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Global Markets Research
Daily Market Highlights

20-May: Recession fear intensified in the US

US stocks extended selloff as US downturn looms

Treasury yields slumped alongside weaker USD

ECB minutes points to a rate hike in July

- US stocks extended losses overnight after European and Asian shares ended lower earlier. All US benchmarks ended lower by 0.3-0.8% as concerns over a potential US recession intensified this week after the earnings of major retailers disappointed. Kohl's was the latest retailing company to offer softer guidance as it trimmed its sales and profit targets, expecting a retreat in consumer spending.
- Treasury yields slipped further by 2-6bps overnight as investors continued to favour safe assets. The yield on the benchmark 10Y UST was lower by 5bps at 2.84%.
- Fear of a US downturn led to a selloff in the greenback, pressuring the dollar index by 1.1% to 102.72. The USD depreciated more than 1.0% against nearly all G10 currencies with the NOK and CHF being the top gainers.
- USD/MYR advanced further by 0.2% to 4.4045 on Thursday. The USD weakness overnight may offer a temporary respite for the battered MYR but cautious sentiment ahead of the weekend likely keeps the pair within recent range of 4.3900-4.4100. Upsides remained capped at 4.4300 amid the oversold MYR condition.
- Gold prices rallied by 1.4% to \$1841.20/oz as the USD weakened. Oil benchmarks climbed over 2% following two successive losses as oil traders shrugged off recession fear. Brent crude jumped 2.7% to \$112.04/barrel while WTI settled 2.4% higher at \$112.21/barrel.
- The latest ECB minutes suggests that the central bank may raise rates in its July meeting as policy makers argued that the accommodative monetary policy stance was no longer consistent with the inflation outlook. Officials saw pipeline inflation intensifying further, attributed to the Russia-Ukraine war and China's stringent Covid policy.

US data showed increasing risk of downturn:

- Initial jobless claims rose to 218k for the week ended 14 May (prior: 197k), its highest level since January this year. The numbers remained historically low but the persistent increase in unemployment benefit claims could be seen as an early sign of softer hiring activity. The continuous claims fell to an over-50-year low of 1.32mil as at 7 May (prior: 1.34mil).
- Existing home sales fell 2.4% m/m in April (Mar: -3.0%) to an annualised 5.61mil units, the lowest level since June 2020 amid the decline in inventory, higher prices and mortgage rates. The median price of previously owned homes rose 14.8% y/y to a record \$391.2k.

Key Market Metrics

	Level	d/d (%)
Equities		
Dow Jones	31,253.13	-0.75
S&P 500	3,900.79	-0.58
NASDAQ	11,388.50	-0.26
Stoxx 600	427.99	-1.37
FTSE 100	7,302.74	-1.82
Nikkei 225	26,402.84	-1.89
Hang Seng	20,120.68	-2.54
Straits Times	3,190.71	-1.07
KLCI 30	1,549.41	-0.35
FX		
Dollar Index	102.72	-1.05
EUR/USD	1.0588	1.19
GBP/USD	1.2467	1.02
USD/JPY	127.79	-0.34
AUD/USD	0.7049	1.35
USD/CNH	6.7253	-0.82
USD/MYR	4.4045	0.16
USD/SGD	1.3811	-0.78
Commodities		
WTI (\$/bbl)	112.21	2.39
Brent (\$/bbl)	112.04	2.69
Gold (\$/oz)	1,841.20	1.39

Source: Bloomberg, HLBB Global Markets Research

- The Philadelphia Fed Business Outlook Index pulled back to 2.6 in May (Apr: 17.6), consistent with the fall in the NY Fed Empire State Index, adding to evidence that the US economy is increasingly facing risk of a downturn.
- The Conference Board Leading Index fell 0.3% m/m in April (Mar: +0.1%), its first decline in three months, reflecting weaker job indicators, ISM new orders, home building permits and average consumer expectations.

UK consumer confidence eased for the 6th straight month to a record low in May:

- GfK consumer confidence pulled back slightly more than expected to -40 in May (Apr: -38), a record low and added to signs consumers are turning more pessimistic as they grappled with higher inflation and growth uncertainties. Consumers' confidence over personal finances and economic situation all remained in negative territory while climate for major purchases deteriorated further by 3ppt to -35 in May, its worst since Jun-20 during the early onset of the pandemic.

Japan CPI doubled to 2.5% y/y; exerting pressure on BOJ's ultraloose policy

- CPI jumped to 2.5% y/y in April as expected, its highest since Nov-14 and marked a sharp pick-up from the 1.2% increase recorded in March, distorted by waning effect of cheaper communication charges last year. Inflation is seen broadening across all sectors notably food (+1.4ppt to overall inflation) except medical care and transport & communication.
- Core CPI ex-fresh food also picked up from +0.8% to +2.1% y/y while CPI ex-fresh food and energy rebounded to increase 0.8% y/y (Mar: -0.7% y/y). With inflation topping BOJ's 2.0% target, we believe there will be increasing pressure on BOJ to remove its ultraloose monetary policy going forward although the inflation drivers are arguable.

Australia's unemployment rate at record low:

- Australia's unemployment rate remained at the record low of 3.9% in April, unchanged from the downwardly revised 3.9% level in March. This was driven by the lower participation rate which has fallen for the second month, to 66.3% (vs 66.4% prior) as labour participation remained affected by the recent flood in certain parts of the country.
- The headline employment rose a mere 4k in April (Mar: +20.3k), missing the +30k forecast. This reflects the sharp drop in part-time jobs (-88.4k) which offset the solid 92.4k increase in full-time payrolls.

New Zealand reverted to a trade surplus in April:

- Trade balance saw a return to a NZD584m surplus in April (Mar: -NZD581m), as imports fell sharply by 18.9% m/m to NZD5.73bn, by far outweighing the 2.6% m/m decrease in exports. Imports from China dropped substantially by 26.4% m/m to NZD1.20bn as lockdown in Shanghai disrupted not only production, but also logistic and port operation. Imports from other key trading partners including Japan, Australia, US and EU all fell during the month too. Meanwhile, New Zealand shipped more to Japan, Australia and EU, and less to China and the US in April.

Hong Kong's jobless rate surged in April:

- Unemployment rate in the Hong Kong SAR jumped to 5.4% in the three months ended April, from 5.0% prior, reflecting the impact of Covid restrictions on the job market. The reading came as the government reported a 3% q/q contraction in its first quarter GDP last week.

Malaysia's trade growth slowed in April:

- Malaysia's export growth slowed down to 20.7% y/y in April after having picked up the paces in March (+25.3%). This roughly matched the Bloomberg consensus forecast of 19.9% y/y, underpinned by shipments of electronics and electrical

(E&E) products (+27.0%), metal (+52.6%), chemical & chemical products (+33.1%) and palm oil-based manufactured products (+72.9%). At the same time, import growth also slowed to 22.0% y/y in April, down from the nearly 30% y/y growth in March. It was also slightly lower than the consensus forecast of 23.2% y/y.

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	1.38-1.41	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	2.50	2.50	2.75

Source: HLBB Global Markets Research

Up Next

Date	Events	Prior
20/05	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
23/05	UK Rightmove House Prices YoY (May)	9.9%
	SG CPI YoY (Apr)	5.4%
	MA Foreign Reserves (13 May)	\$112.5b
	HK CPI Composite YoY (Apr)	1.7%
	US Chicago Fed Nat Activity Index (Apr)	0.44

Source: Bloomberg

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