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Global Markets Research

Daily Market Highlights

07-July: UST yields jumped on hawkish Fed minutes

US stocks closed modestly higher; European shares rallied

Dollar index hit 107; short-term UST yield marched up by 18bps

BNM hiked OPR by 25bps to 2.25%, paving way for more measured normalization

- Wall Street stocks closed modestly higher and treasury yields surged after the Fed published a hawkish FOMC minutes while the latest set of economic data turned out better than expected. The main US benchmarks rose 0.2% to 0.4% after a weaker opening in the early session.

- The European stock markets rallied after a recent selloff. The pan-European STOXX Europe 600 jumped 1.7%, led by consumer products and services shares. While earlier in Asia, the equity markets closed lower amid a fall in risk appetites. Both Nikkei 225 and Hang Seng fell 1.2%.

- US treasury yields shot up 8-19bps, led by the front end of a bear-flattening curve as the FOMC minutes point to more aggressive Fed tightening in the coming months. The yield on the benchmark 2Y UST gained an enormous 18bps to 3.01% while the 10Y UST yield marched up 12bps to 2.93%.

- The minutes revealed that officials agreed moving to a "restrictive stance" of policy and "recognized the possibility that an even more restrictive stance could be appropriate" should high inflation persist. As mentioned before by Chair Powell, officials were pondering either a 75 or 50bp increase in the coming meeting.

- The dollar index picked up 0.5% to 107.10, its strongest level in 20 years, extending from the 1.3% increase in the prior session. All G10 currencies depreciated against the greenback with the Danish krone, euro and Norwegian krone being the worst performing currencies (-0.8%).

- EUR/USD lost grip on the 1.02 handle and faltered to 1.0184, a level not seen since December 2002, spurring the concerns that the single-currency will soon hit parity against the dollar. The EUR continued to underperform other majors amid mounting fear that Russia may cut off gas supply to Europe and send the bloc into a recession.

- The AUD and NZD lost 0.3-0.4%, tracking the continuous decline in oil prices although the CAD was relatively resilient (-0.07%). GBP fell modestly (-0.2%) amid political uncertainties while the JPY also held steadily (-0.07%) thanks to its safe haven nature.

- In the Asian basket, Philippine peso and Thai baht suffered the heaviest losses (0.8% and 0.7% respectively) as Asian currencies traded rather mixed against the greenback. MYR fell 0.1% against the USD to close at 4.4245 as the market

Key Market Metrics

	Level	d/d (%)
Equities		
Dow Jones	31,037.68	0.23
S&P 500	3,845.08	0.36
NASDAQ	11,361.85	0.35
Stoxx Eur 600	407.34	1.66
FTSE 100	7,107.77	1.17
Nikkei 225	26,107.65	-1.20
Hang Seng	21,586.66	-1.22
Straits Times	3,103.66	-0.01
KLCI 30	1,420.85	-1.39
FX		
Dollar Index	107.10	0.53
EUR/USD	1.0182	-0.82
GBP/USD	1.1926	-0.18
USD/JPY	135.95	0.07
AUD/USD	0.6779	-0.34
USD/CNH	6.7150	0.05
USD/MYR	4.4245	0.12
USD/SGD	1.4058	-0.01
Commodities		
WTI ($/bbl)	98.53	-0.97
Brent ($/bbl)	100.69	-2.02
Gold ($/oz)	1,736.50	-1.55
Copper ($$/MT)	7,520.50	-1.95
Aluminum ($/MT	2,409.50	0.73
CPO (RM/tonne)	4,344.00	-7.52

Source: Bloomberg, HLBB Global Markets Research had priced in the 25bp OPR hike even before the actual announcement. BNM raised the OPR by 25bps to 2.25%, marking its second rate hike after May's adjustment.

- Oil sold off for the second day in a row on demand concerns, briefly pushing Brent crude to below $100 level. Brent settled 2.0% lower at $100.69/barrel while WTI shed another 1.0% to $98.53/barrel.

US services growth softened; job openings still above 11mil:

- The ISM Services PMI slipped to 55.3 in June, down from 55.9 in May while the separately released S&P Global US Services PMI also retreated to 52.7 (May: 53.4). This implied softer but continued expansion in US services activity as demand weakened. The fall in the ISM employment index to sub-50 level (47.4) points to softened hiring.
- US job openings fell slightly to 11.3mil in May, from the upwardly revised 11.7mil in April. The number remains near the record high level of 11.9mil in March, indicating sustained hiring demand.
- Mortgage applications fell 5.7% w/w for the week ended 01 July, after the modest 0.7% climb prior. Both purchases and refinancing applications fell last week even though interest rates fell on a weekly basis but remained high compared to a year ago. The 30Y fixed rate mortgage rate was lower at 5.74% (vs 5.84% prior), markedly higher compared to 3.15% same time last year.

Eurozone's retail sales picked up modestly in May:

- Retail sales rose 0.2% m/m in May, underperforming the expectations of 0.4% m/m and marking a small recovery from the 1.4% decline in April. The slightly higher sales were driven by the full rebound in the sales of non-food products (+1.2% m/m) after the previous month's fall. Food, drinks & tobacco declined for the second successive month. Compared to a year ago, retail sales were 0.2% y/y higher (Apr: +4.0%). The weaker recovery in sales is an early indication of how high inflation is having an impact on the overall demand.

Hong Kong's PMI showed softer private sector expansion:

- The S&P Global Hong Kong PMI edged down to 52.4 in June, from 54.9 prior, indicating that the private sector expanded for the third consecutive month but at a slower rate. The continuous expansion was supported by domestic orders as overseas and Chinese demand contracted. The survey reported that lingering impacts of Covid-19 remained the driving force behind slower growth.

BNM hiked OPR by 25bps:

- BNM decided at its monetary policy meeting yesterday to raise the OPR by a further 25bps to 2.25% as widely expected. This was premised on improving growth prospects of the Malaysian economy, and in line with the central bank's earlier guidance back in May for a gradual and measured policy normalization path. This is a cautious and more sensible move in our view, given increasing risks of a slowdown in the world economy, more so with amplified recession noises in recent weeks.
- A comparatively moderate inflationary condition in Malaysia given the heavily subsidized consumer staples are also expected to allow BNM to take on less aggressive moves compared to other central banks in our view. We therefore maintain our view for a further 25-50bps increase in the OPR to 2.50-2.75% this year, seeking to minimize the gap with the Fed whilst ensuring longer term growth and price stability.

House View and Forecasts

FX	This Week	3Q-22	4Q-22	1Q-23
DXY	104-108	108.00	105.00	103.00
EUR/USD	1.00-1.05	1.00	1.01	1.03
GBP/USD	1.18-1.22	1.20	1.22	1.24
AUD/USD	0.67-0.69	0.68	0.69	0.70
USD/JPY	135-137	135.00	133.00	132.00
USD/MYR	4.40-4.43	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	2.25	2.50	2.75	2.75

Up Next

Date	Events	Prior
07/07	AU Exports MoM (May)	1.0%
	MA Foreign Reserves (11110)	$109.2b
	US ADP Employment Change (Jun)	128k
	US Trade Balance (May)	-$87.1b
	US Initial Jobless Claims (02 Jul)	231k
08/07	JP Household Spending YoY (May)	-1.7%
	MA Industrial Production YoY (May)	4.60%
	US Change in Nonfarm Payrolls (Jun)	390k
	US Unemployment Rate (Jun)	3.60%
	US Average Hourly Earnings YoY (Jun)	5.20%

Source: Bloomberg

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