5 May 2023

Global Markets Research
Daily Market Highlights

5 May: Dovish hikes by the Fed, ECB & BNM

Signs of end or near-end to policy tightening cycle; inflation risks remained prevalent
Wall Street closed lower as bank worries raged on; front-end UST curve outperformed
Mixed PMIs globally; China Caixin manufacturing PMI dipped to 49.5

- Wall Street tumbled for the fourth day as contagion fears in the regional bank space continued to grip the market. The Dow Jones Industrial Average turned red for the year, slipping 0.9% d/d, while the S&P 500 and Nasdaq Composite shed 0.7% and 0.5% d/d. Shares of PacWest, Western Alliance Bancorp and First Horizon all fell more than 30% d/d each. Apple, meanwhile, reported that its 2Q fiscal earnings beat Wall Street's estimates on robust iPhones sales.

- European stock markets also closed lower as investors digested the latest rate hikes by the Federal Reserve and ECB. Stoxx 600 slightly trimmed earlier losses to end the session down 0.5% d/d, while FTSE100 fell 1.1% d/d. Asian markets were mixed, but both Hang Seng and Nikkei 225 gained 1.3% and 0.1% d/d respectively.

- The front end of the Treasuries market outperformed, with the 2Y yield tumbling to a low of 3.65% before closing 2bps lower d/d at 3.79%. The 10Y, on the other hand, rose 4bps to 3.38%. European bonds finished mostly in the green even as ECB lifted rates, with the 10Y yield closing between 6bps lower to flat.

- DXY gained 0.1% d/d amid a 0.5% d/d decline in the EUR after the ECB eased its pace of rate hikes, a day after the Fed signalled that it may pause further increases. DXY closed at 101.40, while EUR slipped to 1.1012 vs the USD. GBP and JPY nevertheless appreciated 0.1% and 0.3% d/d respectively against the USD. SGD also appreciated 0.2% d/d to 1.3281, while MYR strengthened to as low as 4.4513 before paring its gains to close 0.2% d/d stronger at 4.4552 on Wednesday. This comes after the central bank surprised the market with a 25bps rate hike.

- Oil steadied after a 3-day plunge on signs of dwindling demand. Brent gained 0.3% d/d, but the West Texas Intermediate closed 0.1% d/d lower at $68.56/barrel. In a news update, Saudi Aramco cut the official selling prices for Asia by 25 cents. Gold made another run toward record highs as the US banking jittery drove flight to safe-haven assets, sending prices 0.9% d/d higher to $2056/oz.

Key Market Metrics

	Level	d/d (%)
Equities		
Dow Jones	33,127.74	-0.86
S&P 500	4,061.22	-0.72
NASDAQ	11,966.40	-0.49
Stoxx Eur 600	460.34	-0.47
FTSE 100	7,702.64	-1.10
Nikkei 225	29,157.95	0.12
Hang Seng	19,948.73	1.27
Straits Times	3,269.18	0.22
KLCI 30	1,425.99	-0.01
FX		
Dollar Index	101.40	0.06
EUR/USD	1.1012	-0.45
GBP/USD	1.2574	0.08
USD/JPY	134.29	-0.31
AUD/USD	0.6693	0.33
USD/CNH	6.9153	-0.10
USD/MYR	4.4552	-0.20
USD/SGD	1.3281	-0.17
Commodities		
WTI ($/bbl)	68.56	-0.06
Brent ($/bbl)	72.50	0.24
Gold ($/oz)	2,055.70	0.92
Copper ($$/MT)	8,493.50	0.30
Aluminum($/MT)	2,287.00	-1.46
CPO (RM/tonne)	4,088.50	-2.65

Source: Bloomberg, HLBB Global Markets Research

Fed raised rates by 25bps to 5.00%-5.25% as expected

- As widely expected, the Federal Reserve policy makers unanimously decided to raise the fed funds rate by 25bps to 5.00%-5.25%. Key highlights from the statement and Fed Chair Jerome Powell's press conference include: 1) Softening its language on future rate increases by removing the line "additional policy firming may be appropriate," reaffirming our view that the Fed will pause its tightening policy after this. 2) The statement said "In determining the extent to which additional policy firming may be appropriate to return inflation to 2% over time" leaves room for more rate hikes if needed. 3) The statement acknowledged tighter credit conditions for households and businesses. 4) Powell commented that the inflation rate is not going down so quickly and thus, it would not be appropriate to cut rates. 5) Powell commented that the initial signs of weakness in the labor market suggest that the path to a soft landing is not off the table. His view is that the US economy will avoid a recession.

ECB slowed its pace of rate hikes to 25bps and signalled it is not pausing

- As widely expected, the European Central Bank slowed its pace of rate hikes to 25bps from 50bps previously. With this, the interest rate on the main refinancing operations, marginal lending facility and the deposit facility will be increased to 3.75%, 4.00% and 3.25% respectively wef 10 May. The ECB also said it would likely stop its reinvestments under its Asset Purchase Program (APP) in July. We are maintaining our view that the ECB will raise its policy rates by another 25bps rate to end 2023 at 4.00%.
- Key highlights from the statement and President Christine Lagarde's press conference include: 1) "Inflation outlook continues to be too high for too long", suggesting that the policy makers are unhappy with the progress in disinflation. 2) The Council will continue to follow a data-dependent approach. 3) Past rate increases are being transmitted forcefully to euro area financing and monetary conditions. 4) The ECB is not pausing and they have more ground to cover.

BNM raised OPR by 25bps to 3.00%; signalled pause ahead

- At its May MPC meeting, BNM raised the OPR by 25bps to 3.00%, putting a halt to two consecutive pauses in January and March. Today's hike generally surprised the markets but is in line with our house view for a 25bps hike. We gathered that today's decision is premised on (1) resilient domestic growth outlook; (2) no signs of excessive tightening that is affecting consumption and investment activities; (3) risks to domestic growth outlook is fairly balanced; and (4) upside risks to inflation.
- Following today's move, BNM commented that "the MPC has withdrawn the monetary stimulus intended to address the COVID-19 crisis in promoting economic recovery" while the current stance of monetary policy has turned "slightly accommodative", a less hawkish tone compared to "accommodative" in the previous statements, implying that the current OPR rate is near neutral level. This, coupled with moderating growth and inflation trajectory especially in 2H of the year, support our view for OPR to stay unchanged at 3.00% for the remaining of 2023.

Mixed S&P PMIs; Caixin Manufacturing PMI retreated to 49.5

- The final S&P Global US Services PMI was revised slightly downwards by 0.1ppts to 53.6 in April (March: 52.6). While output growth quickened on stronger demand conditions, price hikes also intensified during the month.

- The final HCOB Eurozone Services PMI was revised downwards by 0.4ppts to 56.2 in April (March: 55.0), but is still well above the survey's historical average. Services firms' confidence is reflected in the solid reading for business expectations and staffing levels. Nevertheless, order backlog grew at a weaker pace, nearly stagnating in Germany.
- The final S&P Global/CIPS UK Services PMI was revised upwards by 1.0ppts to 55.9 in April (March: 52.9). Nevertheless, this is the fastest rate of growth since April 2022. The swift rebound in customer demand, nevertheless, have reignited inflationary pressures and both input costs and average prices charged has accelerated.
- The final Judo Bank Australia PMI Services was revised upwards by 1.1ppts to 53.7 in April (March: 48.6). This is the fastest pace since April 2022, driven by consumer services. Nevertheless, the 12-month outlook remained historically subdued.
- In the manufacturing sector, the Caixin China General Manufacturing PMI unexpectedly dipped to 49.5 in April (March: 50.0), the first contraction in 3 months. Supply saw a marginal slowdown of expansion, demand dipped m/m, labor market worsened and prices plunged. Despite all these, optimism towards the 12-month outlook improved. In our view, despite recent economic indicators beating expectations, it remains to be seen if the rebound post COVID-19 restrictions is sustainable after a short-term pent-up demand.
- The headline S&P Global Hong Kong suggests solid improvement in the private sector despite the index slipping to 52.4 in April (March: 53.5). Companies continued to benefit from the loosening of COVID-19 restrictions and reopening of full travel and in line with this, the employment sub-index accelerated to the fastest pace in just over 2 years.
- The headline S&P Global Singapore PMI accelerated further to 55.3 in April (March: 52.6), the highest recorded since November 2022 and consistent with a sharp rate of growth. The upturn was driven by a sharp and accelerated rise in new work, specifically overseas sales. On the contrary, the official PMI slipped slightly to 49.7 in April (March: 49.9), while the Electronics sub-component dropped to 49.2 (March: 49.4). This is the second month of downward trajectory, echoing global-wide softening in manufacturing sentiment and external demand.
- The S&P Global Vietnam Manufacturing PMI deteriorated for the fifth month to 46.7 in April (March: 47.7). New orders decrease at the fastest pace YTD and manufacturers have started lowering their prices to stimulate demand.

Mixed US economic data

- The ISM-Services Index topped estimates slightly at 51.9 in April (March: 51.2) driven by increase in new orders and improvements in both capacity and supply logistics. Most industries reported growth, while the price index edged up slightly by 0.1ppts to a strong 59.6.
- Labour market data point to a still strong labour market with glimpses of softening. The ADP Employment data surprised with the biggest payroll gain since July 2020 at +296k in April (March: +142k), led by the leisure/hospitality, education/health services and construction sectors. While the pace of job growth accelerated, wage growth nevertheless slowed to +6.7% y/y, signalling that employers are hiring aggressively but holding back pay gains.
- According to the Challenger report, US employers announced a 175.9% y/y increase in job cuts to 67.0k in April, (March: +319.4%y/y to 89.7k). On a m/m

basis, job cuts were nevertheless down 25.3% to the lowest this year. The retail sector led job cuts during the months on tightened consumer spending. This was followed by the technology sector.

- Initial jobless claims, meanwhile, rose more than expected, the most in 6 weeks by 13k to 242k for the week ended April 29 (Apr 21: -17k to 229k). Continuing claims, on the other hand, fell 38k to 1805k during the week ended April 22 (Apr 15: -18k to 1843k).
- Non-farm productivity declined more than forecast by 2.7% q/q in 1Q (4Q22: -+1.6% q/q) while unit labour costs accelerated more than expected to 6.3% q/q (4Q: +3.3% q/q). The latter was driven by higher compensation per hour, thus making the Fed's inflation fight a challenge.
- March trade deficit narrowed less than forecast to $64.2bn (Feb: $70.6bn) as exports rebounded by +2.1% m/m (Feb: -2.8% m/m) driven by industrial supplies. Imports remained in contractionary mode, albeit at a softer pace of -0.3% m/m (Feb: -1.6% m/m). We nevertheless, noted a rebound in consumer goods (+3.7% m/m vs Feb: -5.5% m/m).
- Mortgage applications registered a contraction of 1.2% w/w for the week ended April 28 (April 21: +3.7% w/w) despite rates declining slightly for the first time in three weeks. The 30-year fixed rate fell 5bps to 6.5%, while there are indications of reduced lender appetite for jumbo loans and heightened concerns about liquidity.

Eurozone's PPI decelerated sharply due to energy; unemployment rate eased to 6.5%

- Eurozone's producer prices (PPI) fell slightly less than expected by 1.6% m/m in March (Feb: -0.4% m/m). On a y/y basis, however, prices decelerated sharply to +5.9% y/y (Feb: +13.3% y/y) as energy prices softened sharply to +0.7% y/y (Feb: +17.6% y/y) after the high base effect in March 2022. Stripping this, PPI would have been higher at +8.0% y/y (Feb: +10.2% y/y) led by a 13.4% y/y jump in non-durable consumer products such as food. Separately, the unemployment rate unexpectedly improved to 6.5% in March (Feb: 6.6%).

UK mortgage approvals surged to 52k, the most since October

- UK's mortgage approvals rose more than expected to 52.0k in March (Feb: 44.1k), the most since October 2022 but is still down almost 30% since August 2022. In tandem with this, net consumer credit also picked up to £1.6bn (Feb: £1.5bn).

Australia's retail sales unexpectedly accelerated on food inflation

- Led by food inflation, retail sales unexpectedly accelerated to +0.4% m/m in March. Spending on non-food retailing, has nevertheless weakened amidst rising borrowing costs and inflation rate. Of the no-food industries, discretionary spending like clothing, footwear and personal accessories led the contraction at -1.0% m/m.
- Trade surplus unexpectedly widened and hit a 9-month high of A$15.3bn in March (Feb: A$14.2bn) as growth in exports (+3.8% vs -2.7% m/m) outpaced imports (+2.5% vs -10.2% m/m). The former was driven by a recovery in commodity exports, especially metal ores and minerals as demand picked up from a 2-month lull, while the latter was driven by non-industrial transport equipment.

Hong Kong retail sales jumped 40.9% y/y

- Hong Kong's retail sales jumped slightly less than expected by 40.9% y/y in March (Feb: +31.3% y/y). The surge was underpinned by low base effect as well as robust consumer and visitor spending with the removal of COVID-19 restrictions as well as border control. The disbursement of a new round of consumption vouchers under Budget 2023 also supported spending.

House View and Forecasts

FX	This Week	2Q-23	3Q-23	4Q-23	1Q-24
DXY	100-102	100.97	99.96	97.96	96.98
EUR/USD	1.09-1.11	1.10	1.11	1.12	1.13
GBP/USD	1.24-1.26	1.24	1.25	1.24	1.24
USD/JPY	135-138	131	130	128	128
AUD/USD	0.65-0.67	0.68	0.68	0.69	0.70
USD/MYR	4.43-4.47	4.39	4.35	4.31	4.28
USD/SGD	1.33-1.34	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	4.25	4.50	4.50	4.50	4.50
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
5-May	AU RBA-Statement on Monetary Policy	
	AU Home Loans Value MoM (Mar)	-0.90%
	CH Caixin China PMI Services (Apr)	57.8
	SI Retail Sales YoY (Mar)	12.70%
	UK S&P Global/CIPS UK Construction PMI (Apr)	50.7
	EC Retail Sales YoY (Mar)	-3.00%
	US Change in Nonfarm Payrolls (Apr)	236k
	US Unemployment Rate (Apr)	3.50%
	US Average Hourly Earnings MoM (Apr)	0.30%
	US Average Weekly Hours All Employees (Apr)	34.4
6-May	US Consumer Credit (Mar)	$15.290b
8-May	JN Jibun Bank Japan PMI Services (Apr F)	54.9
	AU NAB Business Conditions (Apr)	16
	AU Private Sector Houses MoM (Mar)	11.30%
	EC Sentix Investor Confidence (May)	-8.7
	US Wholesale Inventories MoM (Mar F)	0.10%
	US Wholesale Trade Sales MoM (Mar)	0.40%
8-19 May	EC EU Commission Economic Forecasts	

Source: Bloomberg

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