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Global Markets Research

Daily Market Highlights

3 July: Softer core PCE dampened odds of Fed rate hikes

Global equities and bond yields rose on growth optimism

Sustained gain in UK final 1Q GDP further soothed recession fear

DXY underperformed all G10s; softer core PCE reduced odds of two consecutive Fed hikes

- Equities got a boost at the start of European trading session as the final GDP print confirmed that the UK economy avoided a recession by growing 0.1% q/q in 1Q, adding on to the positive vibes from the upward revision to US 1Q GDP a day earlier. The rally was further reinforced by a sharper than pullback in Eurozone's CPI to 5.5% y/y, followed by US core PCE which surprised on the downside, spurring expectations of a softening price outlook that could potentially prompt major central banks to dial back their rate hike path.

- Risk-on mood gained speed heading into US trading session, as softer than expected core PCE reading in the US pared bets over further aggressive monetary policy tightening, hence alleviating concerns that the US economy may slip into a recession. The Dow added 0.8% while the S&P500 and Nasdaq rose 1.2-1.5% d/d as tech stocks such as Apple surged over 2.0%. The Stoxx Eur 600 advanced 1.2% while the UK FTSE 100 closed 0.8% higher d/d. Asian equities traded mixed to largely lower with losses seen in Nikkei 225, Hang Seng and KLCI. Futures are pointing to higher opening in Asian markets this morning.

- In the global bond scene, sovereign bond yields were bidded up generally. UST 2Y note yields were seen pushing near the 5.00% level at 4.90% (+16bps) while 10s last closed 10bps up at 3.84%, further inverted the 2/10 spread to 106bps, its worst since the 1981s, still pointing to risk of a recession.

- On the FX front, DXY fell and saw one big figure gap down from an intraday and two-week high of 103.54 to last close at 102.92, translating into a daily loss of 0.4% on Friday. The USD underperformed all G10s, the most vs the kiwi and Aussie. The EUR strengthened 0.4% to 1.0909, GBP gained 0.7% to 1.2703, JPY added 0.3% to 144.31, and AUD advanced 0.7% to 0.6664 on a resilient China PMI manufacturing and building up of risk sentiments in European and US trading sessions. Closer to home, most major Asian currencies also regained some grounds vs the greenback. SGD strengthened 0.3% to 1.3524 while the MYR saw more modest gains of 0.1% d/d to last close at 4.6665.

- Global crude oil prices also gained closed to 1.0% on optimism over improved demand and expectations OPEC+ could keep oil price steady despite the Russian turmoil which was not expected to severely dampen Russian output. Brent crude and WTI rose 0.8-0.9% to $74.91 and $70.45/ barrel respectively.

Key Market Metrics

	Level	d/d (%)
Equities		
Dow Jones	34,407.60	0.84
S&P 500	4,450.38	1.23
NASDAQ	13,787.92	1.45
Stoxx Eur 600	461.93	1.16
FTSE 100	7,531.53	0.80
Nikkei 225	33,189.04	-0.14
Hang Seng	18,916.43	-0.09
Straits Times	3,205.91	-0.04
KLCI 30	1,376.68	-0.84
FX		
Dollar Index	102.92	-0.43
EUR/USD	1.0909	0.40
GBP/USD	1.2703	0.71
USD/JPY	144.31	-0.31
AUD/USD	0.6664	0.73
USD/CNH	7.2677	-0.01
USD/MYR	4.6665	-0.12
USD/SGD	1.3524	-0.30
Commodities		
WTI ($/bbl)	70.45	0.96
Brent ($/bbl)	74.91	0.81
Gold ($/oz)	1,927.80	0.61
Copper ($$/MT)	8,319.50	1.79
Aluminum($/MT)	2,156.00	-0.23
CPO (RM/tonne)	3,730.00	0.24

Source: Bloomberg, HLBB Global Markets Research

Softer US core PCE underlined easing inflationary pressure; slower spending spelled growth risks

- Core PCE unexpectedly eased to 4.6% y/y in May (Apr: +4.7%), while the headline PCE tapered off at a faster pace from 4.3% to 3.8% y/y in the same month. Similar momentum was observed in the m/m traction, where headline PCE softened to 0.1% m/m in May (Apr: +0.4% m/m) while core PCE eased to 0.3% m/m (Apr: +0.4% m/m), both as expected, and raised expectations that the Fed may not deliver another two consecutive hikes going forward.
- Personal income and spending revealed faster momentum in income but slower spending growth in May. Personal income bucked expectations for a moderation and grew at a faster pace of 0.4% m/m instead (Apr: +0.3% m/m) while personal spending decelerated quite sharply from +0.6% to +0.1% m/m in May. As a result, real personal spending stagnated in May and April's gain was revised sharply lower from +0.5% to +0.2% m/m, dragged by a drop in purchases of motor vehicles. Gains have stalled in the last four months, suggesting consumer spending is struggling to stay afloat, and is expected to translate into slower GDP growth in the months ahead. In another sign of more cautious consumer spending, personal savings rate rose to 4.6% in May (Apr: 4.3%), its highest since early last year.
- June final print of University of Michigan consumer sentiments was revised higher to 64.4, from a preliminary estimate of 63.9, marking a commendable improvement from May's 59.2, thanks to renewed optimism following the debt ceiling resolution and increased expectations of slowing inflation. The 1Y and 5-10Y inflation expectations moderated to 3.3% and 3.0% respectively as initially estimated, softening from May's 4.2% (1Y) and 3.1% (5-10Y).

Eurozone CPI surprised on the downside but signs of persistent price pressure prevail

- June CPI surprised on the downside, with the headline print tapered off more than expected to 5.5% y/y (May: +6.1% y/y), its lowest since Jan-21. The core CPI reading also came in softer than expected, inching up just 0.1ppt to 5.4% y/y in the same month (May: +5.3% y/y). The smaller price gain was due to smaller increases in food, alcohol & tobacco (+11.7% vs +12.5% y/y), non-energy industrial goods (+5.5% vs +5.8% y/y), as well as bigger declines in energy prices (-5.6% vs -1.8% y/y), aided by a favourable base effect.
- Despite the downside surprises, the slight uptick in core CPI coupled with the quicker gain in services inflation (+5.4% vs +5.0% y/y), underscored persistent price pressure in the Eurozone, which could continue to support the case for further policy tightening by the ECB.

1Q GDP showed sustained momentum in the UK economy

- Final 1Q GDP showed a 0.1% q/q and 0.2% y/y expansion as expected. The UK economy is still chugging along despite mounting challenges both domestically and externally, maintaining a 0.1% q/q increase since 2Q last year although on a y/y basis, growth has decelerated for the 4th straight quarter, to its lowest since the GFC. Investment turned out to be the biggest growth contributor (+1.57ppt) followed by household consumption (+0.02ppt), which offset the drag from net trade (-1.04ppt) and government spending (-0.38ppt).
- Nationwide house prices staged a surprised rebound to increase 0.1% m/m in June (May: -0.1%), but extended its decline for the 4th straight month, albeit at a smaller than expected pace of 3.5% y/y (May: -3.4% y/y). Odds of further

BOE hikes, to the tune of another 75bps, would further dampen the housing market, which would cause further decline in house prices going forward.

Japan data turned in mixed

- Tokyo CPI unexpectedly eased in June. Headline CPI defied expectations for a pick-up to 3.4% y/y, and moderated to 3.1% y/y instead in June (May: +3.2% y/y), its smallest gain in nine months. Ex-fresh food, CPI however edged higher to 3.2% (May: +3.1% downwardly revised), as a result of smaller drag from electricity prices.
- Industrial production fell for the first time since January, and at a worse than expected pace of 1.6% m/m in May (Apr: +0.7%), led by declines in tech-related items as well as slowing vehicle production. This will likely dampen 2Q growth.
- Housing starts staged a surprised rebound, increasing 3.5% y/y in May (Apr: -11.9%), marking its first gain in four months, shored up by housing for rent and housing for sale, while owner occupied units sustained a 11.5% y/y decline.
- May's jobless rate held steady at 2.6% but the number of jobs available for every applicant pulled back slightly to 1.31 (Apr: 1.32).

Sluggish China PMIs calls for more stimulus measures ahead

- Official PMI manufacturing ticked higher for the first time in four months, to 49.0 in June as expected (May: 48.8), underpinned by higher new orders and prices. This however marked its 3rd straight month of contraction signalling a still bleak outlook in the China economy that would require further policy support measures. Adding to growth worries are services PMI that softened more than expected to 53.2 in the same month (May: 54.5), marking its slowest expansion in six months amid slower expansion in both the services and construction sectors.

House View and Forecasts

FX	This Week	2Q-23 Act	3Q-23	4Q-23	1Q-24
DXY	102-105	102.92	99.96	97.96	96.98
EUR/USD	1.07-1.10	1.09	1.11	1.12	1.13
GBP/USD	1.24-1.28	1.27	1.25	1.24	1.24
USD/JPY	143-147	144	130	128	128
AUD/USD	0.64-0.68	0.67	0.68	0.69	0.70
USD/MYR	4.65-4.72	4.67	4.35	4.31	4.28
USD/SGD	1.34-1.38	1.35	1.30	1.27	1.26

Rates, %	Current	2Q-23 Act	3Q-23	4Q-23	1Q-24
Fed	5.00-5.25	5.00-5.25	5.25-5.50	5.25.5.50	5.25-5.50
ECB	4.00	4.00	4.25	4.25	4.25
BOE	4.50	5.00	5.50	5.50	5.50
BOJ	-0.10	-0.10	-0.10	-0.10	-0.10
RBA	4.10	4.10	4.10	4.10	4.10
BNM	3.00	3.00	3.00	3.00	3.00

Source: HLBB Global Markets Research

Up Next

Date	Events	Prior
3-Jul	NZ Building Permits MoM (May)	-2.60%
	AU Judo Bank Australia PMI Mfg (Jun F)	48.6
	JN Tankan Large Mfg Outlook (2Q)	3
	JN Tankan Large Non-Mfg Outlook (2Q)	15
	JN Tankan Large All Industry Capex (2Q)	3.20%

	JN Jibun Bank Japan PMI Mfg (Jun F)	49.8
	MA S&P Global Malaysia PMI Mfg (Jun)	47.8
	VN S&P Global Vietnam PMI Mfg (Jun)	45.3
	AU Home Loans Value MoM (May)	-2.90%
	AU Building Approvals MoM (May)	-8.10%
	CH Caixin China PMI Mfg (Jun)	50.9
	EC HCOB Eurozone Manufacturing PMI (Jun F)	43.6
	HK Retail Sales Value YoY (May)	15.00%
	UK S&P Global/CIPS UK Manufacturing PMI (Jun F)	46.2
	SI Purchasing Managers Index (Jun)	49.5
	SI Electronics Sector Index (Jun)	49.1
	US S&P Global US Manufacturing PMI (Jun F)	46.3
	US Construction Spending MoM (May)	1.20%
	US ISM Manufacturing (Jun)	46.9
4-Jul	RBA cash target rate (Jul)	4.10%

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