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Global Markets Research
Daily Market Highlights

12-May: US CPI inflation cooled in April

US stocks fell as the cooling CPI data still beat consensus forecasts
10Y UST yield pulled back to below 3.00% after auction
BNM delivered a surprised OPR hike, sending USD/MYR lower

- US stocks slipped on Wednesday in response to the hotter-than-expected inflation data, indicating that US price pressure will stay high. All US main stock benchmarks closed lower by 1.0-3.2% with the tech-focus NASDAQ leading the losses. Earlier, Europe's major markets recorded solid gains – the STOXX Europe 600 jumped 1.7%. The Asian market saw another mixed session – stocks fell in Hong Kong and Japan but rose in China.
- The yield curve flattened on Wednesday as the benchmark 10Y UST yield slipped 7bps to below 3.00%, at 2.92% following the inflation data and the new issuance of \$36b 10Y notes. The auction yielded a BTC ratio of 2.49x, compared to 2.43x in the last similar exercise. The benchmark 2Y UST yield rose 3bps to 2.64%.
- The dollar traded on a mixed note against the G10 basket. The dollar index was little changed (-0.07%) at 103.85 as the USD's strength against the GBP and EUR was offset by the losses against the JPY and CAD.
- USD/MYR retreated 0.1% to 4.3775 after BNM unexpectedly hiked the OPR rate by 25bps to 2.0% on Wednesday. We maintain the view that the USD/MYR outlook remains slightly bullish, supported by the continuously strong USD sentiment. The pair remained very much USD driven as the OPR hike may not have significant effect, likely keeping it range-bound with recent levels of 4.3700-4.3850 ahead of tomorrow's 1Q GDP data.
- Crude oil prices rebounded as the US retail gasoline prices hit another record high. Traders also awaited development on the European oil sanctions on Russia. WTI jumped 6% to \$105.71/barrel after having fallen to below the \$100 mark in the previous session. The American Automobile Association (AAA) said that US gasoline prices hit \$4.374/gallon, topping the former record of \$4.331/gallon. Brent crude rose 4.9% to \$107.51/barrel.

US consumer inflation eased in April:

- The US consumer prices rose 0.3% m/m in April, easing from the 1.2% m/m climb in March but slightly higher than the consensus forecast of 0.2% m/m. This reflects the 6.3% m/m decline in gasoline prices alongside the lower apparel and used cars prices as well as the softer increase in costs of energy services. Food inflation also eased slightly but remained near 1.0% m/m. Services inflation picked up to 0.7% m/m, indicating that the robust job market and continued economic expansion may continue to keep price pressure elevated.
- The y/y CPI inflation rate fell to 8.3%, down from 8.5% prior. Consensus had pencilled in an 8.1% y/y increase. Core CPI rose at a slower pace as well at 6.2% y/y, versus 6.5% y/y previously.

Key Market Metrics

	Level	d/d (%)
Equities		
Dow Jones	31,834.11	-1.02
S&P 500	3,935.18	-1.65
NASDAQ	11,364.24	-3.18
Stoxx 600	427.59	1.74
FTSE 100	7,347.66	1.44
Nikkei 225	26,213.64	0.18
Hang Seng	19,824.57	0.97
Straits Times	3,226.07	-0.25
KLCI 30	1,555.93	0.09
FX		
Dollar Index	103.85	-0.07
EUR/USD	1.0513	-0.15
GBP/USD	1.2251	-0.53
USD/JPY	129.97	-0.37
AUD/USD	0.6938	0.00
USD/CNH	6.7643	0.25
USD/MYR	4.3775	-0.12
USD/SGD	1.3896	-0.09
Commodities		
WTI (\$/bbl)	105.71	5.96
Brent (\$/bbl)	107.51	4.93
Gold (\$/oz)	1,853.70	0.69

Source: Bloomberg, HLBB Global Markets Research

US mortgage refinancing fell as rates increased:

- Mortgage applications rose 2.0% w/w last week (prior: +2.5%), supported by continued increase in the purchases index (+4.5% w/w) as the refinancing applications fell 2.0% w/w amid higher mortgage rates. The average rate for a 30Y fixed rate contract rose to 5.53% (prior: 5.36%), versus just 3.11% a year ago.

China's inflation remained high but showed signs of slowdown

- China's larger than expected inflation readings were an outcome of the elevated commodity prices and China's uncompromising adherence to its zero-Covid policy that had spurred panic buying among consumers.
- China's CPI inflation surged to 2.1% y/y in April, besting the consensus estimates of 1.8% y/y. This represents a steep climb from the 1.5% y/y rate in March. The core CPI inflation which softened to 0.9% y/y, from 1.1% y/y, however, showed that price pressures showed signs of slowing down. On a m/m basis, CPI rate accelerated to 0.4% (Mar: 0.0%).
- PPI inflation eased to 8.0% y/y in the same month (Mar: +8.3%). The m/m PPI rate softened substantially to 0.6% m/m (Mar: +1.1%), another signal for retreating prices.

Australia's consumer sentiment deteriorated in May:

- The Westpac Consumer Confidence Index slipped to a 21-month low of 90.4 in May, from 95.8 prior. The 5.6% m/m drop in confidence reflected pessimism related to rising costs of living as seen in the whopping 11.2% m/m drop in the gauge of the year ahead family finance. Consumers also expected a poorer economic outlook in the year ahead with the sub-index falling 5.8% m/m.

Malaysia's BNM delivered surprised 25bp hike:

- BNM decided to increase the Overnight Policy Rate (OPR) by 25bps to 2.00% at yesterday's MPC meeting, lifting it off the record low of 1.75% maintained since August-2020. The decision to hike came earlier than expected, and was premised on BNM's assessment on firmer growth backdrop of the Malaysian economy, hence the need to adjust the degree of monetary accommodativeness last instituted during the beginning of the pandemic to support growth. In addition to that, we believe recent step-up efforts by other central banks in tackling inflation, as well as extended acceleration in core inflation domestically, could have prompted BNM to deliver an earlier than expected rate hike today.
- We expect BNM to deliver another 25bps increase in the OPR in the second half of the year, after having kickstarted its policy normalization cycle today. However, it has signalled that this will be done in a measured and gradual manner, suggesting it may not hike back-to-back and will keep to its 25bps move.
- In a separately released statement, BNM said that Malaysia's international reserves fell to \$112.5b as at 29 April, down from \$114.4b in March. The reserves are sufficient to finance 5.9 months of imports of goods and is 1.2 times of the total short-term external debt.

House View and Forecasts

FX	This Week	2Q-22	3Q-22	4Q-22	1Q-23
DXY	102-105	106.00	108.00	105.00	103.00
EUR/USD	1.04-1.06	1.02	1.00	1.01	1.03
GBP/USD	1.22-1.25	1.21	1.20	1.22	1.24
AUD/USD	0.70-0.72	0.69	0.68	0.69	0.70
USD/JPY	129-131	133.00	135.00	133.00	132.00
USD/MYR	4.35-4.40	4.38	4.40	4.38	4.35
USD/SGD	1.38-1.39	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	-0.50	-0.25	-0.25
BOE	1.00	1.25	1.25	1.25	1.25

RBA	0.35	0.50	0.75	1.00	1.25
BOJ	-0.10	-0.10	-0.10	-0.10	-0.10
BNM	2.00	2.00	2.25	2.25	2.50

Source: HLBB Global Markets Research

Up Next

Date	Events	Prior
12/05	UK RICS House Price Balance (Apr)	74.0%
	AU Consumer Inflation Expectation (May)	5.2%
	UK Monthly GDP (MoM) (Mar)	0.1%
	UK GDP QoQ (1Q P)	1.3%
	UK Industrial Production MoM (Mar)	-0.6%
	UK Index of Services MoM (Mar)	0.2%
	UK Visible Trade Balance GBP/Mn (Mar)	-£20594m
	US PPI Final Demand YoY (Apr)	11.2%
	US Initial Jobless Claims (07 May)	200k
13/05	NZ BusinessNZ Manufacturing PMI (Apr)	53.8
	MA GDP YoY (1Q)	3.6%
	HK GDP YoY (1Q F)	4.7
	EZ Industrial Production SA MoM (Mar)	0.7%
	US Import Price Index YoY (Apr)	12.5%
	US U. of Mich. Sentiment (May P)	65.2

Source: Bloomberg

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