Hong Leong Bank

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Global Markets Research

Daily Market Highlights

10-June: ECB turned hawkish to rein in Eurozone's inflation

US stocks plunged ahead of key CPI data as growth concerns mounted

ECB said will hike rate by 25bps in July and more to come

Dollar strengthened across all G10 currencies; commodity units sold off the most

- US stocks plunged overnight, tracking the losses in the European markets as growth concerns mounted after the European Central Bank turned hawkish and said it will hike rates in July to tackle the elevated inflation. The Dow Jones fell 638pts or 1.9% while the S&P 500 dropped 2.4% with all eleven sectors ending in the red. NASDAQ edged down by 2.8%. The pan-European STOXX Europe 600 fell 1.4%.

- Treasury yields mostly ended higher ahead of the all-important US CPI data tonight which is expected to help shape next week's FOMC decision over the pace of rate hikes after July. The yield on the benchmark 10Y UST rose 2bps to 3.04%.

- The dollar appreciated against all G10 currencies overnight amid risk aversion. Commodity currencies suffered the heaviest losses; the NOK, AUD, CAD and NZD lost 1.0-1.4% against the USD. The EUR plummeted 0.9% to 1.0617 despite a hawkish ECB. The dollar index rallied 0.7% to 103.22.

- USD/MYR closed little changed at 4.3930. The broad USD strength may push the pair higher today to circa 4.4000s. The anticipation for US CPI data may keep the pair grounded within the range of 4.39-4.41. Downside appeared to be limited at 4.35-4.37.

- Oil prices fell modestly by 0.4-0.5% amid profit taking and in response to a reinstatement of a temporary lockdown of Shanghai's seven districts this weekend. Brent crude settled at $123.07/barrel and WTI was last seen at $121.51/barrel on Thursday.

ECB plans to hike rates in July:

- The ECB kept the key interest rates unchanged on Thursday but said that it intended to raise them by 25bps at its July meeting. It added that it will raise rates again in September although the magnitude of the hikes was not specified but signalled that a larger increment may be appropriate in September if inflation outlook persists or deteriorates. After September, the ECB aims to take a "gradual but sustained path of further rate increases". It also announced the end of its asset purchase program (APP) on 1 July.
- Revised inflation projections indicate that inflation will remain undesirably elevated for some time. The ECB now sees annual inflation at 6.8% in 2022, compared to its March forecast of 5.1%. Growth forecast for 2022 was also revised lower to 2.8%, from 3.7% in the previous estimate. It said that the near-term activity is expected to be dampened by higher energy costs, the deterioration in the terms of trade, greater uncertainty and the adverse impact of high inflation on disposable income. Labour market continues to improve. The Ukraine-Russia war continues to be a significant downside risk to growth. The ECB

Key Market Metrics

	Level	d/d (%)
Equities		
Dow Jones	32,272.79	-1.94
S&P 500	4,017.82	-2.38
NASDAQ	11,754.23	-2.75
Stoxx 600	434.38	-1.36
FTSE 100	7,476.21	-1.54
Nikkei 225	28,246.53	0.04
Hang Seng	21,869.05	-0.66
Straits Times	3,209.62	-0.50
KLCI 30	1,509.71	-0.93
FX		
Dollar Index	103.22	0.66
EUR/USD	1.0617	-0.92
GBP/USD	1.2493	-0.35
USD/JPY	134.36	0.08
AUD/USD	0.7098	-1.33
USD/CNH	6.7009	0.00
USD/MYR	4.3930	-0.03
USD/SGD	1.3831	0.53
Commodities		
WTI ($/bbl)	121.51	-0.49
Brent ($/bbl)	123.07	-0.41
Gold ($/oz)	1,848.80	-0.17

Source: Bloomberg, HLBB Global Markets Research affirms its commitment to stabilise inflation at its 2.0% target over the medium term.

US initial jobless claims rose by 27k last week:

- Initial jobless claims in the US rose by 27k to 229k for the week ended 04 Jun, following the upwardly revised 202k in the previous week. The reading missed the forecast of 206k and largely reflected the impact of the Memorial Day holiday. The four-week moving average continued to climb higher to 215k (prior: 207k), its eighth increase within a nine-week period, adding to signs that layoff in the country is picking up pace although the broader job market remains tight.

China's trade began recovering in May:

- China's trade activity improved more than expected in May following the easing of Covid restrictions as factories resumed production and consumers were back to spend. Export growth came in better than expected at 16.9% y/y, compared to the consensus forecast of 8.0% and higher than April's 3.9%. Imports rose 4.1% y/y in May after a flat reading in April, beating the consensus estimate of 2.8%.

Japan's producer prices unexpectedly stagnated in May:

- PPI stagnated in May on a month-on-month basis, pulling back more than expected from the 1.1% m/m increase in April. This marked its lowest print since Nov-20. On a y/y basis, PPI increased at a slower than expected pace of 9.1% y/y (Apr: +9.5% downwardly revised), adding to signs inflationary pressure is plateauing and offering some reprieves over run-away inflation.

New Zealand card spending decelerated sharply in May:

- Total card spending pulled back sharply to increase a mere 1.4% m/m in May (Apr: +7.3% upwardly revised), mainly as a result of the sharply slower growth in retail card spending (+1.9% vs +7.1% m/m). Spending on non-retail industries meanwhile showed a pick-up (+5.5% vs +2.8%). The broad moderation in core retail spending across all major categories namely apparel (+6.8% vs +16.9%), durables (+0.2% vs +0.8%), and consumables (+0.3% vs +5.2%), signified slower consumer spending that would implicate on 2Q growth.

House View and Forecasts

FX	This Week	2Q-22	3Q-22	4Q-22	1Q-23
DXY	101-103	106.00	108.00	105.00	103.00
EUR/USD	1.06-1.09	1.02	1.00	1.01	1.03
GBP/USD	1.25-1.27	1.21	1.20	1.22	1.24
AUD/USD	0.71-0.73	0.69	0.68	0.69	0.70
USD/JPY	127-132	133.00	135.00	133.00	132.00
USD/MYR	4.35-4.40	4.38	4.40	4.38	4.35
USD/SGD	1.36-1.38	1.39	1.40	1.38	1.37

Rates, %	Current	2Q-22	3Q-22	4Q-22	1Q-23
Fed	0.75-1.00	1.25-1.50	2.00-2.25	2.50-2.75	2.50-2.75
ECB	-0.50	-0.50	0.00	0.50	0.50
BOE	1.00	1.25	1.25	1.25	1.25
RBA	0.85	0.85	1.60	1.85	1.85
BOJ	-0.10	-0.10	-0.10	-0.10	-0.10
BNM	2.00	2.00	2.50	2.50	2.75

Source: HLBB Global Markets Research

Up Next

Date	Events	Prior
10/06	CN PPI YoY (May)	8.0%
	CN CPI YoY (May)	2.1%
	MA Industrial Production YoY (Apr)	5.1%
	US CPI YoY (May)	8.3%

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	US U. of Mich. Sentiment (Jun P)	58.4
13/06	JP BSI Large Manufacturing QoQ (2Q)	-7.6
	UK Monthly GDP (MoM) (Apr)	-0.1%
	UK Construction Output MoM (Apr)	1.7%
	UK Industrial Production MoM (Apr)	-0.2%
	UK Index of Services MoM (Apr)	-0.2%
	UK Visible Trade Balance GBP/Mn (Apr)	-£23897m

Source: Bloomberg