28 July 2022

Global Markets Research

Daily Market Highlights

28-July: Fed raised rates by 75bp for the second time

US stocks rallied, treasury yields & dollar fell after the Fed's announcement

Chair Powell does not think the US economy is in recession

Oil surged on falling US crude stockpiles, record high crude exports

- US stocks rallied while bond yields and dollar fell after the Federal Reserve raised rates by 75bps in a widely expected move to curb the US' red-hot inflation. Tech shares led Wednesday's climb as NASDAQ outperformed major benchmarks with a 4.1% single-day gain as investors digested tech earnings and Fed Chair Jerome Powell's post-meeting remarks suggest that the US may avert a recession. The Dow Jones rose 1.4% and S&P 500 advanced 2.6%.

- US treasury yields dipped as Powell gave indication that the Fed may soon slow the pace of rate hike. The spread between 2Y and 10Y yields turned less negative as the benchmark 2Y UST yield tumbled 6bps to 3.00% while the 10s was 2bps lower at 2.79%. In contrast, 20Y and 30Y UST yields rose 2-4bps.

- The dollar weakened against all G10 currencies and the dollar index reversed recent gains to 106.45 after falling 0.7%. GBP (+1.1%) was among the top performing currencies, trailing behind NOK (+1.7%). EUR recovered by 0.8% and JPY picked up modestly by 0.3%.

- USD recorded mixed performance in the Asia-ex-Japan basket. SGD outperformed by rising 0.5% alongside stronger offshore RMB (+0.4%). PHP, KRW, THB and IDR fell while MYR was flat at 4.4585 (-0.01%).

- Oil prices surged as US crude stockpiles fell by 4.52million barrels last week and US crude exports rose to a record high of 4.55million barrels/day last week. The US WTI rose 2.4% to $97.26/barrel while Brent crude gained 2.1% to $106.62/barrel, leaving the spread between these two benchmarks at $9/barrel.

Powell does not believe the US is in recession:

- The Fed raised the fed funds rate to 2.25-2.50% overnight, marking its second 75bp rate hike in a row as US inflation surged to 9.1% in June. Key FOMC statement change was the Fed's new acknowledgement that "recent indicators of spending and production have softened" but it maintained that the job market remains strong.
- Chair Powell reiterated the central bank's resolve to curb inflation, saying that it will look for "compelling evidence that inflation is moving down, consistent with inflation returning to 2%". He mentioned that "another unusually large increase could be appropriate at our next meeting" but this decision will be based on incoming data and via a meeting-by-meeting approach. He said that "as the stance of monetary policy tightens further, it likely will become appropriate to slow the pace of increases".
- When asked whether the US is in a recession, Powell said that he does not think the US is currently in a recession, as "there are just too many areas of

Key Market Metrics

	Level	d/d (%)
Equities		
Dow Jones	32,197.59	1.37
S&P 500	4,023.61	2.62
NASDAQ	12,032.42	4.06
Stoxx Eur 600	428.12	0.47
FTSE 100	7,348.23	0.57
Nikkei 225	27,715.75	0.22
Hang Seng	20,670.04	-1.13
Straits Times	3,205.14	0.41
KLCI 30	1,470.71	0.48
FX		
Dollar Index	106.45	-0.69
EUR/USD	1.0200	0.82
GBP/USD	1.2158	1.08
USD/JPY	136.57	-0.25
AUD/USD	0.6992	0.76
USD/CNH	6.7440	-0.34
USD/MYR	4.4585	0.01
USD/SGD	1.3827	-0.50
Commodities		
WTI ($/bbl)	97.26	2.40
Brent ($/bbl)	106.62	2.13
Gold ($/oz)	1,719.10	0.08
Copper ($$/MT)	7,637.00	1.33
Aluminum ($/MT)	2,422.50	0.04
CPO (RM/tonne)	3,913.50	3.29

Source: Bloomberg, HLBB Global Markets Research the economy that are performing too well", in particular the labour market. He acknowledged that growth is slowing but the labour market data are incredibly strong, citing remarkably strong payrolls, near-50Y low unemployment rate and "very strong" wage measures. He said "it doesn't make sense that the economy would be in a recession".

US durable goods and exports data beat expectations; housing indicators weakened:

- On the data front, US durable goods orders rose 1.9% m/m in June according to a preliminary reading (May: +0.8%), besting the forecast for a 0.4% decrease. The growth in the core capital orders, a gauge of business capex, also beat expectations at 0.5% m/m (May: +0.5%).
- Goods trade deficit narrowed from $104.0b to $98.2b in June, as exports rose 2.5% m/m to record high while imports fell 0.5% m/m. The same report shows wholesale inventories climbing 1.9% m/m (May: +1.9%) and retail inventories picked up 2% m/m (May: +1.6%). Both readings are solid and better than expected, despite words that businesses are slowing.
- Housing data do not fare as well. Mortgage applications fell 1.8% w/w for the week ended 22 July, extended from the 6.3% decline prior. Pending home sales were down sharply in June, indicating weaker existing sales ahead. The number of contracts signed fell 8.6% m/m, versus the 1% expected fall (May: +0.4%). The reading is stacking up evidence that the US residential housing market is cooling further.

Australia's inflation weaker than expected:

- Australia's CPI inflation readings came in weaker than expected, reducing the nascent expectations that the RBA could raise its key interest rate by 75bps at its upcoming August meeting. The headline CPI rate rose to 6.1% y/y in the second quarter, from 5.1% y/y in the first quarter but lower than the consensus forecast of 6.3%. The trimmed mean CPI rate also accelerated to 4.9% y/y (1Q: +3.7%), versus the expected 4.7% y/y. Price pressure was broad-based throughout the quarter, led by more expensive food/non-alcoholic beverages, transportation, housing and household furnishings.

China's industrial profits rose in June:

- China's industrial profits rose 0.8% y/y in June, following the 6.5% decline in May. This is the first positive reading for 2022 as data for January to March were not available this year. The modest recovery followed the reopening of Shanghai which allowed factories to resume operations.

House View and Forecasts

FX	This Week	3Q-22	4Q-22	1Q-23	2Q-23
DXY	106-108	106.00	105.00	103.00	102.00
EUR/USD	1.00-1.03	1.02	1.03	1.05	1.04
GBP/USD	1.18-1.20	1.21	1.22	1.24	1.23
AUD/USD	0.68-0.70	0.67	0.69	0.70	0.70
USD/JPY	136-138	138.00	135.00	133.00	132.00
USD/MYR	4.45-4.47	4.42	4.40	4.38	4.35
USD/SGD	1.38-1.39	1.40	1.38	1.37	1.36

Rates, %	Current	3Q-22	4Q-22	1Q-23	2Q-23
Fed	2.25-2.50	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
28/07	NZ ANZ Business Confidence (Jul)	-62.6
	AU Retail Sales MoM (Jun)	0.9%
	EC Economic Confidence (Jul)	104.0
	US GDP Annualized QoQ (2Q A)	-1.6%
	US Initial Jobless Claims (23 Jul)	--
	US Kansas City Fed Manf. Activity (Jul)	12.0
29/07	NZ ANZ Consumer Confidence Index (Jul)	80.5
	JP Jobless Rate (Jun)	2.6%
	JP Job-To-Applicant Ratio (Jun)	1.24
	JP Retail Sales MoM (Jun)	0.7%
	JP Industrial Production MoM (Jun P)	-7.5%
	VN CPI YoY (Jul)	3.4%
	VN Industrial Production YoY (Jul)	11.5%
	VN Exports YoY (Jul)	20.0%
	VN Retail Sales YoY (Jul)	27.3%
	EC CPI Estimate YoY (Jul)	8.6%
	EC GDP SA QoQ (2Q A)	0.6%
	US Personal Income (Jun)	0.5%
	US Personal Spending (Jun)	0.2%
	US PCE Core Deflator YoY (Jun)	4.7%
	US MNI Chicago PMI (Jul)	56.0
	US U. of Mich. Sentiment (Jul F)	51.1

Source: Bloomberg

Hong Leong Bank Berhad
Fixed Income & Economic Research, Global Markets
Level 8, Hong Leong Tower
6, Jalan Damanlela
Bukit Damansara
50490 Kuala Lumpur
Tel: 603-2081 1221
Fax: 603-2081 8936
HLMarkets@hlbb.hongleong.com.my

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