6 July 2022

Global Markets Research
Daily Market Highlights

06-July: Bonds and USD rose on haven bids

Global yields plunged as recession fear heightened
US dollar appreciated against major currencies; EUR briefly hit 1.02 handle
Oil roiled as demand concerns overtaken by tight supply

- The US major stock benchmarks closed on a mixed note on Tuesday after a long weekend. The Dow Jones fell 0.4% while the S&P 500 rose modestly by 0.2%; tech-focus NASDAQ rallied by 1.8%. Safe havens were well bid resulting in lower treasury yields across the curve. The benchmark 10Y UST yield slipped 7bps to 2.81%.

- Equities suffered a sharp reversal in Europe as soaring European natural gas prices (driven by Norway's oil strike) and inflation stocked recession fear. The pan-European STOXX Europe 600 plunged 2.1%, led by losses in the energy sector. Germany's 10Y bund yield plummeted 15bps to 1.23% as the curve bull steepened.

- The UK FTSE 100 closed 2.9% lower following the resignation of the Johnson government's two senior ministers; one of them being the finance minister Rishi Sunak. UK 10Y gilt ticked down 14bps to 2.05%.

- In the currency market, the dollar reigned supreme as investors fled to safe havens. The dollar index rallied by a whopping 1.3% to 106.54, its strongest level since 2002. The Norwegian krone was the worst performing currency by recording a 2.1% daily loss. The EUR shed 1.5% to its lowest level since 2002 and briefly touched the 1.02 handle.

- The GBP depreciated 1.4%, losing the 1.20 key support as the Bank of England said that the global economic outlook has deteriorated materially in its newly published financial stability report and said that they will evaluate the chances of a deep recession.

- The AUD also succumbed to the dollar strength, edging lower by 0.9% even though the RBA hiked the benchmark cash rate by 50bps on Tuesday and signalled more to come.

- In the Asian basket, SGD was the worst performing currency (-0.75%), followed by INR and THB as both recorded 0.5% decline. The MYR weakened modestly (-0.1%) for the second consecutive session to 4.4195. The local unit remained relatively resilient compared to other Asian currencies as traders tread cautiously ahead of today'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

Key Market Metrics

	Level	d/d (%)
Equities		
Dow Jones	30,967.82	-0.42
S&P 500	3,831.39	0.16
NASDAQ	11,322.24	1.75
Stoxx Eur 600	400.68	-2.11
FTSE 100	7,025.47	-2.86
Nikkei 225	26,423.47	1.03
Hang Seng	21,853.07	0.10
Straits Times	3,104.11	-0.52
KLCI 30	1,440.81	0.23
FX		
Dollar Index	106.54	1.33
EUR/USD	1.0266	-1.50
GBP/USD	1.1947	-1.41
USD/JPY	135.85	0.17
AUD/USD	0.6802	-0.92
USD/CNH	6.7118	0.26
USD/MYR	4.4193	0.13
USD/SGD	1.4059	0.75
Commodities		
WTI ($/bbl)	99.50	-8.24
Brent ($/bbl)	102.77	-9.45
Gold ($/oz)	1,763.90	-2.09
Copper ($$/MT)	7,670.00	-4.20
Aluminum ($/MT	2,392.00	-2.92
CPO (RM/tonne)	4,698.00	-2.90

Source: Bloomberg, HLBB Global Markets Research 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 was roiled by recession fear as WTI closed below $100 for the first time since 10 May. The US benchmark lost $8.9 or 8.2% to $99.50/barrel while Brent crude fell 9.5% to $102.77. Fear of slowing demand overtook that of a tight supply. The workers' strike in Norway over wages issue has ended and industrial action was avoided at gas fields.

US factory orders surged in May:

- The headline US factory orders rose 1.6% m/m in May, besting the estimates of 0.5% growth. April's orders were also revised higher to reflect a larger 0.7% m/m increase (vs initial estimate of 0.3%). Orders placed for durable goods (goods that last for three years and above) rose 0.8% m/m (Apr: +0.4%) while the core capital orders picked up 0.6% m/m (Apr: +0.3%), implying solid business capex despite elevated inflation and growing economic concerns.

Services sector continued to expand in the Eurozone. UK and Japan:

- Final readings showed that the S&P Global Eurozone Services PMI fell to 53.0 in June (May: 56.1); the slowdown reflects a weaker uplift in new business.
- A similar gauge for the UK rose to 54.3 in June (May: 53.4), indicating solid increase in activity although demand conditions appeared to be weakening.
- The Jibun Bank Japan Services PMI rose to 54.0 in June (May: 52.6), indicating a solid rise in activity following the easing of domestic pandemic restrictions in Japan.
- The Caixin China Services PMI rebounded sharply to 54.5 in June (May: 41.4) to signal a renewed rise in services sector activity following the government's move to loosen Covid-19 containment measures.

Singapore's retail sales rose in May:

- Singapore's retail sales rose 1.8% m/m in May, extending from the 1.1% growth in April. This translates to a 17.8% y/y growth compared to a year ago (Apr: +12.1%); the strong showing was driven by robust sales across the board, from wearing apparels & footwear to food & alcohol. The nearly 46% increase in petrol was driven by higher oil prices versus a year ago.
- The S&P Global Singapore PMI ticked lower to 57.5 in June, down from 59.4 in May. The latest reading signalled continuous expansion in Singapore's private sector activity, supported by strong demand and output growth.

Australia's RBA hiked rate by 50bps:

- The RBA hiked the cash rate by 50bps from 0.85% to 1.35%, marking its third back-to-back hike since May. The decision was in line with the consensus forecasts. RBA maintained the same forward guidance that it will "take further steps in the process of normalising monetary conditions in Australia over the months ahead". "The size and timing of future interest rate increases will be guided by the incoming data and the Board's assessment of the outlook for inflation and the labour market.".
- It reiterated the fact that Australia's inflation is high but not as high as other countries. It said that inflation is expected to peak later this year and then decline back to the 2-3% range next year, different from its June statement of expecting inflation to "increase further". It maintained that Australia's economy is resilient but one source of uncertainty about the economic outlook is the behaviour of household spending. It continues to flag risk regarding the war in Ukraine, Covid uncertainties in China and tightening financial conditions.

House View and Forecasts

FX	This Week	3Q-22	4Q-22	1Q-23
DXY	103-106	108.00	105.00	103.00
EUR/USD	1.02-1.05	1.00	1.01	1.03
GBP/USD	1.19-1.22	1.20	1.22	1.24
AUD/USD	0.67-0.70	0.68	0.69	0.70
USD/JPY	135-137	135.00	133.00	132.00
USD/MYR	4.39-4.42	4.40	4.38	4.35
USD/SGD	1.39-1.41	1.40	1.38	1.37

Rates, %	Current	3Q-22	4Q-22	1Q-23
Fed	1.50-1.75	2.50-2.75	3.00-3.25	3.00-3.25
ECB	-0.50	0.00	0.50	0.50
BOE	1.25	2.00	2.00	2.00
RBA	1.35	1.60	1.85	1.85
BOJ	-0.10	-0.10	-0.10	-0.10
BNM	2.00	2.50	2.75	2.75

Up Next

Date	Events	Prior
06/07	HK S&P Global Hong Kong PMI (Jun)	54.9
	MA BNM Overnight Policy Rate (06 Jul)	2.00%
	EZ Retail Sales MoM (May)	-1.3%
	US MBA Mortgage Applications (01 Jul)	0.7%
	US S&P Global US Services PMI (Jun F)	51.6
	US ISM Services Index (Jun)	55.9
	US JOLTS Job Openings (May)	11400k
07/07	US FOMC Meeting Minutes (15 Jun)	--
	AU Exports MoM (May)	1%
	MA Foreign Reserves (11110)	$109.2b
	US ADP Employment Change (Jun)	128k
	US Trade Balance (May)	-$87.1b
	US Initial Jobless Claims (02 Jul)	--

Source: Bloomberg

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