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Global Markets Research
Daily Market Highlights

19-May: Yields fell amid renewed US stock rout

US stock benchmarks tanked as Walmart and Target missed earnings estimates
Treasury yields erased prior session's gains; safe haven currencies rallied
Homebuilding & mortgages data suggest cooling US housing market

- US stocks tanked overnight, leaving two major indexes to suffer their steepest drops since June 2020 as earnings of America's major retailers Walmart and Target missed quarterly estimates, offering signs that consumer spending may be hurt further by inflation. The Dow Jones shed 1165pts or 3.6% while the S&P 500 slumped 4.0% as all eleven sectors were down, led by consumer discretionary and staples. NASDAQ suffered a 4.7% loss.
- Investors bought bonds amid a sharp drop in risk appetites. The yield curve flattened as yields were pressured by 3-11bps. The yield on the benchmark 10Y UST fell 10bps to 2.89%, erasing the similar gain from the previous session.
- In the FX market, safe haven currencies strengthened. JPY (+0.9%) and CHF (+0.5%) were the only G10 currencies that appreciated against the USD. The USD in turn, gained strength against the rest of its G10 counterparts. The NOK posted the biggest loss of 2.3%, followed by the SEK, GBP and AUD which dropped more than 1.0%. EUR shed 0.8%. The dollar index turned around 0.4% to 103.81, snapping a three-day losing streak.
- USD/MYR rose 0.2% to 4.3975 on Wednesday, nearly reversing all of the previous session's decline as the ringgit weakened alongside most Asian currencies amid USD strength. The rally in USD overnight and the major pullback in risk appetites are expected to further weigh on the local unit. This is in line with our weekly view that the USD/MYR outlook remains bullish this week with a possible range of 4.37-4.43 amid the expectations for a sustained USD strength especially after Fed Chair Powell reaffirmed the central bank's commitment to hike rates to tackle inflation.
- Meanwhile in the commodity market, gold futures slipped 0.2% to \$1815.90/oz on the back of stronger USD. Crude oil benchmarks plummeted 2.5% amid the stock rout, marking their second day of decline. Brent crude settled lower at \$109.11/barrel and WTI at \$109.59/barrel.

Homebuilding and mortgage data showed cooling US housing market:

- US homebuilding activity fell in April, as the ongoing supply chain constraints disrupted construction activity and the higher interest rates dragged on housing demand. Housing starts in the US dropped 0.2% m/m in April following a downwardly revised 2.8% drop in March. Building permits were 3.2% m/m lower (Mar: +0.3%).
- The MBA mortgage applications resumed its downtrend last week, plunging sharply by 11.0% w/w for the week ended 13 May (prior: +2.0%). The enormous drop reflects declines in both purchases index (-11.9% w/w) and refinancing (-9.5% w/w) as mortgage rates remained elevated despite some w/w pullback. The average rate for a fixed-rate 30Y contract was at 5.49% (prior: 5.53%).

Key Market Metrics

| | Level | d/d (%) |
|--------------------|-----------|---------|
| Equities | | |
| Dow Jones | 31,490.07 | -3.57 |
| S&P 500 | 3,923.68 | -4.04 |
| NASDAQ | 11,418.15 | -4.73 |
| Stoxx 600 | 433.95 | -1.14 |
| FTSE 100 | 7,438.09 | -1.07 |
| Nikkei 225 | 26,911.20 | 0.94 |
| Hang Seng | 20,644.28 | 0.20 |
| Straits Times | 3,225.35 | 0.73 |
| KLCI 30 | 1,554.91 | 0.41 |
| FX | | |
| Dollar Index | 103.81 | 0.44 |
| EUR/USD | 1.0464 | -0.82 |
| GBP/USD | 1.2341 | -1.22 |
| USD/JPY | 128.23 | -0.89 |
| AUD/USD | 0.6955 | -1.05 |
| USD/CNH | 6.7807 | 0.59 |
| USD/MYR | 4.3975 | 0.15 |
| USD/SGD | 1.3920 | 0.51 |
| Commodities | | |
| WTI (\$/bbl) | 109.59 | -2.50 |
| Brent (\$/bbl) | 109.11 | -2.52 |
| Gold (\$/oz) | 1,815.90 | -0.16 |

Source: Bloomberg, HLBB Global Markets Research

Inflation in Eurozone and UK remained elevated:

- The Eurozone's April CPI readings were unrevised in the final report. The HICP inflation came in at 0.6% m/m in April (Mar: +2.4%) while the y/y rate remained at an all-time high of 7.4% y/y for the second consecutive month, fuelling expectations of an ECB rate hike this July.
- The UK CPI rose less than expected in April but remained elevated, reaffirming the views that the BOE will go ahead with another rate hike in mid-June. The headline consumer inflation came in higher at 2.5% m/m in April (Mar: +1.1%) but was just at tad below the expected gain of 2.6%. This was driven by the surge in housing or utility cost (+13.6% m/m) as Ofgem increased the cap on energy prices effective 1 April. The y/y inflation rate rose to 9.0% (Mar: +7.0%) but slightly lower versus the consensus forecast of 9.1%. The core CPI rate climbed to 6.2% y/y, up from 5.7% prior.

Japan's 1Q22 GDP shrank on negative net exports, weaker consumption; core machine orders rebounded while exports growth slowed:

- A preliminary estimate showed that the Japanese economy shrank 0.2% q/q in the first quarter of this year (4Q21: +0.9%), as the weaker JPY drove up higher import bills and weighed on the net exports which shed 0.4ppts from headline GDP growth. Private consumption was unchanged q/q (+0ppts), reflecting the cautious consumer sentiment and the impact of the government's renewed effort to contain the Omicron wave. Investment (-2.4% q/q) shaved 0.1ppts from GDP as business sentiment took some hit from the said outbreak while at the same time, Japanese borders remained closed for travelling. On a y/y basis, GDP expanded by 0.2%, slowing from the 0.4% y/y growth in the fourth quarter of last year.
- On a separate note, industrial production rose 0.3% m/m in March according to a final reading, weakening from the 2.0% m/m growth in February. Production was down 1.7% y/y compared to last year (Mar: +0.5%).
- Core machine orders rebounded more than expected to increase 7.1% m/m in March (Feb: -9.8%), snapping declines in the last two months. On an annual basis, orders unexpectedly quickened to 7.6% (Feb: +4.3% y/y), a sign of recovery in business investment as capex picks up.
- Exports growth tapered off for a 2nd straight month, at a more than expected pace to 12.5% y/y in April (Mar: +14.7% y/y) while imports also unexpectedly grew at a slower pace of 28.2% y/y (Mar: +31.2 y/y), tracking the slower trade flows globally amid bottlenecks. China's lockdown has taken a toll on Japanese external trade, with the export and import volume both plunging between 20.4-22.6% y/y during the month, worsening from March (-13.0% for exports and +2.9% for imports). On a month-on-month basis, exports fell 4.5% m/m while imports rose 0.5% m/m, widening the trade deficit to ¥839.2bn in April (Mar: -¥414.4bn).

Australia's wage growth weaker than expected:

- Australia's wage price index rose 0.7% q/q in 1Q22 (4Q21: +0.7%), missing the consensus forecast of 0.8%. The steady q/q growth translated to a slightly higher y/y wage growth of 2.4% (4Q21: +2.3%) but is considered low and helped tame some expectations for a super hawkish RBA stance in the short term.
- The separately released Westpac Leading Index 6-month annualised growth rate weakened to 0.9% in April, down from 1.7% in March. At this level, the index indicates that the near-term prospect for Australia remains positive as the post Covid reopening will support consumption although higher inflation may erode the upside somewhat.

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 |
|-------|--|--------|
| 19/05 | 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% |
| 20/05 | NZ Trade Balance 12 Mth YTD NZD (Apr) | -9108m |
| | NZ Exports NZD (Apr) | 6.67b |
| | UK GfK Consumer Confidence (May) | -38 |
| | JP Natl CPI Ex Fresh Food YoY (Apr) | 0.8% |
| | CN 1-Year Loan Prime Rate (43952) | 3.7% |
| | UK Retail Sales Inc Auto Fuel MoM (Apr) | -1.4% |
| | EZ Consumer Confidence (May A) | -22.0 |

Source: Bloomberg

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