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Global Markets Research

Daily Market Highlights

2 June: Risk-on mood after the House passed the FRA

S&P 500 and Nasdaq scaled to 9-months high; UST yields fell as rate hike bets ebbed
US labour data still healthy; manufacturing worsened; construction spending picked up
Eurozone inflation eased; Caixin manufacturing PMI unexpectedly bounced above 50

- Wall Street rebounded on the 1st day of June after the House of Representatives passed the Fiscal Responsibility Act (FRA) by a vote of 314-117. Next up will be the Senate to pass the bill. Both the S&P 500 and Nasdaq closed at their highest levels since August 2022, gaining 1.0% and 1.3% d/d respectively. The Dow Jones Industrial Average also traded up 0.5% d/d. Beyond the debt ceiling battle, investors are looking ahead to the Federal Reserve's June 13-14 policy meeting as another possible market catalyst, with fresh data showing that the jobs market remained healthy while the manufacturing sector contracted for the 7th consecutive month. In Europe, Stoxx 600 added 0.8% d/d, while FTSE 100 closed up 0.6% d/d. Asian indices were mixed, with Nikkei 225 gaining 0.8% d/d, while Hang Seng was slightly lower by 0.1% d/d.
- The Treasuries market also kicked off June with a rally, with the front end of the UST curve outperforming in view of diminishing fears of rate hike in the next FOMC meeting. The yield on the 10Y was down by 5bps to 3.60%, while the 2Y fell 6bps to 4.34%. The 10Y European bonds yield closed mostly lower, but between -8 to +1bps.
- DXY index slumped 0.7% d/d to close at 103.56 after peaking at 104.50 on prospects of the Fed skipping a June rate hike. EUR recovered, gaining 0.7% d/d after ECB President Christine Lagarde said further policy tightening was necessary, while GBP continued to appreciate by 0.7% d/d. In Asia, Asian currencies closed generally stronger, with JPY, CNH and SGD appreciating by 0.2-0.4% d/d. MYR was flattish at 4.6137.
- Oil jumped more than 2.0% d/d on risk-on sentiment that outweighed rising stockpile concerns. Investors will next be on alert for the OPEC+ meeting scheduled this weekend. Prices of gold also climbed 0.7% d/d as rate hike bets ebbed.

Caixin's China PMI unexpectedly rose above 50; Malaysia's PMI deeper in contraction

- The S US Manufacturing PMI was revised 0.1ppts lower to 48.4 in May (Apr: 50.2), marking the fastest deterioration in operating conditions since February. Although a record improvement in supplier delivery performance helped manufacturers fulfil back orders and the third monthly gain in production, overall output growth remained meagre due to further contraction in new orders.

Key Market Metrics

	Level	d/d (%)
Equities		
Dow Jones	33,061.57	0.47
S&P 500	4,221.02	0.99
NASDAQ	13,100.98	1.28
Stoxx Eur 600	455.27	0.78
FTSE 100	7,490.27	0.59
Nikkei 225	31,148.01	0.84
Hang Seng	18,216.91	-0.10
Straits Times	3,166.30	0.24
KLCI 30	1,383.01	-0.30
FX		
Dollar Index	103.56	-0.73
EUR/USD	1.0762	0.68
GBP/USD	1.2526	0.68
USD/JPY	138.80	-0.39
AUD/USD	0.6571	1.05
USD/CNH	7.1044	-0.21
USD/MYR	4.6137	0.02
USD/SGD	1.3478	-0.28
Commodities		
WTI (\$/bbl)	70.10	2.95
Brent (\$/bbl)	74.28	2.23
Gold (\$/oz)	1,978.00	0.72
Copper (\$\$/MT)	8,243.50	1.91
Aluminum(\$/MT)	2,282.50	1.63
CPO (RM/tonne)	3,496.50	-2.03

Source: Bloomberg, HLBB Global Markets Research

- The HCOB Eurozone Manufacturing PMI was revised upwards by 0.2ppts to 44.8 in May (Apr: 45.8) but remained at a 3-year low. The decline in new orders suggests that weakness in output may persist for several months while we note that factory gate prices fell for the first time since September 2020. The downturn was also geographically broad-based.
- Although the UK Manufacturing PMI was revised upward by 0.2ppts to 47.1 in May (Apr: 47.8), the index at this level is still a 4-month low as manufacturers were affected by weak domestic market sentiment, lower new export order intakes and client destocking.
- The headline au Jibun Bank Japan Manufacturing PMI was revised downwards by 0.2ppts to 50.6 in May (April: 49.5). The reading was in line with the long-run series average and signalled a decisive turnaround in the manufacturing sector.
- Caixin's China Manufacturing PMI unexpectedly improved for the first time in three months to 50.9 in May (Apr: 49.5). Although mild, the index at this level is above the post-pandemic average as output expanded at the quickest rate in nearly a year supported by a fresh rise in new orders. Nonetheless, as the official economic data fell short of expectations, this raised doubts about the sustainability of the post-Covid recovery.
- The Malaysia Manufacturing PMI dipped to 47.8 in May (Apr: 48.8) in April with weakness noted in a range of indicators. Of note, firms scaled back employment for the first time in five months.
- The Vietnam Manufacturing PMI fell for the third month to 45.3 in May (Apr: 46.7). The contraction is the most marked since September 2021 and with the steepening decline in new orders, this signalled that the downturn may be lengthy rather than transitory.

US data showed softer but still healthy labour market; ISM-Manufacturing worsened slightly; construction spending unexpectedly picked up

- The ISM-Manufacturing Index lost more ground than expected to 46.9 in May (Apr: 47.1). Moving forward, there is clearly more business uncertainty with new orders contracting at a faster rate, but new export orders improved. Customers' inventories remained at the low end of 'too high' territory and the backlog of orders dropped to a level not seen since the Great Recession. The prices index fell dramatically into 'decreasing' territory after one month of increasing prices. Only 1 of 6 of the major industries reported growth during the month.
- In the construction sector, spending unexpectedly accelerated to +1.2% m/m in April (March: +0.3% m/m), with pick-ups seen in all segments with the exception of public residential spending.
- The ADP Employment Change report showed private sector employment topping all estimates and slowed less than expected to +278k in May (Apr: +291k). While job growth was strong, pay growth continued to decelerate and gains in employment were fragmented, with leisure and hospitality, natural resources, and construction taking the lead. Manufacturing and finance, on the other hand, lost jobs. Pay also slowed to +6.5% y/y (Apr: 6.7% y/y) for job stayers, while job changers saw a full ppts decline in pay growth to +12.1% y/y. This bodes well to contain wage-driven inflationary concerns.
- A Challenger, Gray & Christmas report showed that US employers announced 80.1k cuts in May, a 20% m/m increase and +286.7% y/y jump (Apr: +175.9% y/y). The technology sector announced the most layoffs during the month, followed by retail and auto. Of note, the tech sector has YTD announced the most cuts for the sector since 2001 during the tech bubble.

- Separately, jobless claims edged up less than expected by +2k to 232k (May 20: +5k to 230k) for the week ending May 27, while continuing claims jumped 6k to 1795k for the week ended May 20 (May 13: -10k to 1789k).
- The final nonfarm labor productivity was revised upwards by 0.6ppts to -2.1% q/q in 1Q (4Q: +1.6% q/q), combined effect of an upward revision to output and a downward revision to hours worked. Unit labor costs, meanwhile, were revised downwards by a whopping 2.1ppts to +4.2% q/q (4Q: -2.2% q/q).

Eurozone's inflation lower than expected

- Euro area's headline and core inflation for May decelerated sharper than expected to 6.1% (Apr: +7.0% y/y) and +5.3% y/y (Apr: +5.6% y/y) respectively. The decline was primarily driven by lower energy bills as well as food inflation. Services inflation was also milder during the month after Germany introduced cheap public transportation, but may pick-up towards the summer season in view of higher tourism activities. Separately, the unemployment rate in the region matched expectations at 6.5% for the month of April (March: Upwardly revised to 6.6%).

UK Nationwide house price index, mortgage approvals slipped

- According to the Nationwide House Price index, home prices retreated back into a contraction, albeit less than expected by -0.1% m/m in May (Apr: +0.4% m/m). On a y/y basis, prices worsened to -3.4% (Apr: -2.7% y/y), with average prices 4% below their August 2022 peak. Separate data showed that mortgage approvals unexpectedly fell to 48.7k in April (March: 51.5k) and net consumer credit holding steady at £1.6bn. Nonetheless, recent data points to tentative signs of a stabilisation in housing activities, but still elevated inflation rate and mortgage rates suggests that the market will stay soft in the near term.

Hong Kong's retail sales sturdy, double digit and above expectations

- Underpinned by continued improvement in consumption sentiment and visitor arrivals, Hong Kong's retail sales decelerated less than expected to +15.0% y/y in April (March: +40.8% y/y). Even after netting out the effect of price, sales were stronger than expected at +13.3% y/y (Apr: +39.3% y/y) and robust for discretionary items such as motor vehicles, cosmetics, clothing and footwear.

Australia's capex stronger than expected

- Australia's capital expenditure decelerated less than expected to +2.4% q/q in 1Q (4Q: +3.0% q/q) with the 3.7% q/q rise in new equipment and machinery the strongest since 1Q of 2021. Most industries recorded a rise in spending, but construction fell in line with lower building approvals.

House View and Forecasts

FX	This Week	2Q-23	3Q-23	4Q-23	1Q-24
DX	103-106	100.97	99.96	97.96	96.98
EUR/USD	1.06-1.08	1.10	1.11	1.12	1.13
GBP/USD	1.22-1.25	1.24	1.25	1.24	1.24
USD/JPY	138-140	131	130	128	128
AUD/USD	0.64-0.66	0.68	0.68	0.69	0.70
USD/MYR	4.54-4.65	4.39	4.35	4.31	4.28
USD/SGD	1.34-1.37	1.31	1.30	1.27	1.26

Rates, %	Current	2Q-23	3Q-23	4Q-23	1Q-24
Fed	5.00-5.25	5.00-5.25	5.00-5.25	5.00-5.25	5.00-5.25
ECB	3.75	4.00	4.00	4.00	4.00
BOE	4.50	4.75	4.75	4.75	4.75
BOJ	-0.10	-0.10	-0.10	-0.10	-0.10
RBA	3.85	3.85	3.85	3.85	3.85
BNM	3.00	3.00	3.00	3.00	3.00

Source: HLBB Global Markets Research

Up Next

Date	Events	Prior
2-June	AU Home Loans Value MoM (Apr)	4.90%
	US Change in Nonfarm Payrolls (May)	253k
	US Unemployment Rate (May)	3.40%
	US Average Hourly Earnings MoM (May)	0.50%
	US Average Weekly Hours All Employees (May)	34.4
5-June	AU Judo Bank Australia PMI Services (May F)	51.8
	JN Jibun Bank Japan PMI Services (May F)	56.3
	HK S&P Global Hong Kong PMI (May)	52.4
	AU Melbourne Institute Inflation YoY (May)	6.10%
	CH Caixin China PMI Services (May)	56.4
	SI Retail Sales YoY (Apr)	4.50%
	EC HCOB Eurozone Services PMI (May F)	55.9
	EC Sentix Investor Confidence (Jun)	-13.1
	UK S&P Global/CIPS UK Services PMI (May F)	55.1
	EC PPI YoY (Apr)	5.90%
	US S&P Global US Services PMI (May F)	55.1
	US Factory Orders (Apr)	0.90%
	US Durable Goods Orders (Apr F)	1.10%
	US ISM Services Index (May)	51.9
	US Cap Goods Ship Nondef Ex Air (Apr F)	0.50%

Source: Bloomberg

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