15 July 2022

Global Markets Research

Daily Market Highlights

15-July: USD strength dominated market

2Y UST yield fell as traders reduced bets on 100bp Fed rate hike

EUR hit below parity during intraday trading; JPY seen at 139 this morning

MAS and BSP tightened policy at off-cycle meetings

- US stock benchmarks closed on a mixed note overnight as the market assessed the possibility of a 100bp rate hike by the Fed later this month to curb the elevated inflation. The Dow Jones fell 0.5% alongside the modest 0.3% decline in the S&P 500. NASDAQ was little changed (+0.03%). Financial suffered the heaviest losses among the eleven S&P 500 sectors after JP Morgan reported a 28% fall in its second quarter profits as the US largest bank set aside more funds for potential loan losses, highlighting its perception over economic uncertainties.

- European stocks continued to be pressured by recession fear and a weakening euro as the continent's main benchmarks fell 1.4-1.9%. The STOXX Europe 600 shed another 1.5%. Asian key markets were mixed. Nikkei 225 rose 0.6% and Hang Seng picked up 0.2%.

- In the bond market, the yield on the benchmark 2Y UST note fell 2bps to 3.14% after having surged 11bps in the previous day. Traders scaled back bets on a 100bp rate hike in July after Fed Governor Christopher Waller played down the chance of such a move, saying that the markets may have gotten ahead of themselves. The benchmark 10Y yield rose 2bps to 2.96%, easing slightly the inversion of the key 2Y-10Y yield curve.

- The dollar regained strength as it appreciated against all major currencies, leaving the dollar index to close 0.5% higher at 108.54. In the G10 basket, JPY and CAD were the worst performing currencies, shedding 1.1%. USD/JPY traded at 138.96 and was seen hitting 139 this morning. The last time the pair was spotted at this level was September 1998, almost 24 years ago.

- GBP fell 0.5% and the EUR was down by 0.4%. The single-currency fell below parity during intra-day trading, reaching as low as 0.9952 before closing at 1.0018. Apart from the continental energy crisis concern, political uncertainties emerged in Italy. Italian PM Mario Draghi handed in his resignation after the collapse of his coalition.

- Among Asia-ex Japan, THB and CNY fell the most by 0.6%. SGD pared gains to close little changed (+0.03%) against the dollar. SGD surged after Singapore's MAS announced an off-cycle move to tighten policy. It re-centered upwards the mid-point of its S$NEER policy band way ahead of its scheduled meeting in October. Philippine peso was the only unit recording a meaningful gain (+0.2%) as BSP also hiked its overnight borrowing rate by 75bps to 3.25% in a surprise off-cycle move yesterday. MYR closed 0.2% weaker at 4.4445.

Key Market Metrics

	Level	d/d (%)
Equities		
Dow Jones	30,630.17	-0.46
S&P 500	3,790.38	-0.30
NASDAQ	11,251.19	0.03
Stoxx Eur 600	406.50	-1.53
FTSE 100	7,039.81	-1.63
Nikkei 225	26,643.39	0.62
Hang Seng	20,751.21	-0.22
Straits Times	3,090.63	-1.22
KLCI 30	1,420.06	0.62
FX		
Dollar Index	108.54	0.54
EUR/USD	1.0018	-0.41
GBP/USD	1.1824	-0.55
USD/JPY	138.96	1.14
AUD/USD	0.6750	-0.15
USD/CNH	6.7612	0.52
USD/MYR	4.4443	0.16
USD/SGD	1.4040	-0.03
Commodities		
WTI ($/bbl)	95.78	-0.54
Brent ($/bbl)	99.10	-0.47
Gold ($/oz)	1,705.80	-1.71
Copper ($$/MT)	7,170.00	-2.12
Aluminum ($/MT)	2,336.50	-0.81
CPO (RM/tonne)	4,000.00	-5.75

Source: Bloomberg, HLBB Global Markets Research

- Oil benchmarks remained pressured below $100/barrel on recession fear. Brent crude slipped 0.5% to $99.10/barrel while WTI also lost 0.5% to $95.78/barrel.

US initial jobless claims rose; lower core PPI suggests easing price pressure:

- Initial jobless claims unexpectedly rose by 9k to 244k for the week ended 09 July (prior week: 235k), compared to the consensus forecast of 235k. The higher claims for unemployment benefits reflects weakening hiring demand and to some extent the impact of shortened week due to the Fourth of July holiday. The reading was the highest since November last year. The four-week moving average has been trending up for over three months now, at 235.75k last week (prior: 232.5k).
- The PPI for final demand rose 1.1% m/m in June (May: +0.9%), highlighting the persistently high producer price pressure driven by energy costs which in turn was passed through to consumers. Compared to a year ago, PPI was 11.3% higher in June (May: +10.9%) but signs of easing prices are emerging. The core rate (excluding food and energy) fell for the third consecutive month to 8.2% y/y (May: +8.5%), a seven-month low.

Japan's May industrial production affected by Shanghai lockdown:

- Japan's industrial production fell 7.5% m/m in May, more than the initially estimated 7.2% decline in the first estimate. This followed the 1.5% decline in April as the lockdown in Shanghai, China affected demand for Japanese goods and in turn weighed on industrial output.

Australia's robust job report affirms RBA's 50bp move in August:

- Australia's job report came in stronger than expected for June, suggesting that the robust labour market may prompt the RBA to accelerate its policy tightening. The fall in the jobless rate from 3.9% to 3.5%, the lowest level in almost 50 years, led traders to raise bets on a 50bp rate hike at the RBA's next meeting in early August. A day earlier, traders were half convinced of such a move with the futures market looking at around 70% possibility. The headline employment rose by 88.4k in June, far surpassing the 30k expected increases (May: +60.6k) and was driven by a rise in both full-time and part-time jobs. The participation rate also rose to 66.8%, up from 66.7% previously.

New Zealand's factory conditions weakened in June:

- In separate release, the BusinessNZ Manufacturing PMI slumped below 50 in June, at 49.7 (May: 52.6), marking the manufacturing sector PMI's first contraction in ten months as output and new orders turned contractionary.

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
15/07	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
16/07	NZ CPI YoY (2Q)	6.9%
	UK Rightmove House Prices YoY (Jul)	9.7%
	SG Non-oil Domestic Exports YoY (Jun)	12.4%
	US NAHB Housing Market Index (Jul)	67.0

Source: Bloomberg

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