Global Markets Research

Daily Market Highlights

23-June: Recession fear weighed on risk assets

Global stocks closed lower as Powell said recession is possible with higher rates

Safe haven bids pressured government bond yields

US dollar traded mixed against G10 units; commodity currencies fell alongside oil

- Global equities closed lower on Wednesday as recession talks dominated markets. US stocks edged down modestly after Fed Chair Powell warned that a recession is "certainly a possibility" with higher interest rates but said that it is "absolutely essential" to contain inflation, during his two-day bi-annual congressional testimony. The Dow Jones, S&P 500 and NASDAQ fell 0.1-0.2% while key European benchmarks slipped between 0.3-1.1%. Asian markets all ended in red, highlighting the general retreat in risk appetites.

- Global yields slumped on safe haven bids. US treasury yields plummeted 9-15bps, led by the front end of the curve. The yield on the benchmark 2Y UST notes dropped 14bps to 3.06% while the 10Y UST yield was 12bps lower at 3.16%. German bund and UK gilt yields slipped 9-17bps.

- The US dollar traded mixed against G10 currencies. The Swiss franc emerged as Wednesday's top performing currency thanks to its safe haven nature alongside stronger euro and Japanese yen. Commodity currencies such as the NZ, Australian and Canadian dollars as well as the Norwegian krone depreciated amid a sharp reversal in oil prices. The dollar index ticked down 0.2% to 104.20.

- Asian currencies closed lower against the greenback. MYR fell 0.2%, closing at 4.4055 on Wednesday. The ringgit faces risk further weakening today as the overnight risk aversion is expected to spill over into the Asian session, in line with our weekly outlook of a neutral to slightly bullish USD/MYR outlook.

- Gold futures held steady for the second session at $1834.30/oz as market sentiment turned sour. Oil plunged on recession fear as it barely recovered from the brutal selloff last Friday. Brent crude settled 2.5% lower at $111.74/barrel while WTI fell 4% to a six-week low of $106.19/barrel. The focus will shift to a series of preliminary PMI data for the US, Eurozone, UK and Japan while the market will continue paying attention to Powell's testimony.

US 30-year mortgage rates jumped to highest since late 2008:

- The MBA mortgage applications rose 4.2% w/w for the week ended 17 June, extending from the 6.6% gain in the previous week. The gain was driven solely by higher applications for purchases (+7.9%) as home buyers rushed to lock in rates before further increase in borrowing costs. The refinancing applications fell 3.1%. The average rate for a 30Y fixed rate contract jumped to 5.98%, the highest level since November 2008, tracking the higher US yields amid the Fed's aggressive tightening cycle. The Federal Reserve continued. Compared to a year ago, the same contract was priced at 3.18%.

Key Market Metrics

	Level	d/d (%)
Equities		
Dow Jones	30,483.13	-0.15
S&P 500	3,759.89	-0.13
NASDAQ	11,053.08	-0.15
Stoxx Eur 600	405.74	-0.70
FTSE 100	7,089.22	-0.88
Nikkei 225	26,149.55	-0.37
Hang Seng	21,008.34	-2.56
Straits Times	3,093.31	-0.78
KLCI 30	1,431.10	-1.84
FX		
Dollar Index	104.20	-0.23
EUR/USD	1.0566	0.31
GBP/USD	1.2266	-0.09
USD/JPY	136.26	-0.23
AUD/USD	0.6927	-0.63
USD/CNH	6.7127	0.31
USD/MYR	4.4055	0.20
USD/SGD	1.3867	0.09
Commodities		
WTI ($/bbl)	106.19	-4.03
Brent ($/bbl)	111.74	-2.54
Gold ($/oz)	1,834.30	-0.02

Source: Bloomberg, HLBB Global Markets Research

Eurozone consumer confidence slumped in June:

- A preliminary report by the European Commission showed that consumer confidence in the euro area turned more pessimistic in June as the murky outlook surrounding the Ukraine-Russian war, higher inflation and weaker growth outlook weighed on sentiment. The consumer confidence index slipped to -23.6 in June, from -21.2 in May, lower than the trough recorded at the onset of the global pandemic in 2020.

UK CPI stayed above 9%:

- The UK headline inflation rate remained above 9% in May, in line with the BOE's prediction that CPI will be over 9% for the next few months and to go slightly above 11% in October. The latest data showed that consumer prices rose 9.1% y/y, extending from the 9.0% increase in April, driven by higher prices of food & non-alcohol as well as housing utilities and other fuels as well as transports. The core CPI rate, however, eased to 5.9% y/y, from 6.2% previously. The latest data supports the conviction that the BOE may be prepared to take interest rates higher than previously anticipated.

Japan's machinery tool orders slowed in May:

- Japan's machinery tool orders fell 1.1% m/m in May (Apr: -6.8%), reflecting the further decline in domestic orders. Foreign orders managed to post a small 2.0% m/m rebound as orders from China picked up again. Compared to the same month last year, total orders rose by 23.7% y/y, marking softer growth for the fourth successive month.

Australia's leading index showed weaker consumer sentiment:

- Australia's Westpac Leading Index six-month annualised growth slowed to 0.6% in May, from 1.1% but still indicated above-trend growth for 2022. The components of the index identified a key emerging theme around growth prospects namely, a significant shock to consumer confidence. Westpac said the slump in consumer sentiment under the weight of rising interest rates and falling house prices is likely to take its toll on spending later in the year and into 2023.

Malaysia's international reserves fell 3.2%:

- Malaysia's foreign reserves slipped 3.2% to $109.2b as of 15 June, down from $112.8b two weeks ago, in a period coinciding with a stronger US dollar. The reserves are sufficient to finance 5.5 months of retained imports and is 1.1 times short-term external debt.

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	1.03-1.06	1.02	1.00	1.01	1.03
GBP/USD	1.21-1.25	1.21	1.20	1.22	1.24
AUD/USD	0.69-0.71	0.69	0.68	0.69	0.70
USD/JPY	133-136	133.00	135.00	133.00	132.00
USD/MYR	4.38-4.43	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	3.00-3.25	3.00-3.25
ECB	-0.50	-0.50	0.00	0.50	0.50
BOE	1.25	1.25	2.00	2.00	2.00
RBA	0.85	0.85	1.60	1.60	1.60
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
23/06	JP Jibun Bank Japan PMI Services (Jun P)	52.6
	JP Jibun Bank Japan PMI Mfg (Jun P)	53.3
	SG CPI YoY (May)	5.4%
	EZ S&P Global Eurozone Manufacturing PMI (Jun P)	54.6
	EZ S&P Global Eurozone Services PMI (Jun P)	56.1
	UK S&P Global/CIPS UK Manufacturing PMI (Jun P)	54.6
	UK S&P Global/CIPS UK Services PMI (Jun P)	53.4
	US Initial Jobless Claims (18 Jun)	229k
	US S&P Global US Manufacturing PMI (Jun P)	57
	US S&P Global US Services PMI (Jun P)	53.4
	US Kansas City Fed Manf. Activity (Jun)	23.0
24/06	UK GfK Consumer Confidence (Jun)	-40.0
	JP Natl CPI Ex Fresh Food YoY (May)	2.1%
	MA CPI YoY (May)	2.3%
	SG Industrial Production YoY (May)	6.2%
	UK Retail Sales Inc Auto Fuel YoY (May)	-4.9%
	US U. of Mich. Sentiment (Jun F)	50.2
	US New Home Sales MoM (May)	-16.6%

Source: Bloomberg

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