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Global Markets Research
Daily Market Highlights

18-May: Powell affirmed commitment to rate hikes

Global stocks rose amid revival of risk appetite

USD fell, yields surged as Powell vowed to raise rates to restore price stability

US reported strong retail and industrial production data

- US stocks rebounded on Tuesday as investors went bargain hunting for cheapened shares amid a broad improvement of risk appetite. The Dow Jones rose 1.3%, the S&P 500 picked up 2.0% and NASDAQ rose 2.8% on the same day the US reported solid industrial production and retail sales data. Risk-on sentiment also helped power European and Asian markets earlier where all major benchmarks ended in the positive territory on Tuesday.
- Treasury yields surged 8-14bps, led by the front-end tenors as Fed Chair Jerome Powell vowed to keep raising interest rates to tackle the elevated US inflation but warned of a “softish landing” for the US economy and some possible pain to the strong labour market to restore price stability. The benchmark 10Y UST yield climbed 10bps to 2.99% while the 2s surged 13bps to 2.7%.
- The dollar weakened despite Powell’s comment as investors favoured risky assets. The GBP (+1.4%) emerged as the biggest gainer in the G10 basket while the EUR also appreciated by 1.1%. JPY was the only G10 unit to have weakened against the greenback thanks to its safe haven nature. The dollar index posted a sharp 0.8% drop to 103.36 and marked its third consecutive loss.
- USD/MYR slipped 0.2% to 4.3905 on Tuesday as the market reopened after a long weekend. The broad retreat in USD overnight and the improvement in general risk sentiment should offer some support to the MYR and possibly shift the pair lower to 4.3700-4.3800 levels.
- Crude oil prices pulled back as investors took profits following the recent rally. Brent crude shed 2.0% to \$111.93/barrel while WTI slipped 1.6% to 112.40/barrel. Gold futures picked up modestly (+0.3%) to \$1818.90/oz.

US retail sales and industrial production registered solid gains in April:

- Retail sales rose 0.9% m/m in April, slightly lower than the consensus forecast of 1.0% m/m. March retail sales were revised sharply higher to reflect a 1.4% m/m gain, versus 0.5% in the initial estimates. Sales of vehicles & parts, furniture and online goods as well as eating & drinking drove the growth last month, offsetting the decline in gasoline and clothing. The retail sales for control group, a gauge of core retail sales, jumped 1.0% m/m (Mar: +1.1%), highlighting the solid consumer spending condition in the US despite the persistent inflation.
- The April industrial production growth surprised on the upside at 1.1% m/m (Mar: +0.9%), compared to the consensus estimates of 0.5%. Industrial output had now risen for four months in a row and each gain happened to be 0.8% m/m and above, highlighting the strength in manufacturing as factories rushed to meet demand. In April, manufacturing output picked up 0.8% m/m, led by the gain in auto vehicle production.

Key Market Metrics

| | Level | d/d (%) |
|--------------------|-----------|---------|
| Equities | | |
| Dow Jones | 32,654.59 | 1.34 |
| S&P 500 | 4,088.85 | 2.02 |
| NASDAQ | 11,984.52 | 2.76 |
| Stoxx 600 | 438.97 | 1.22 |
| FTSE 100 | 7,518.35 | 0.72 |
| Nikkei 225 | 26,659.75 | 0.42 |
| Hang Seng | 20,602.52 | 3.27 |
| Straits Times | 3,201.89 | 0.34 |
| KLCI 30 | 1,548.60 | 0.27 |
| FX | | |
| Dollar Index | 103.36 | -0.79 |
| EUR/USD | 1.0550 | 1.11 |
| GBP/USD | 1.2493 | 1.41 |
| USD/JPY | 129.38 | 0.17 |
| AUD/USD | 0.7029 | 0.83 |
| USD/CNH | 6.7412 | -0.83 |
| USD/MYR | 4.3905 | -0.18 |
| USD/SGD | 1.3850 | -0.49 |
| Commodities | | |
| WTI (\$/bbl) | 112.40 | -1.58 |
| Brent (\$/bbl) | 111.93 | -2.02 |
| Gold (\$/oz) | 1,818.90 | 0.27 |

Source: Bloomberg, HLBB Global Markets Research

- The NAHB Housing Market Index retreated to 69 in May, down from 77 prior. The sharp fall in homebuilding sentiment reflects developers' persistent challenge of higher input costs and the recently softer housing demand in the wake of higher interest rates.

Eurozone 1Q22 GDP growth revised higher:

- The Eurozone posted a better than expected first quarter GDP growth of 0.3% q/q (4Q21: +0.3%), versus the initial estimate of 0.2% q/q. The y/y growth rate was also revised higher to 5.1% y/y (4Q21: +4.7%), up from 5.0% y/y prior as the single-currency bloc recovered from the Omicron setback and the economy had yet to bear the brunt of the Russia-Ukraine war.
- In the same period, employment rose 0.5% q/q (4Q21: +0.4%) and 2.6% y/y (4Q21: +2.1%), reflecting the continuous strengthening of the job market. Despite the high uncertainties related to war, the stronger economic data no doubt will help support the case for a July rate hike by the ECB as inflationary pressures continue to mount.

UK job market rosier than expected:

- The latest set of UK job data painted a rather positive picture of the job market, at odds with the recent predictions that the labour conditions may be slowly weakening as economic growth momentum slowed. The number of pay-rolled employees rose 121k in April, besting the estimates of 51k and higher than the newly revised 59k gain in March.
- The separately released unemployment rate also fell to 3.7% in the three months to March (Feb: 3.8%) during which employment rose by 83k in the same period (Feb: +10k). The average weekly earnings jumped 7.0% y/y (Feb: +5.6%), highlighting the persistent climb in wages in a tight labour market and reaffirming the BOE's path to further tighten policy in the coming meeting in June.

Singapore's NODX growth weakened in April:

- Singapore's non-oil domestic exports fell 3.3% m/m in April, extending from the 2.3% m/m decline in March. Compared to the same month last year, NODX growth weakened to 6.4%, down from 7.7% previously, marking its third consecutive month of slowdown since February this year which highlights the challenge faced by exporters amid the persistent supply chain constraints.

Australia's RBA mulled three rate hike options in May:

- The RBA published the May meeting minutes yesterday and disclosed that officials had considered three scenarios of rate hike (15bps, 25bps or 40bps) early this month. The central bank had opted to raise the cash rate by 25bps from the all-time low of 0.1% to 0.35% on 03 May, beating the consensus forecast of a 15bp hike. RBA officials agreed that the condition it has set to increase the cash rate had been met and further increases would likely be required to ensure inflation returns to its target over time.
- The 25bp option was preferable as this would help signal that RBA was now returning to normal operating procedures. It also said that it has the flexibility to review the setting of rates given that the monetary policy board meets regularly every month. In terms of its bond buying program, RBA did not currently plan to sell the government bonds it had acquired during the pandemic and intended to allow the portfolio to run down in predictable ways as the bonds mature. It also highlights the cash rate being the primary tool to achieve the desired stance of monetary policy.

House View and Forecasts

| FX | This Week | 2Q-22 | 3Q-22 | 4Q-22 | 1Q-23 |
|-----------|------------------|--------------|--------------|--------------|--------------|
| DXY | 103-106 | 106.00 | 108.00 | 105.00 | 103.00 |
| EUR/USD | 1.02-1.06 | 1.02 | 1.00 | 1.01 | 1.03 |
| GBP/USD | 1.20-1.25 | 1.21 | 1.20 | 1.22 | 1.24 |

| | | | | | |
|---------|-----------|--------|--------|--------|--------|
| AUD/USD | 0.67-0.71 | 0.69 | 0.68 | 0.69 | 0.70 |
| USD/JPY | 127-131 | 133.00 | 135.00 | 133.00 | 132.00 |
| USD/MYR | 4.37-4.43 | 4.38 | 4.40 | 4.38 | 4.35 |
| USD/SGD | 1.38-141 | 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 | -0.50 | -0.25 | -0.25 |
| BOE | 1.00 | 1.25 | 1.25 | 1.25 | 1.25 |
| RBA | 0.35 | 0.50 | 0.75 | 1.00 | 1.25 |
| BOJ | -0.10 | -0.10 | -0.10 | -0.10 | -0.10 |
| BNM | 2.00 | 2.00 | 2.25 | 2.25 | 2.50 |

Source: HLBB Global Markets Research

Up Next

| Date | Events | Prior |
|----------------------------------|--|-------|
| 18/05 | JP GDP SA QoQ (1Q P) | 1.1% |
| | AU Westpac Leading Index MoM (Apr) | 0.35% |
| | AU Wage Price Index YoY (1Q) | 2.3% |
| | JP Industrial Production MoM (Mar F) | 0.3% |
| | UK CPI YoY (Apr) | 7.0% |
| | EZ CPI YoY (Apr F) | 7.4% |
| | US MBA Mortgage Applications (41395) | -- |
| | US Building Permits MoM (Apr) | 0.3% |
| | US Housing Starts MoM (Apr) | 0.3% |
| 19/05 | JP Exports YoY (Apr) | 14.7% |
| | JP Core Machine Orders MoM (Mar) | -9.8% |
| | AU Employment Change (Apr) | 17.9k |
| | AU Unemployment Rate (Apr) | 4.0% |
| | MA Exports YoY (Apr) | 25.4% |
| | HK Unemployment Rate SA (Apr) | 5.0% |
| | US Philadelphia Fed Business Outlook (May) | 17.6 |
| | US Initial Jobless Claims (41760) | 203k |
| US Existing Home Sales MoM (Apr) | -2.7% | |
| US Leading Index (Apr) | 0.3% | |

Source: Bloomberg

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