14 July 2022

Global Markets Research

Daily Market Highlights

14-July: US consumer inflation hit 9.1%

Short-term UST yield jumped as markets firmed up expectations for 75bp rate hike

Key yield curve inverted further; USD traded weaker against most majors

Bank of Canada "front-load" with surprised 100bp rate hike; RBNZ raised OCR by 50bps

- US equities closed modestly lower overnight in response to the red-hot CPI reading that showed US inflation hitting a new four-decade high of 9.1%. The Dow Jones shed 0.7% while the S&P 500 fell 0.5%. NASDAQ ticked down by 0.2%. Earlier, European shares also ended in red. The STOXX Europe 600 slumped 1.0% while the FTSE 100 slipped 0.7% despite the strong UK data. Stocks were mixed in Asia with Nikkei 225 adding 0.5% and Hang Seng ending 0.2% lower.

- The inversion of a key yield curve deepened overnight as front-end UST yields shot up on inflation data. The benchmark 2Y UST yield, which is most sensitive to monetary policy changes, jumped 11bps to 3.16% as the higher-than-expected CPI print cements expectations for a 75bp Fed rate hike later this month. The 10Y UST yield fell 3bps to 2.94%. The spread between the 2Y and 10Y UST yield, a predictor of recession, widened to -22bps, its biggest gap since the year 2000.

- The dollar traded modestly lower against nearly all G10 currencies. The Norwegian krone (+0.5%) was the best performing currency. CAD rose only 0.4% despite the Bank of Canada's shocking 100bp rate hike. The BOC judged that the economy is in excess demand and inflation is high and broadening while high inflation expectations will persist longer. It decided to "front-load the path to higher interest rates" and signalled that interest rates will need to rise further.

- EUR gained some ground (+0.2%) but still on the edge of parity against the dollar. GBP was flat; the same went to AUD and NZD as the RBNZ's 50bp rate hike was already priced in the market. JPY (-0.4%) was the sole G10 loser, reversing the previous day's gain. The dollar index ticked down 0.1% to just a tad below 108.

- In the Asian basket, most currencies strengthened moderately versus the greenback. South Korean won rose the most at +0.4%, followed by the SGD (+0.2%). MYR traded little changed (+0.04%) at 4.4370 against the dollar.

- Oil recovered just a little after the over-7% selloff in the previous day. Brent crude stabilised at $99.57/barrel (+0.08%) while WTI rose 0.5% to $96.30/barrel.

US CPI inflation hit fresh four-decade high:

- Consumer price index rose 1.3% m/m in June (May: +1.0%). Price pressure was broad based across goods and services and led by the 11.2% increase in gasoline prices. Transportation rose 3.8% m/m and food picked up 1.0%. Services inflation advanced to 0.9%.

Key Market Metrics

	Level	d/d (%)
Equities		
Dow Jones	30,772.79	-0.67
S&P 500	3,801.78	-0.45
NASDAQ	11,247.58	-0.15
Stoxx Eur 600	412.81	-1.01
FTSE 100	7,156.37	-0.74
Nikkei 225	26,478.77	0.54
Hang Seng	20,797.95	-0.22
Straits Times	3,128.69	-0.54
KLCI 30	1,411.32	-1.04
FX		
Dollar Index	107.96	-0.11
EUR/USD	1.0059	0.22
GBP/USD	1.1889	0.00
USD/JPY	137.39	0.38
AUD/USD	0.6760	0.03
USD/CNH	6.7260	-0.14
USD/MYR	4.4370	-0.04
USD/SGD	1.4044	-0.21
Commodities		
WTI ($/bbl)	96.30	0.48
Brent ($/bbl)	99.57	0.08
Gold ($/oz)	1,735.50	0.62
Copper ($$/MT)	7,325.50	-0.39
Aluminum ($/MT)	2,355.50	-0.19
CPO (RM/tonne)	4,244.00	0.87

Source: Bloomberg, HLBB Global Markets Research

- This translates to a 9.1% y/y CPI inflation rate in June (May: +8.6%), its biggest 12-month increase since November 1981 and surpassed the consensus forecast of 8.8%. The core CPI inflation eased to 5.9% y/y (May: 6.0%) but still higher than forecast of 5.7%.
- The MBA mortgage applications fell 1.7% w/w for the week ended 08 July, extending from the 5.4% decline in the previous week. Applications for new purchases of homes fell 3.6%, in contrast to the 2.2% rise in refinancing applications, reflecting the impact of higher rates on mortgage demand. The 30Y fixed rate contracts' average rate stood unchanged at 5.74%.
- The Fed's latest Beige Book reported that the US economic activity expanded at a modest pace, "on balance", since mid- May but several Fed districts reported growing signs of a slowdown in demand.

Eurozone's industrial production rose more than expected in May:

- The Eurozone's industrial production picked up 0.8% m/m in May (Apr: +0.5%), beating expectations for a more modest 0.3% increase. The robust reading was driven by higher output/rebound in the bloc's smaller economies such as Ireland (+13.9%) and Greece (+2.6%). Output in its largest economies namely Germany, France, Italy and Spain all recorded declines in output. Industrial output was higher by 1.6% y/y compared to a year ago (May: -2.5%).

UK nominal GDP growth rebounded in May:

- UK monthly nominal GDP rose 0.5% m/m in May (Apr: -0.2%), boosted by the rebound in industrial and construction output. Industrial production rose 0.9% m/m in May (Apr: -0.1%) as manufacturing output jumped 1.4% m/m (Apr: -0.6%). Construction output rose 1.5% m/m in May after a modest April (+0.3%) while the services sector expanded by 0.4% m/m (Apr: -0.2%).

China's exports rose further in June:

- China's exports rose 17.9% y/y in June, extending from the 16.9% increase in May as the reopening of Shanghai and the loosening of Covid restrictions boosted trade while manufacturers ramped up production. Import growth weakened to 1.0% y/y (May: +4.1%), likely reflecting the lingering impact of port congestion between April and May.

Singapore's advance GDP growth missed forecast:

- Singapore's 2Q22 GDP growth reading underperformed expectations. According to an advance estimate, the economy expanded by 4.8% y/y, following an upwardly revised 4.0% growth in 1Q. The reading missed the consensus forecast of 5.4%. On a q/q basis, GDP was unchanged (no growth), versus the forecast of 1.0% and 1Q's upwardly revised 0.9%, indicating that growth had peaked in the first quarter before higher inflation and weaker external conditions weigh on the subsequent quarters.

RBNZ delivered third successive 50bp rate hike:

- The RBNZ hiked the official cash rate (OCR) by 50bps to 2.50% in a widely expected move, marking its third successive 50bp rate hike. The central bank reiterated its hawkish stance to further lift rates higher to quell inflation, by saying that "the Committee agreed to continue to lift the OCR to a level where it is confident consumer price inflation will settle within the target range". It remains "comfortable" that the projected path of OCR outlined in May is broadly consistent with achieving its monetary policy objectives.
- This means that it still intends to raise rates to 3.4% by the end of the year i.e., another potential 100bps by 2022. It weighed the near-term upside risks to consumer price inflation against the medium-term downside risks to economic activity and concluded that capacity pressures remain pervasive.

Employment is above maximum sustainable level and rising wage is an expected outcome.

House View and Forecasts

FX	This Week	3Q-22	4Q-22	1Q-23	2Q-23
DXY	106-108	106.00	105.00	103.00	102.00
EUR/USD	1.00-1.03	1.02	1.03	1.05	1.04
GBP/USD	1.18-1.21	1.21	1.22	1.24	1.23
AUD/USD	0.67-0.69	0.67	0.69	0.70	0.70
USD/JPY	134-137	138.00	135.00	133.00	132.00
USD/MYR	4.41-4.45	4.42	4.40	4.38	4.35
USD/SGD	1.39-1.41	1.40	1.38	1.37	1.36

Rates, %	Current	3Q-22	4Q-22	1Q-23	2Q-23
Fed	1.50-1.75	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	1.25	1.75	2.00	2.00	2.00
RBA	1.35	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
14/07	AU Employment Change (Jun)	60.6k
	AU Unemployment Rate (Jun)	3.9%
	JP Industrial Production MoM (May F)	-7.2%
	US PPI Final Demand YoY (Jun)	10.8%
	US Initial Jobless Claims (09 Jul)	235k
15/07	NZ BusinessNZ Manufacturing PMI (Jun)	52.9
	CN Industrial Production YoY (Jun)	0.7%
	CN GDP YoY (2Q)	4.8%
	CN Retail Sales YoY (Jun)	-6.7%
	CN Fixed Assets Ex Rural YTD YoY (Jun)	6.2%
	EZ Trade Balance SA (May)	-31.7b
	US Empire Manufacturing (Jul)	-1.2
	US Retail Sales Advance MoM (Jun)	-0.3%
	US Import Price Index YoY (Jun)	11.7%
	US Industrial Production MoM (Jun)	0.1%
	US U. of Mich. Sentiment (Jul P)	50

Source: Bloomberg

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