15 June 2022

Global Markets Research

Daily Market Highlights

15-June: Markets anticipate a 75bps Fed rate hike

Treasury yields climbed further as traders priced in more aggressive Fed rate hikes

Greenback strengthened; sterling and yen battered

Oil slumped as OPEC sees almost 50% drop in demand next year

- US stock benchmarks mostly closed lower while treasury yields continued to surge overnight as investors firmed up the expectations of a more aggressive rate hike by the Federal Reserve this week after US CPI inflation hit a fresh 40-year high. The Dow Jones closed 0.5% lower while the S&P 500 fell 0.4% after having entered a bear market in the previous session. Tech-focus NASDAQ defied the trend and picked up 0.2%, driven by Oracle's better than expected earnings. European stocks ended in red while Asian markets saw mixed performances.

- US treasury yields climbed 8-13bps, driven by the belly of the curve. The yield on the benchmark 2Y UST notes rose 7bps to 3.43% while the benchmark 10Y UST yield jumped 11bps to 3.48%. Fed dated overnight index swaps showed that traders now priced in a 75bp hike in the fed funds rates this week, followed by another similar action in July.

- The greenback continued to advance against most G10 currencies overnight with the heaviest losses seen in the NOK and GBP, followed by the JPY and AUD. The dollar index added 0.4% to 105.52. The pound tanked to below 1.20 as traders anticipated the BOE to lag the Fed in this week's rate hike. The BOE is expected to deliver its fifth 25bp adjustment in the bank rate as officials faced the pressure of a much weaker outlook heading into the third quarter. The yen dropped to its lowest level in 24 years as it breached the key 135 level. Gold slumped 1.0% to $1809.50/oz.

- Earlier, USD/MYR closed slightly higher at 4.4215. The pair is still expected to track the broad dollar strength. After breaching 4.4200, the market looks toward the 4.4500 critical level of which it was short of reaching when the Covid-19 pandemic first shocked global markets in March 2020.

- Oil fell overnight as in a preliminary estimate, OPEC projected global oil demand to slow by almost 50% next year amid high inflation and softer economic growth. Brent crude shed 0.9% to $121.17/barrel. The US benchmark WTI fell more sharply (-1.7%) to $118.93/barrel as the market was gripped by noises of more energy legislations to rein in US energy costs.

US producer price inflation climbed; small biz sentiment fell to record low:

- The PPI inflation for final demand rose 0.8% m/m in May (Apr: +0.4%) driven by the sharp increase in energy goods as well as the overall rise in services (trade, warehousing etc). The core reading rose 0.5% m/m (Apr: +0.2%), supporting the case for a more aggressive rate hike by the Fed.
- On a y/y basis, the headline producer price inflation slowed to 10.8% (Apr: +10.9%) while the core rate also eased to 8.3% y/y (Apr: +8.6%), indicating that the annual PPI inflation has peaked in the previous month, although price pressures remained high across the board.

Key Market Metrics

	Level	d/d (%)
Equities		
Dow Jones	30,364.83	-0.50
S&P 500	3,735.48	-0.38
NASDAQ	10,828.35	0.18
Stoxx 600	407.32	-1.26
FTSE 100	7,187.46	-0.25
Nikkei 225	26,629.86	-1.32
Hang Seng	21,067.99	0.00
Straits Times	3,108.89	-0.97
KLCI 30	1,481.28	1.12
FX		
Dollar Index	105.52	0.42
EUR/USD	1.0416	0.07
GBP/USD	1.1997	-1.13
USD/JPY	135.47	0.78
AUD/USD	0.6871	-0.75
USD/CNH	6.7549	-0.41
USD/MYR	4.4215	0.09
USD/SGD	1.3934	-0.12
Commodities		
WTI ($/bbl)	118.93	-1.65
Brent ($/bbl)	121.17	-0.90
Gold ($/oz)	1,809.50	-1.01

Source: Bloomberg, HLBB Global Markets Research

- In a separate note, the NFIB Small Business Optimism Index slipped to a fresh low of 93.1 in May (Apr: 93.2), as small business owners in the US turned gloomier over the US growth outlook amid challenging operating conditions characterised by high inflation and labour shortage.

German investor sentiment improved in June:

- German investor sentiment over both Germany and the broader euro area improved in June albeit remained negative. The ZEW investor expectations for the Eurozone increased to -28.0 in June, up from -29.5 in May. The same reading for Germany rose substantially to -28.0, from -34.3 previously.
- A separate release earlier showed that Germany's headline inflation hit 8.7% y/y record high in May, versus 7.8% increase in April.

UK job data remained fairly positive:

- The UK latest set of job data showed that the labour market remained fairly strong. Payrolled employees rose 90k in the month of May (Apr: +107k), outperforming the +70k forecast. A separate government measure also showed 177k employment gains in the period of Feb-Apr (prior: -53k) while the unemployment rate fell to 3.8% (prior: 4.0%). The average nominal weekly earnings rose to 6.8%, from 4.9% previously, as the tight labour market continues to push up wage growth.

Japan's industrial output fell but core machine orders jumped in April:

- Japan's industrial production data for the month of April was revised lower to reflect a 1.5% m/m decline, versus -1.3% m/m loss in the first estimate. In March, industrial output had risen by 0.3% m/m. On a y/y basis, output fell 4.9% y/y (Mar: -1.7%).
- Core machine orders staged a surprised pick-up to 10.8% m/m in April (Mar: +7.1%), against expectations for a 1.3% decline and marked its best since Oct-20. On a y/y basis, orders jumped 19.0% (Mar: +7.6% y/y), driven by both foreign and domestic demand, a sign of pick-up in business investment ahead.

Australia's business conditions and confidence eased in May:

- Australia's NAB Business Confidence Index slipped by 4pts to 6 in May (Apr: 10) while the conditions index also fell to 16 (Apr: 19), as both confidence and conditions eased last month. The survey, however, showed that the overall conditions remained strong across industries and states except for construction as profitability in that sector came under pressure. The survey also indicates that the economy has maintained its momentum into 2Q and most businesses are in a strong position despite higher inflation.

House View and Forecasts

FX	This Week	2Q-22	3Q-22	4Q-22	1Q-23
DXY	102-106	106.00	108.00	105.00	103.00
EUR/USD	1.03-1.06	1.02	1.00	1.01	1.03
GBP/USD	1.20-1.24	1.21	1.20	1.22	1.24
AUD/USD	0.68-0.71	0.69	0.68	0.69	0.70
USD/JPY	131-135	133.00	135.00	133.00	132.00
USD/MYR	4.40-4.45	4.38	4.40	4.38	4.35
USD/SGD	1.38-1.40	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
15/06	AU Westpac Consumer Conf SA MoM (Jun)	-5.6%
	CN Industrial Production YoY (May)	-2.9%
	CN Retail Sales YoY (May)	-11.1%
	CN Fixed Assets Ex Rural YTD YoY (May)	6.8%
	EZ Industrial Production SA MoM (Apr)	-1.8%
	EZ Trade Balance SA (Apr)	-17.6b
	US MBA Mortgage Applications (10 Jun)	-6.5%
	US Empire Manufacturing (Jun)	-11.6
	US Retail Sales Advance MoM (May)	0.9%
	US Import Price Index YoY (May)	12.0%
	US NAHB Housing Market Index (Jun)	69
16/06	US FOMC Rate Decision (15 Jun)	0.75-1.00%
	NZ GDP SA QoQ (1Q)	3.0%
	JP Exports YoY (May)	12.5%
	AU Employment Change (May)	4.0k
	AU Unemployment Rate (May)	3.9%
	EZ Labour Costs YoY (1Q)	1.9%
	UK Bank of England Bank Rate (16 Jun)	1.0%
	US Building Permits MoM (May)	-3.0%
	US Housing Starts MoM (May)	-0.2%
	US Philadelphia Fed Business Outlook (Jun)	2.6
	US Initial Jobless Claims (11 June)	229k

Source: Bloomberg

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