13 June 2022

Global Markets Research
Daily Market Highlights

13-June: US CPI inflation at fresh 40-year high

US equity tanked as US May inflation hit 8.6%, consumer sentiment hit record low
Treasuries yields jumped as much as 25bps as investors repriced Fed's rates trajectory
US Dollar appreciated across the board; GBP suffered the deepest loss

- US stocks plummeted on Friday and closed out the week in losses as US inflation surged to a fresh 40-year high in May, adding fuel to the widespread growth and inflation concerns. The Dow Jones and S&P 500 shed 2.7% and 2.9% respectively while tech-heavy NASDAQ slumped 3.5%. On a weekly basis, all three benchmarks lost 4.6-5.6%. European stocks also ended Friday and the week in the red, responding to high US inflation print and the ECB's recent hawkish pivot.

- Short-term US treasury yields jumped sharply on Friday as the inflation data led investors to reprice the Fed's rates trajectory. The yield on the benchmark 2Y treasury notes ticked up by a whopping 25bps in a single session to 3.07%. The 10Y benchmark UST yield rose 12bps to 3.16%, its highest level since November 2018.

- The dollar continued to reign supreme in the FX market, appreciating against all G10 currencies on Friday. The JPY held relatively steady (-0.04%) thanks to its safe haven appeal. The GBP suffered the deepest losses of 1.4% on Friday as the BOE said that UK 12-month inflation expectation was now the highest on record. The dollar index closed higher for the third consecutive session (+0.9%) at 104.15 and ended the week with a near-2.0% gain.

- On Friday, USD/MYR strengthened by 0.3% to 4.4020, in line with the broad USD strength ahead of the US CPI data. We expect USD/MYR to remain on a neutral-to-slightly bullish trajectory in the week ahead, likely in a range of 4.37-4.42. Upside is capped by the slight overbought position in the pair while downside is limited given expectations for a still strong USD outlook.

- Oil extended its modest decline to Friday's session amid risk aversion. Brent crude edged lower by 0.9% to $122.01/barrel while WTI was down by 0.7% to $120.67/barrel. For the week, both benchmarks were up by 1.5-1.9%.

US 40Y high inflation driven by higher prices of energy, food and housing:

- Consumer price index in the US rose 1.0% m/m in May, besting the forecast of 0.7% and April's 0.3%. On a monthly basis, inflation was driven by prices of energy, as gasoline rose 4.5% m/m as well as the increase in housing costs, food, apparel and transportation. The services inflation was held steady at 0.8% m/m. However, the core inflation held steady at 0.6% m/m, but besting the forecast of 0.5%.
- This in turn translated to an 8.6% y/y increase in headline inflation, compared to 8.3% (forecast and April's reading), its largest increase since 4Q 1981. The core inflation eased to 6.0% y/y (Apr: +6.2%).
- In a separately released preliminary report, the University of Michigan Consumer Sentiment Index slipped to a record low of 50.2 in June, from 58.4 in May, reflecting consumers' deteriorating assessment over their personal financial situation amid the elevated inflation, particularly the sharp rise in gasoline price.

Key Market Metrics

	Level	d/d (%)
Equities		
Dow Jones	31,392.79	-2.73
S&P 500	3,900.86	-2.91
NASDAQ	11,340.02	-3.52
Stoxx 600	422.71	-2.69
FTSE 100	7,317.52	-2.12
Nikkei 225	27,824.29	-1.49
Hang Seng	21,806.18	-0.29
Straits Times	3,181.73	-0.87
KLCI 30	1,493.95	-1.04
FX		
Dollar Index	104.15	0.90
EUR/USD	1.0519	-0.92
GBP/USD	1.2315	-1.42
USD/JPY	134.41	0.04
AUD/USD	0.7058	-0.56
USD/CNH	6.7303	0.44
USD/MYR	4.4020	0.20
USD/SGD	1.3879	0.35
Commodities		
WTI ($/bbl)	120.67	-0.69
Brent ($/bbl)	122.01	-0.86
Gold ($/oz)	1,871.50	1.23

Source: Bloomberg, HLBB Global Markets Research

Over the weekend, the AAA reported that the US average gasoline price had topped $5.00/gallon for the first time on record. The year-ahead business outlook conditions recorded the steepest decline.

China's producer price inflation slowed down:

- China's May producer price inflation eased to 6.4% y/y as expected, down from 8.0% in the previous month. The softer reading reflects the impact of the Shanghai lockdown and the high base effect of commodity prices. CPI inflation meanwhile, stabilised at 2.1% y/y, slightly lower than the 2.2% forecast, thanks to weak demand which helped tame the overall consumer prices despite elevated food inflation.

Japan's BSI 2Q survey showed improved business conditions:

- Japan's BSI survey by the Ministry of Finance on all large industry showed present business conditions improved substantially to -0.9 in 2Q (1Q: -7.5), as a strong rebound in the non-manufacturing sectors (+3.4 vs -7.4) following easing Covid constraints cushioned bigger deterioration in the manufacturing sectors (-9.9 vs -7.6). Business conditions among medium and small firms also improved, although remained in negative territory. Most importantly, business outlook for 3Q and 4Q ahead also showed a recovery trajectory, back into positive territory save for the minor contraction among small firms.

Malaysia's IPI growth moderated in April:

- Malaysia's industrial production index registered a slower increase again, by 4.6% y/y in April (Mar: +5.1%), as production from the manufacturing sector grew more slowly in the wake of supply chain disruption exacerbated by the lockdown in China.
- Softness was mainly noted in the export-oriented sectors including E&E (+14.2% vs +18.6%) and petroleum, chemicals, rubber & plastic (-1.2% vs +0.1%) while domestic oriented sectors like food & beverages (+4.3% vs +4.1%) and transport equipment (+5.8% vs +1.7%) performed better, a sign of improvement in domestic demand.
- The mining sector contracted marginally by 0.1% y/y (Mar: +0.3%) dragged by decline in crude oil index (-0.8% y/y). In tandem with the softer IPI growth, manufacturing sales also expanded at a slightly slower rate of 13.2% y/y in April (Mar: +13.9%).

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	1.22-1.24	1.21	1.20	1.22	1.24
AUD/USD	0.70-0.72	0.69	0.68	0.69	0.70
USD/JPY	133-137	133.00	135.00	133.00	132.00
USD/MYR	4.38-4.43	4.38	4.40	4.38	4.35
USD/SGD	1.37-1.40	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
13/06	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
14/06	AU NAB Business Confidence (May)	10.0
	JP Industrial Production MoM (Apr F)	-1.3%
	UK Payrolled Employees Monthly Change (May)	121k
	UK Average Weekly Earnings 3M/YoY (Apr)	7.0%
	UK ILO Unemployment Rate 3Mths (Apr)	3.7%
	UK Employment Change 3M/3M (Apr)	83k
	EZ ZEW Survey Expectations (Jun)	-29.5
	US NFIB Small Business Optimism (May)	93.2
	US PPI Final Demand YoY (May)	11.0%

Source: Bloomberg

Hong Leong Bank Berhad
Fixed Income & Economic Research, Global Markets
Level 8, Hong Leong Tower
6, Jalan Damanlela
Bukit Damansara
50490 Kuala Lumpur
Tel: 603-2081 1221
Fax: 603-2081 8936
HLMarkets@hlbb.hongleong.com.my