on a mixed note in Europe and mostly lower in Asia.
- Treasury yields retreated further as investors repriced interest rates outlook amid emerging recession signs. The Federal Reserve Bank of Atlanta's GDP nowcast predicts a technical recession in the second quarter. UST yields fell 8-16bps across the board, led by the belly of the curve. The yield on the benchmark 10Y UST dropped 13bps further to 2.88%, its first time below 3.0% since 07 June. The benchmark 2Y UST yield fell 12bps to 2.84%.
- The dollar regained momentum on safe haven bids, strengthening against all G10 currencies except the JPY. The yen has now gained for the second consecutive session to trade 135.21 against the dollar. Among the G10, NOK (-1.5%) was the worst performing currency, followed by the AUD (-1.3%). The EUR and GBP both weakened by 0.7%. The dollar index rose 0.4% to 105.14.
- Most Asian currencies faltered against the dollar, with the THB (-0.8%) recording the largest losses, followed by the SGD (-0.4%). MYR was resilient, closing the Friday's session little changed at 4.4075. For the MYR, focus now shifts to this week's BNM OPR decision. Our house view calls for a further 25bp increase in the OPR but we are not discounting the possibility of a bigger 50bp hike, which if materializes, could infuse some fresh leads for the MYR. We are still neutral to slightly bullish on USD/MYR in the range of 4.39-4.42 for now.
- Oil benchmarks traded mixed on Friday. Brent crude plummeted 2.8% to \$111.63/barrel but WTI rose 2.5% to \$108.43/barrel. OPEC+ output fell 120k barrels a day, marking its second successive decline despite the cartel's promise to raise production.

US manufacturing weakened in June; private residential construction spending rose marginally:

- The ISM Manufacturing Index ticked down to 53.0 in June, from 56.1, confirming that the country's manufacturing conditions are indeed softening. The reading is in line with the S&P Global US Manufacturing PMI which slumped to 52.7 in the same month (May: 57.0). The ISM survey reported a contraction in new orders and employment as well as a weaker expansion of new export orders. This matches the narrative offered by a series of regional Fed manufacturing PMI which indicate softer demand conditions.
- A separate report shows that construction spending fell 0.1% m/m in May, underperforming the expectations for a 0.4% growth, although the decline came on the heel of an upward revision to April's number (revised up to 0.8% m/m from 0.2%). The marginal decline in construction expenditure was driven by the

Key Market Metrics

	Level	d/d (%)
Equities		
Dow Jones	31,097.26	1.05
S&P 500	3,825.33	1.06
NASDAQ	11,127.84	0.90
Stoxx Eur 600	407.13	-0.02
FTSE 100	7,168.65	-0.01
Nikkei 225	25,935.62	-1.73
Hang Seng	21,859.79	-0.62
Straits Times	3,095.59	-0.21
KLCI 30	1,449.74	0.38
FX		
Dollar Index	105.14	0.43
EUR/USD	1.0414	-0.67
GBP/USD	1.2095	-0.68
USD/JPY	135.21	-0.38
AUD/USD	0.6814	-1.29
USD/CNH	6.6974	0.05
USD/MYR	4.4075	-0.02
USD/SGD	1.3967	0.45
Commodities		
WTI (\$/bbl)	108.43	2.52
Brent (\$/bbl)	111.63	-2.77
Gold (\$/oz)	1,801.50	-0.32

Source: Bloomberg, HLBB Global Markets Research

non-residential sector as the private residential spending continued to pick up 0.2% m/m (Apr: +1.7%).

Mixed manufacturing PMI readings elsewhere:

- Manufacturing conditions were seen weakening elsewhere reflecting weaker new orders and the persistent supply chain constraints and elevated cost pressure. PMI in the Eurozone dropped to 52.1 (May: 54.6) while the UK factory gauge eased to 52.8 (May: 54.6).
- In Asia, China's PMI rebounded for the first time above 50 in four months, at 51.7 (May: 48.1) following the reopening of Shanghai. PMI in Japan ticked lower to 52.7, versus 53.3 prior. Malaysia's PMI rose to 50.4 (May: 50.1) while Vietnam's PMI weakened slightly to 54.0 (May: 54.7).

Record high inflation suggests ECB may hike 50bps in Sep:

- The Eurozone's HICP inflation beat expectations in June, coming in at a record high of 8.6% y/y. This compared to 8.5% consensus forecast and 8.1% May reading. The surge in the headline index reflects a steeper rise in the cost of foods, alcohol & tobacco (+8.9%) as well as energy (+41.9%) and non-energy industrial goods (+4.3%). The core CPI rate, however, slipped to 3.7% y/y, from 3.8% prior, on the back of a softer services inflation (+3.4%). Nonetheless, the record high inflation drove up the expectations that the ECB may opt to hike its key interest rates by 50bps in September after the confirmed 25bp increase in July.

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	1.03-1.06	1.02	1.00	1.01	1.03
GBP/USD	1.21-1.23	1.21	1.20	1.22	1.24
AUD/USD	0.67-0.70	0.69	0.68	0.69	0.70
USD/JPY	135-137	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
04/07	AU Home Loans Value MoM (May)	-6.4%
	EZ Sentix Investor Confidence (Jul)	-15.8
	SG Purchasing Managers Index (Jun)	50.4
05/07	JP Labor Cash Earnings YoY (May)	1.3%
	JP Jibun Bank Japan PMI Services (Jun F)	54.2
	SG S&P Global Singapore PMI (Jun)	59.4
	CN Caixin China PMI Services (Jun)	41.4
	AU RBA Cash Rate Target (05 Jul)	0.85%
	SG Retail Sales YoY (May)	12.1%
	EZ S&P Global Eurozone Services PMI (Jun F)	52.8
	UK S&P Global/CIPS UK Services PMI (Jun F)	53.4
	US Factory Orders (May)	0.3%

Source: Bloomberg

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