Hong Leong Bank

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Global Markets Research

Daily Market Highlights

6 June: Tame markets ahead of the June FOMC meeting

UST yields fell as ISM-Services pulled-back to just above 50; NFP unexpectedly surged

China's Services PMI rose to the second sharpest since 2020; Eurozone PPI softened

Oil prices nudged higher on planned output cuts from Saudi Arabia in July

- Wall Street was muted and consolidative on Monday, as markets shifted to a wait-and-see mode ahead of the June 13-14 FOMC meeting after Friday's broad rally brought by the surge in non-farm payrolls data and after Senate passed the debt limit deal to avert a default. The S&P 500 lost 0.2% d/d, the Nasdaq dipped 0.1% d/d while the Dow Jones Industrial Average dropped 0.6% d/d. Apple lost about 0.8%, retreating from an all-time high touched earlier in the session after it unveiled its highly anticipated mixed reality headset. Oil majors Chevron and Exxon Mobil also slipped after rallying earlier on higher oil prices following a Saudi Arabia supply cut.

- European markets also closed lower, with Stoxx 600 down 0.5% d/d, while FTSE 100 dipped 0.1% d/d. Asian markets were nonetheless higher earlier in the day after US President Joe Biden signed the debt ceiling bill. Nikkei 225 surged 2.2% d/d and closed above the 32k mark for the first time since 1990, while Hang Seng saw a 0.8% d/d gain on Monday.

- Weaker-than-expected ISM services and factory orders supported recovery in the Treasuries market, which saw yields for the 2Y and 10Y sliding 3 and 1bps respectively to 4.47% and 3.68%. The European bond yields, meanwhile, closed higher between 4-11bps.

- DXY closed just below the flatline at 104.00 after climbing as high as 104.40 on news that the US services sector barely grew in May, ending an initial rally sparked by strong jobs growth data on Friday. EUR strengthened 0.1% d/d, but GBP was 0.1% d/d weaker. In Asia, CNH closed 0.1% d/d weaker, but JPY and SGD appreciated by 0.2% d/d and 0.1% d/d respectively. MYR, meanwhile, closed 0.8% d/d stronger at 4.5765 last Friday.

- Oil prices nudged higher between 0.6%-0.8% d/d after Saudi Arabia announced that it will lower its output by 1m barrels per day and hiked all its official selling prices for deliveries in July. Gold rose 0.3% d/d after the US services slowdown boosted Fed pause bets.

China's Services PMI unexpectedly rose to the second sharpest since 2020

- The final S&P Global US Services PMI was revised downwards by 0.2ppts to 54.9 in May (Apr: 53.6). Nonetheless, this is the steepest expansion since April 2022, driven by improved demand from both domestic and export markets. Employment also increased at a solid pace, while cost pressures eased though remained elevated.

Key Market Metrics

	Level	d/d (%)
Equities		
Dow Jones	33,562.86	-0.59
S&P 500	4,273.79	-0.20
NASDAQ	13,229.43	-0.09
Stoxx Eur 600	459.93	-0.48
FTSE 100	7,599.99	-0.10
Nikkei 225	32,217.43	2.20
Hang Seng	19,108.50	0.84
Straits Times	3,189.01	0.72
KLCI 30	1,381.26	-0.13
FX		
Dollar Index	104.00	-0.01
EUR/USD	1.0713	0.05
GBP/USD	1.2438	-0.12
USD/JPY	139.58	-0.24
AUD/USD	0.6617	0.11
USD/CNH	7.1192	0.14
USD/MYR	4.5765	-0.81
USD/SGD	1.3493	-0.07
Commodities		
WTI ($/bbl)	72.15	0.57
Brent ($/bbl)	76.71	0.76
Gold ($/oz)	1,958.00	0.29
Copper ($$/MT)	8,335.00	1.19
Aluminum($/MT)	2,244.00	-0.86
CPO (RM/tonne)	3,331.00	-4.73

Source: Bloomberg, HLBB Global Markets Research

- The final HCOB Eurozone's Services PMI was revised downwards by a whopping 0.8ppts to 55.1 in May (Apr: 56.2). Nonetheless, this is still above the long-run average., supported by a strong labour market, rising wages and a flourishing tourism sector. Of note, while the services sector accelerated in Germany, growth was slower for the other three major Eurozone countries.
- The final S&P Global / CIPS UK Services PMI was revised 0.1ppts higher to 55.2 in May (Apr: 55.9), supported by resilient demand for consumer and technology services, as well as rising export sales, reflecting increased international visitor arrivals especially from US and Europe.
- The final Judo Bank Australia Services PMI was revised upwards 0.3ppts to 52.1 in May (Apr: 53.7), confirming a pick-up in services sector activity in 2023. While labour demand within the sector continued to ease to its lowest in 5 months, partially due to population growth, it is still in expansionary territory. While down from its peak in early 2022, price pressures also remained above pre-pandemic levels.
- The Japanese service sector continued on its upward trend, although the headline au Jibun Bank Japan Services Business Activity Index was revised downwards by 0.4ppts to 55.9 in May (April: 55.4). Firms were buoyed by the easing of pandemic restrictions and have noted strong increases in demand, notably from overseas and inbound tourism. Back-to-back record increases in business activity and optimism, new orders and exports also suggests that the upward trend is set to continue in the near and medium term.
- The Caixin China General Services PMI unexpectedly rose to 57.1 in May (Apr: 56.4), the second-sharpest rate since November 2020. The upturn was driven by a steeper increase in total new orders and sustained rise in new export business amidst reports of stronger market conditions and increased customer turnout. While companies remained optimistic that activity would pick up over the next year, the overall sentiment softened for the fourth month and slipped below the historical average.
- In contrast, the S&P Global Hong Kong SAR PMI slid to 50.6 in May (Apr: 52.4), indicating a further loss in growth momentum in 2Q. This was primarily due to the waning impact of the reopening boost to new orders.

US NFP unexpectedly surged; ISM-Services pulled-back to just above 50

- The US economy continued to add jobs in May, with the nonfarm payrolls (NFP) unexpectedly surging to 339k (Apr: +294k). Professional and business services led job creation for the month, with other notable gainers including leisure and hospitality, construction as well as transportation and warehousing. The two-month net revisions were 93k. Nonetheless, the unemployment rate rose more than expected to 3.7% (Apr: 3.4%) even though the labor force participation rate was unchanged. Average hourly earnings, a key inflation indicator, matched expectations to soften slightly to +0.3% m/m (Apr: +0.4% m/m), while the average workweek unexpectedly fell 0.1 hour to 34.3 hours.
- There has been a pullback in the rate of growth for the services sector, with the ISM Services PMI in May unexpectedly retreating to 50.3 (Apr: 51.9). This was due mostly to the decrease in employment as well as supplier deliveries indices due to sluggish demand. The majority of respondents indicated that business conditions are stable, but indicated concerns over the slowing economy.
- Factory orders decelerated more than expected to +0.4% m/m in April (March: Downwardly revised +0.6% m/m), while the final growth for durable goods orders was maintained at +1.1% m/m (March: +3.3% m/m). Capital-

goods nondefense ex air aircraft, meanwhile, was revised lower by 0.1ppts to +1.3% m/m (March: -0.6% m/m).

Eurozone's Sentix index worsened: PPI softened markedly y/y

- The Sentix overall economic index for the eurozone worsened more than expected to -17.0 in June (May: -13.1). Concerns about the economy are increasing, with the situation index signalling recessionary tendencies, but expectations rose marginally. Of note, the index for Germany plummeted dramatically to its lows since Nov/Dec 2022.
- Producer prices (PPI) fell for the fourth consecutive month and more than expected in April, with data showing prices contracting 3.2% m/m (March: -1.3% m/m). The contraction was due to declining energy prices, which plunged 10.1% m/m and a 0.6% m/m dip in prices of intermediate goods. Lower energy prices also held the y/y reading down to +1.0% (March: +5.5% y/y). Stripping this, PPI were 5.1% y/y higher (Apr: +8.0% y/y). Nonetheless, the overall easing in PPI provides an early indication and reaffirmation of a softening trend in consumer inflation moving forward.

Australia's home loan approvals fell; inflation gauge softened

- Housing loan approvals unexpectedly fell 2.9% m/m in April (March: +5.3% m/m), casting doubts on hopes of a price recovery soon. Contractions were seen for both investor and owner-occupier loans, with the latter leading the decline. Separately, the Melbourne Institute's inflation gauge decelerated to +5.9% y/y in May (Apr: +6.1% y/y).

Japan wages, spending weaker than expected

- Japanese real wages continued to fall for the 13th month, and more than expected by 3.0% y/y in April (March: -2.3% y/y). Nominal cash earnings, although increased 1.0% m/m (March: +1.3% y/y), was also weaker than expected. A separate report also showed that household cut spending more than expected for the same month by -4.4% y/y (March: -1.9% y/y). The lack of strength in both data suggests that BOJ may need more time to consider before adjusting its ultra easy policy.

Singapore's PMI sank deeper in contraction; retail sales unexpectedly rose supported by tourist spending

- In line with slower external demand, Singapore's PMI recorded its third consecutive month of contraction and dipped further to 49.5 in May (Apr: 49.7). The index was dragged lower by the Electronics PMI which fell to 49.1 (March: 49.2).
- Driven by spending from alcohol, cosmetics and toiletries (including those sold in duty free shops) as tourist arrivals grew, Singapore's retail sales unexpectedly chalked a positive growth of 3.6% y/y in April. Nevertheless, this marks the second month of deceleration after March's +4.5% y/y and February's +12.6% y/y jump due to the timing of Chinese New Year. Growth was also supported by food and services, due mainly to higher demand to both event and in-flight catering as well as apparel and footwear, but sales at petrol service stations, furniture and household equipment, motor vehicles, as well as computer and telecommunications equipment fell.

House View and Forecasts

FX	This Week	2Q-23	3Q-23	4Q-23	1Q-24
DXY	103-105	100.97	99.96	97.96	96.98
EUR/USD	1.06-1.08	1.10	1.11	1.12	1.13
GBP/USD	1.24-1.27	1.24	1.25	1.24	1.24
USD/JPY	137-140	131	130	128	128
AUD/USD	0.64-0.67	0.68	0.68	0.69	0.70
USD/MYR	4.57-4.67	4.39	4.35	4.31	4.28
USD/SGD	1.34-1.36	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
6-June	SI S&P Global Singapore PMI (May)	55.3
	AU RBA Cash Rate Target	3.85%
	UK S&P Global/CIPS UK Construction PMI (May)	51.1
	EC Retail Sales MoM (Apr)	-1.20%
7-June	AU GDP SA QoQ (1Q)	0.50%
	US MBA Mortgage Applications	-3.70%
	US Trade Balance (Apr)	-$64.2b
	CH Exports YoY (May)	8.50%
	CH Imports YoY (May)	-7.90%

Source: Bloomberg

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