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Global Markets Research

Daily Market Highlights

22-July: ECB hiked key rates by 50bps

ECB introduced new anti-fragmentation tool

Euro strengthened; USD depreciated on weaker data

BOJ and BI kept policy rates unchanged

- US stocks ended Thursday's session higher, led by the continuous rally in tech shares. The Dow Jones rose 0.5% and the S&P 500 advanced 1%, erasing losses related to news that President Biden tested positive for Covid-19. NASDAQ outperformed again with 1.4% increase. Tesla's shares jumped 9.8% after stronger than expected quarterly earnings. Stocks generally rose in Europe as the ECB raised all key interest rates by 50bps, its first rate hike in eleven years. Asian equities registered mixed performances.
- In the bond market, UST yields fell 12-18bps as investors weighed weak US economic data and the ECB's rate hike. The yield on the benchmark 10Y UST fell 15bps to 2.88%. In Europe, German short-term bund yields rose whereas long-term yields ticked lower (10Y yield fell 4bps to 1.22%) Italian yields jumped 8-21bps in response to the rate hike and the resignation of PM Mario Draghi.
- The dollar weakened against all G10 currencies overnight, with the dollar index ending 0.2% lower at 106.91. AUD (+0.7%) was the best performing currency, followed by the JPY (+0.6%). The BOJ had kept policy unchanged on the same day. EUR rose 0.5% to 1.0230 against the USD. GBP strengthened modestly by 0.2%.
- The Asia-ex-Japan currencies traded mixed against the dollar. KRW (+0.4%) and SGD (+0.3%) were the only ones that registered any meaningful gains. THB (-0.7%) led the losses, followed by the IDR (-0.3%). Bank Indonesia left its benchmark policy rate unchanged at the record low of 3.5% as it prioritises domestic growth given that inflation remains manageable. MYR traded 0.2 lower against USD at 4.4580 on Thursday, in line with most of its regional peers.
- Oil dipped as traders assessed weaker demand outlook (China's higher Covid cases and higher US gasoline stockpiles) while Libya restored output after the lifting of export restrictions. The Nord Stream 1 pipeline was reopened as scheduled, allowing a resumption of Russian gas flow to Europe. Brent crude fell 2.9% to \$103.86/barrel while WTI plunged 5.8% to \$96.35/barrel.

ECB hiked rates by 50bps and changed forward guidance:

- The ECB raised all key interest rates by 50bps, compared to the widely expected 25bp hikes. The move was seen as a catch-up with global central banks' recent preference for outsized rate adjustments to tackle inflation. It also introduced an anti-fragmentation tool known as the Transmission Protection Instrument (TPI) which allowed the ECB to purchase bonds from vulnerable member states thus preventing the widening of the Eurozone's borrowing costs. The Governing Council also tweaked its forward guidance as

Key Market Metrics

	Level	d/d (%)
Equities		
Dow Jones	32,036.90	0.51
S&P 500	3,998.95	0.99
NASDAQ	12,059.61	1.36
Stoxx Eur 600	424.39	0.44
FTSE 100	7,270.51	0.09
Nikkei 225	27,803.00	0.44
Hang Seng	20,574.63	-1.51
Straits Times	3,152.30	-0.57
KLCI 30	1,450.32	0.93
FX		
Dollar Index	106.91	-0.16
EUR/USD	1.0230	0.49
GBP/USD	1.1995	0.18
USD/JPY	137.36	-0.62
AUD/USD	0.6934	0.67
USD/CNH	6.7707	-0.05
USD/MYR	4.4580	0.15
USD/SGD	1.3897	-0.28
Commodities		
WTI (\$/bbl)	96.35	-5.78
Brent (\$/bbl)	103.86	-2.86
Gold (\$/oz)	1,713.40	0.78
Copper (\$\$/MT)	7,322.00	-0.76
Aluminum (\$/MT)	2,420.50	-0.39
CPO (RM/tonne)	3,956.50	0.01

Source: Bloomberg, HLBB Global Markets Research

it signalled that “further normalisation of interest rates will be appropriate” and the front-loading of rate hikes yesterday allow the ECB to transition interest rates decisions to a “meeting-by-meeting” approach. This compared to last ECB guidance that it would step up pace of rate hikes in September after a supposedly 25bp adjustment in July.

BOJ continued to defy global tightening trend, kept policy loose; key inflation above 2% in June:

- The Bank of Japan maintained status quo with regards to its monetary policy, remaining the major outlier alongside the PBOC to ensure accommodative policy conditions. The revised outlook showed BOJ trimming the fiscal 2022 GDP growth down to 2.4%, compared to 2.9% in the April forecast. It also upgraded the CPI-ex-fresh food inflation to 2.3%, up from 1.9% prior. BOJ saw continuous economic recovery as the impacts of Covid-19 and supply chain constraints waned but expects downward pressure stemming from rising commodity prices. Risks to economic activity remain skewed to the downside and risks to prices are skewed towards the upside.
- In a separate note this morning, the June reading for CPI ex-fresh food rose to 2.2% y/y in June (May: +2.1%), matching consensus forecast and marking its third successive month above the BOJ’s 2% target. The narrower inflation gauge that stripped out both energy and fresh food beat expectations at 1.0% y/y (May: +0.8%). Despite the BOJ’s extended commitment to low rates, the higher inflation rates may still spur some uncertainties over a possible adjustment in policy.

US data signalled imminent growth crunch:

- Initial jobless claims rose to 251k for the week ended 16 July (prior: 244k); its highest level since November last year, offering signs that the US labour market is cooling amid increasing fear of a recession. Consensus forecast called for 240k increase in new jobless claims.
- The Conference Board Leading Index fell 0.8% m/m in June (May: -0.6%), as weaker job indicators, ISM new orders, building permits, stock prices and consumer sentiments point to poorer economic outlook.
- The Philadelphia Fed manufacturing index turned more negative at -12.3 in July (Jun: -3.3), suggesting weaker operating conditions in the Fed district’s factories.

UK consumer confidence remained at record low:

- The GfK Consumer Confidence Index was unchanged at the record low of -41 in July (Jun: -41) as consumer confidence was battered by surging inflation and weaker economic outlook as the Bank of England continues to increase interest rates. Saving intentions went up in July (13 vs 9 prior) while consumers continued to have a very pessimistic view of the economic situation for the next 12 months (-57 vs -57 prior).

Hong Kong’s CPI inflation rose in June:

- Hong Kong’s CPI inflation surged to 1.8% y/y in June, from 1.2% prior, reflecting the dissipating effect of previous government subsidies for electricity. The core CPI rate which stripped out government measures also rose to 1.8% y/y (May: +1.7%). The government said that price pressures on the external front are expected to be notable but domestic cost pressures remain mild.

House View and Forecasts

FX	This Week	3Q-22	4Q-22	1Q-23	2Q-23
DX	107-110	106.00	105.00	103.00	102.00
EUR/USD	0.97-1.00	1.02	1.03	1.05	1.04

GBP/USD	1.16-1.19	1.21	1.22	1.24	1.23
AUD/USD	0.66-0.68	0.67	0.69	0.70	0.70
USD/JPY	136-140	138.00	135.00	133.00	132.00
USD/MYR	4.42-4.45	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
22/07	JP Jibun Bank Japan PMI Services (Jul P)	54
	JP Jibun Bank Japan PMI Mfg (Jul P)	52.7
	MA CPI YoY (Jun)	2.8%
	UK Retail Sales Inc Auto Fuel MoM (Jun)	-0.5%
	MA Foreign Reserves (15 Jul)	\$109.0b
	EZ S&P Global Eurozone Manufacturing PMI (Jul P)	52.1
	EZ S&P Global Eurozone Services PMI (Jul P)	53.0
	UK S&P Global/CIPS UK Manufacturing PMI (Jul P)	52.8
	UK S&P Global/CIPS UK Services PMI (Jul P)	54.3
	US S&P Global US Manufacturing PMI (Jul P)	52.7
	US S&P Global US Services PMI (Jul P)	52.7
25/07	SG CPI YoY (Jun)	5.6%
	HK Exports YoY (Jun)	-1.4%
	US Chicago Fed Nat Activity Index (Jun)	0.01
	US Dallas Fed Manf. Activity (Jul)	-17.7

Source: Bloomberg

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