11 August 2022

Global Markets Research

Daily Market Highlights

11 Aug: US CPI inflation cooled in July

US consumer inflation eased on lower prices of gasoline, airfares and used cars

Stocks rallied & yield curve steepened as markets reprice Fed rate path

Dollar retreated alongside lower short-term yields

- US stocks rallied and treasury yield curve steepened overnight after the US reported cooling inflation data. The Dow Jones jumped 535pts or 1.6% while the S&P 500 gained 2.1%. Notably, NASDAQ rose 2.9% and was pushed out of bear market territory.

- Short-term treasury yields fell as the retreat in inflation took the pressure off the Federal Reserve to deliver another 75bp rate hike in September and led the market to reprice the fed funds rates' outlook. The benchmark 2Y UST yield lost 5bps to 3.22% while the 10Y yield gained less than 1bp to 2.79%.

- The dollar weakened across the board amid lower short-term yields. The NOK (+2.2%), followed by the AUD and NZD which rose 1.8%. JPY rallied 1.6% and GBP advanced 1.2%. EUR underperformed G10 currencies but still notched a 0.8% gain. The dollar index shed 1.1% to 105.23, its steepest single-day decline since mid-June.

- In the Asia-ex-Japan market, SGD jumped 0.7% overnight. CNY rose 0.4%. Losers include THB, KRW, IDR and PHP. MYR (-0.03%) saw another steady session on Wednesday, closing little changed at 4.4555.

- Oil jumped on the renewed risk appetites. Brent crude rose 1.1% to $97.40/barrel and WTI climbed 1.6% to $91.93/barrel. The average price of a gallon of unleaded gasoline in the US fell to $4 on Wednesday, according to the Wall Street Journal, marking a 20% decline from June's peak of $5.02/gallon.

US inflation decelerated in July on lower gasoline prices:

- Headline and core CPI inflation eased in the US last month. CPI inflation was flat on a m/m basis in July (Jun: +1.3%), lower than the consensus forecast of 0.2% while the gain in core CPI rate eased to 0.3% m/m (Jun: +0.7%). This reflects the decline in prices of gasoline, used cars as well as airfares. Food and shelter continued to post large m/m increases.
- On a y/y basis, the headline CPI rate ticked lower to 8.5% y/y in July, coming off the 9.1% rate recorded in June but still near a four-decade high. Core CPI rate was steady at 5.9% y/y (Jun: 5.9%).
- On a separate release, the MBA Mortgage Applications rose 0.2% w/w for the week ended 05 Aug, extending from the 1.2% increase prior. The small increase masked the 1.4% fall in the purchases index, as the overall housing demand continued to weaken on the back of higher rates. Refinancing applications rose 3.5% compared to the previous week.

China's inflation picked up less than expected in July:

- China's July inflation readings missed the consensus forecasts. CPI inflation accelerated to 2.7% y/y, from 2.5% prior but lower than the estimates of

Key Market Metrics

	Level	d/d (%)
Equities		
Dow Jones	33,309.51	1.63
S&P 500	4,210.24	2.13
NASDAQ	12,854.80	2.89
Stoxx Eur 600	439.88	0.89
FTSE 100	7,507.11	0.25
Nikkei 225	27,819.33	-0.65
Hang Seng	19,610.84	-1.96
Straits Times	3,286.33	0.47
KLCI 30	1,492.33	-0.36
FX		
Dollar Index	105.20	-1.11
EUR/USD	1.0299	0.84
GBP/USD	1.2219	1.15
USD/JPY	132.89	-1.60
AUD/USD	0.7089	1.77
USD/CNH	6.7231	-0.48
USD/MYR	4.4555	0.03
USD/SGD	1.3693	-0.70
Commodities		
WTI ($/bbl)	91.93	1.58
Brent ($/bbl)	97.40	1.13
Gold ($/oz)	1,803.30	0.10
Copper ($$/MT)	8,085.50	1.28
Aluminum ($/MT)	2,489.50	-0.04
CPO (RM/tonne)	4,176.00	1.31

Source: Bloomberg, HLBB Global Markets Research

2.9%. This was largely driven by higher food prices (+6.3% y/y) where prices of pork (Chinese household's main poultry choice) were seen increasing by 20.2% y/y. The fact that the core CPI rate slipped to 0.8% y/y (Jun: +1.0%) suggests that price pressure has cooled. Services inflation slowed to 0.7% y/y, from 1.0% previously as China continued to impose the world's strictest Covid restrictions. PPI rate (a gauge of pipeline inflation) continued its downward trend for the ninth consecutive month, coming in at a 16-month low of 4.2% y/y in July (Jun: +6.1%).

Singapore's final 2Q GDP growth at 4.4% y/y:

- A final report showed that Singapore's economy contracted by 0.2% q/q in the second quarter of 2022, revised down from the initial estimate of 0.0% q/q. This followed the 0.9% q/q growth in the first quarter.
- Compared to the same quarter last year, GDP growth was revised lower to 4.4% (initial estimate: +4.8%) but higher than the first quarter growth of 3.8% y/y. This reflects sustained strength in the manufacturing industry as well as the services industry, particularly in the retail trade and food & beverages sectors following the full economic reopening this year.

House View and Forecasts

FX	This Week	3Q-22	4Q-22	1Q-23	2Q-23
DXY	105-107	106.00	105.00	103.00	102.00
EUR/USD	1.01-1.03	1.02	1.03	1.05	1.04
GBP/USD	1.21-1.23	1.21	1.22	1.24	1.23
AUD/USD	0.69-0.71	0.67	0.69	0.70	0.70
USD/JPY	131-134	138.00	135.00	133.00	132.00
USD/MYR	4.44-4.46	4.42	4.40	4.38	4.35
USD/SGD	1.37-1.39	1.40	1.38	1.37	1.36

Rates, %	Current	3Q-22	4Q-22	1Q-23	2Q-23
Fed	2.25-2.50	2.50-2.75	3.00-3.25	3.00-3.25	3.00-3.25
ECB	-0.50	0.25	0.50	0.50	0.50
BOE	1.75	1.75	2.00	2.00	2.00
RBA	1.85	1.60	1.85	1.85	1.85
BOJ	-0.10	-0.10	-0.10	-0.10	-0.10
BNM	2.25	2.50	2.75	2.75	2.75

Source: HLBB Global Markets Research

Up Next

Date	Events	Prior
11/08	US PPI Final Demand YoY (Jul)	11.3%
	US Initial Jobless Claims (06 Aug)	360k
12/08	NZ BusinessNZ Manufacturing PMI (Jul)	49.7
	MA GDP YoY (2Q)	5.0%
	UK Monthly GDP (MoM) (Jun)	0.5%
	UK GDP QoQ (2Q P)	0.8%
	UK Industrial Production MoM (Jun)	0.9%
	UK Index of Services MoM (Jun)	0.4%
	UK Visible Trade Balance GBP/Mn (Jun)	-£21445m
	HK GDP YoY (2Q F)	-1.4%
	EZ Industrial Production SA MoM (Jun)	0.8%
	US Import Price Index YoY (Jul)	10.7%
	US U. of Mich. Sentiment (Aug P)	51.5

Source: Bloomberg

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