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Global Markets Research

Daily Market Highlights

16-June: Federal Reserve raised rates by 75bps

US stocks and treasury rallied after the Fed's outsized move

Dollar pulled back, with AUD and GBP emerging as top gainers

ECB said to accelerate creation of new anti-crisis tool in unscheduled meeting

- US stocks rallied after the Federal Reserve hiked the fed funds target range by 75 basis points, the largest one-time increase since 1994 but said that such unusually large moves would not be common moving forward. The Dow Jones rose more than 300pts or 1.0% and the S&P 500 picked up 1.5%, driven by all sectors except energy. NASDAQ outperformed with a 2.5% increase. European major benchmarks closed more than 1.0% higher while Asian markets were mostly down except Chinese and Hong Kong shares.

- Treasury yields plunged after the FOMC decision matched expectations, driven by the short-end of the curve. The yield on the benchmark 2Y UST notes pulled back 24bps to 3.20% while the 10Y UST yield fell 19bps to 3.29%.

- The dollar index snapped a five-day winning streak to close 0.3% lower at 105.16 amid a sharp retreat in the greenback alongside the lower bond yields. The greenback depreciated against all G10 currencies, with gains led by AUD which strengthened nearly 2.0%, followed by the likes of GBP, JPY and NZD which posted more than 1.0% increases. The kiwi however came under pressure this morning, taking the hit from the surprised contraction in 1Q GDP.

- The EUR rose modestly (+0.3%) after the ECB conducted an unscheduled meeting yesterday to discuss the bond market conditions. It subsequently announced that it will apply flexibility in PEPP reinvestment and will accelerate the design of a new "anti-fragmentation instrument". It said that the pandemic has left "lasting vulnerabilities in the euro area economy" which are contributing to the uneven transmission of the policy normalisation.

- The MYR rebounded by 0.2% and closed firmer at 4.4125 against the USD. The overnight selloff in the dollar may offer a short-term reprieve to the MYR, likely shifting the USD/MYR pair lower to 4.4000-4.4200. The pair is still expected to track the broad dollar movement given the absence of local drivers.

- Oil extended losses as the EIA reported a build-up in US inventory. The WTI plummeted 3.0% to $115.31/barrel and Brent shed 2.2% to $118.51/barrel, losing grip of the $120 handle. Gold prices added 0.3% to $1815.30/oz.

Fed revised down growth forecasts and signal additional 175bp rate hikes through 2022:

- The Fed raised the fed funds rate target range to 1.50-1.75% and said that ongoing increases will be appropriate and it is "strongly committed" to returning inflation to its 2.0% objective.
- The accompanying Summary of Economic Projections showed that the Fed trimmed growth forecasts but revised upwards unemployment rates and inflation outlook. The median 2022 GDP growth forecast is revised down to 1.7%

Key Market Metrics

	Level	d/d (%)
Equities		
Dow Jones	30,668.53	1.00
S&P 500	3,789.99	1.46
NASDAQ	11,099.15	2.50
Stoxx 600	413.10	1.42
FTSE 100	7,273.41	1.20
Nikkei 225	26,326.16	-1.14
Hang Seng	21,308.21	1.14
Straits Times	3,105.85	-0.10
KLCI 30	1,459.05	-1.50
FX		
Dollar Index	105.16	-0.34
EUR/USD	1.0444	0.27
GBP/USD	1.2180	1.53
USD/JPY	133.84	-1.20
AUD/USD	0.7003	1.92
USD/CNH	6.6687	-1.28
USD/MYR	4.4125	-0.21
USD/SGD	1.3862	-0.52
Commodities		
WTI ($/bbl)	115.31	-3.04
Brent ($/bbl)	118.51	-2.20
Gold ($/oz)	1,815.30	0.32

Source: Bloomberg, HLBB Global Markets Research

(March projection: +2.8%). The 2022 unemployment rate is expected to be higher at 3.7% (March projection: 3.5%) and the core PCE inflation at 4.3% (March projection: +4.1%). The median 2022 year-end projection for the fed funds rate moved up 150bps to 3.375% (March projection: 1.875%), meaning that an additional 175bp increase is likely by end-2022. The dot plot shows that all 18 FOMC officials expected the Fed to take rates up to at least 3.00% this year.

- Fed Chair Jerome Powell said in the post-meeting press conference that he does not expect the outsized 75bp increase to be common but from "today" perspective, either a 50 or 75bp move "seems most likely" at the next meeting in July. He assured the markets that decisions will be made meeting by meeting.
- In terms of economic outlook, Powell said that it is still possible to engineer a soft landing i.e., reining in inflation but avoiding a recession in the process, but warned that it would not be easy, as the Fed cannot control all factors driving inflation such as the Ukraine-Russia war and supply chain constraints.

US retail sales fell in May; imported inflation surged on higher petroleum and natural gas prices:

- Retail sales in the US fell 0.3% m/m in May, underperforming the forecast of 0.2% growth as persistently high inflation and weaker consumer sentiment weighed on spending last month. April's sales data were also revised lower to reflect a smaller 0.7% m/m increase, vs 0.9% prior. Sales were down in motor vehicle & parts, furniture as well as electronics & appliances, as consumers held back from spending on larger ticket items. Online sales also fell while food & beverage rose alongside dining and drinking.
- The NY Fed Empire State Manufacturing Index rose to -1.2 in June, from -11.6 in May but remained negative. The improvement was reflecting slightly higher new orders & shipment as well as improvement in delivery times although the prices paid climbed and optimism remained muted, highlighting the challenges faced by factories in the NY state.
- Import price index rose 0.6% m/m in May (Apr: +0.4%), driven by a 7.5% m/m increase in prices of imported fuel due to higher petroleum and natural gas prices. Brent crude rose more than 12% in May to above $122/barrel last Month. The y/y import price inflation eased slightly to 11.7% (Apr: +12%).
- Mortgage applications rose 6.6% w/w for the week ended 10 June (prior: -6.5%), marking its first increase in five weeks. The average contract rate on a 30-year fixed-rate mortgage picked up by 25bps to 5.65%, the highest level since late 2008. Higher mortgage rates, which track the surge in US treasury yields, alongside elevated home prices and lean supply may continue to weigh on the mortgage and the broader housing market.
- In fact, the NAHB Housing Market Index, a gauge of homebuilder sentiment, fell to a two-year low of 67 in June (May: 69).

Eurozone's IPI rose modestly; trade deficit widened on higher energy import bill:

- The Eurozone's industrial production rose 0.4% m/m in April, rebounding from the 1.4% decline in March. The increase in output reflects higher production of nearly all key categories of goods, led by energy. Germany's output rose 1.3% m/m following the sharp 4.5% drop previously while France's output recorded a third consecutive fall. The modest reading showed that the overall manufacturing conditions remain challenging as factories across Europe struggle with supply chain constraints and higher costs of raw materials.
- Trade deficit widened sharply to €31.7b in April (Mar: €17.8b) as imports jumped 7.1% m/m and exports picked up at a comparably weaker pace of 1.5% m/m. The higher import bill of €261.4b in that month was driven by higher energy prices related to the Ukraine-Russia war.

China's economic activity began to recover in May:

- China's May indicators showed that the economy began a tricky recovery from the slump induced by the Shanghai lockdown. Industrial production unexpectedly rose 0.7% m/m in May (Apr: -2.9%), versus the forecast of a 0.9% decline following the partial reopening of Shanghai and supported by the still solid external demand.

- Retail sales fell 6.7% y/y in May, extending from the 11.1% drop in April as consumers weren't yet allowed to shop freely. The real estate sector continued to show weakness. Residential property sales fell 37.7% y/y in May (Apr: -46.6%) while the total property investment was 7.8% lower y/y (Apr: -10.1%).
- The fixed asset investment rose 6.2% y/y for the period of Jan-May 2022, compared to the 15.4% increase in the same period last year. The PBOC had opted to keep the 1Y medium-term lending rate unchanged at 2.85% on the same day ahead of the FOMC rate decision.

Japan's trade deficit jumped more than expected to a 8-year high in May:

- Trade deficit widened more than expected to ¥2384.7bn in May (Apr: -¥842.8bn), its biggest shortfall since Jan-14, as the pace of increase in imports far outweighed exports growth. A weaker JPY was seen driving up import costs especially energy, compounding the higher import bill caused by higher commodity prices stemming from global supply tightness. Exports growth picked up to 15.8% y/y in May (Apr: +12.5%) while imports jumped more than expected to 48.9% y/y (Apr: +28.3%). On a month-on-month basis, exports rose 2.4% while imports increased at a faster pace of 5.8% m/m.

Australia's consumer sentiment weakened in June:

- Australia's Westpac Consumer Confidence Index fell 4.5% m/m to 86.4 in June (May: 90.4), back to levels during the early days of the Covid-19 pandemic in 2020. Consumers' assessment of current conditions as well as family finances and the economic outlook in the year ahead deteriorated further amid high inflation and expectations for further RBA rate hikes.

Surprised contraction in New Zealand's 1Q GDP may derail RBNZ rate hike path:

- The New Zealand economy registered a surprised contraction of 0.2% q/q in 1Q (4Q: +3.0% q/q) while growth tapered off more than expected to 1.2% y/y (4Q: +3.1% y/y), missing the 0.6% q/q and 2.4% y/y consensus estimate by a wide margin as Covid outbreak hampered mobility and economic activities.
- The contraction was due to declines in the primary industries (-1.2% vs -1.8% q/q) and goods-producing industries (-0.1% vs +6.2%), led by the decline in the manufacturing sector (-1.4% vs +6.1%). Growth in the services industries also stagnated (0.0% vs +2.6%) with the biggest drags coming from transport/ warehousing, retail trade/ accommodation, financial/ insurance services, IT/ media/ telecommunications.
- The surprised contraction (even below RBNZ's expectation for a 0.7% q/q increase), will likely prompt the RBNZ to think twice over its plan to raise rates at a measured pace towards 4.0%, from the current 2.0%. The RBNZ is scheduled to meet next on 13-Jul, and has four more meetings for the remaining of the year.

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	1.50-1.75	1.50-1.75	2.50-2.75	2.75-3.00	2.75-3.00
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
16/06	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
17/06	NZ BusinessNZ Manufacturing PMI (May)	51.2
	SG Non-oil Domestic Exports YoY (May)	6.4%
	JP BOJ Policy Balance Rate (42887)	-0.1%
	MA Exports YoY (May)	20.7%
	UK Retail Sales Inc Auto Fuel MoM (May)	1.4%
	HK Unemployment Rate SA (May)	5.4%
	EZ CPI YoY (May F)	7.4%
	US Industrial Production MoM (May)	1.1%
	US Leading Index (May)	-0.3%

Source: Bloomberg

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