

6 July 2023

Global Markets Research
Daily Market Highlights

6 July: Hawkish FOMC minutes dented risk sentiments

Hawkish FOMC minutes reaffirmed the Fed's guidance for two more rate hikes

Equities and bonds under pressure on renewed growth fear; DXY saw extended rally

Expect no change in OPR today amid moderating growth and inflation outlook

- Both the equities and bond markets came under selling pressure yesterday amid a hawkish FOMC minutes signalling that the rate pause decision in June was a close call. Some participants continued to favour a 25bps hike although all policy makers voted for a pause, while almost all said additional hikes would likely be appropriate, citing a tight labour market and slower than expected easing in inflation back to its 2% target rate. The three benchmark US stock indices ended 0.2-0.4% weaker on the day, on heightened concerns further Fed rate hikes will push the US economy into a recession.
- European and Asian equities also ended in the red earlier prior to the release of the FOMC minutes, dragged by much weaker services prints in the Eurozone, UK and China signalling a bleaker growth outlook ahead. The FTSE100 fell over 1.0% while the Stoxx Eur 600 lost 0.7% d/d. China's CSI 300 and Hong Kong's HIS declined 0.8% and 1.6% respectively. Equity futures continued to point to lower openings in Asia markets today following the overnight declines in US stocks and as markets await ADP and nonfarm job data for more clues of the health of the US economy.
- Bonds saw extended selloffs amid prospects of more rate increases. UST yields rose between 1-8bps across the curve, led by the longer end and bear steepening the curve. This narrowed the yield curve inversion to -101bps, but still hovering at worst levels since the 1980s suggesting markets remained wary over a recession. In Europe, the 10Y sovereign bond yields were seen rising as much as 8bps.
- On the FX front, the DXY gained further grounds from its earlier biddish tone after the release of FOMC minutes, last settling the day 0.2% stronger at 103.34. The greenback strengthened against all G10s and major Asian crosses, with the exception of KRW and HKD. The EUR weakened 0.2% d/d to 1.0854 while the GBP closed 0.1% lower just above the 1.27 handle. USD/JPY closed 0.1% higher at 144.66, approaching the 145 levels that may prompt BOJ intervention again. In the Asia space, CNY led declines (-0.5%), followed by SGD (-0.3%). The MYR fared better, falling a mere 0.04% to 4.6520 supported by oil prices and OPR hike talks. Our house view for a pause remains taking cue from moderating growth and inflation outlook, although BNM has been hinting for another 25bps hike.
- Global crude oil prices extended its rally amid ongoing supply concerns. Saudi said OPEC will do "whatever necessary" to support the oil market, hinting at possibility of further output cuts. Meanwhile report from API showed US

Key Market Metrics

	Level	d/d (%)
Equities		
Dow Jones	34,288.64	-0.38
S&P 500	4,446.82	-0.20
NASDAQ	13,791.65	-0.18
Stoxx Eur 600	457.94	-0.73
FTSE 100	7,442.10	-1.03
Nikkei 225	33,338.70	-0.25
Hang Seng	19,110.38	-1.57
Straits Times	3,185.38	-0.57
KLCI 30	1,389.90	-0.19
FX		
Dollar Index	103.34	0.22
EUR/USD	1.0854	-0.23
GBP/USD	1.2704	-0.07
USD/JPY	144.66	0.13
AUD/USD	0.6655	-0.55
USD/CNH	7.2621	0.47
USD/MYR	4.6520	0.04
USD/SGD	1.3534	0.30
Commodities		
WTI (\$/bbl)	71.83	1.60
Brent (\$/bbl)	76.53	0.54
Gold (\$/oz)	1,922.70	-0.14
Copper (\$\$/MT)	8,322.50	-0.44
Aluminum(\$/MT)	2,137.00	-1.52
CPO (RM/tonne)	3,885.00	-0.82

Source: Bloomberg, HLBB Global Markets Research

crude inventories fell and expectation is that the EIA report today will show a similar decline in crude stockpiles. WTI jumped 1.6% d/d to \$71.83/ barrel while Brent rose 0.5% to \$76.53/ barrel.

FOMC minutes showed June pause was a close call; calling for two more hikes ahead

- The minutes of the June FOMC meeting revealed that the decision for a pause at the June meeting was unanimous, although some participants favoured a 25bps increase. Policy makers were hawkish nonetheless, with almost all foreseeing additional hikes would likely be appropriate in 2023, citing a tight labour market and slower than expected easing in inflation back to its 2% target rate. The Fed did maintain its forecast for a mild recession in 2023, and reiterated that core inflation failed to show sustained easing since the beginning of the year. Futures pricing for a 25bps hike at the July FOMC meeting now stands at 85%. We are pencilling a 25bps increase in the Fed funds rate in the next meeting in July.

US factory orders saw sustained increase in May boosted by faster gain in durable goods orders

- Factory orders sustained a 0.3% m/m increase in May, missing expectations for a quicker increase of 0.8% m/m, as faster increase in durable goods orders was offset by slower increase in capital goods. May durable goods orders reported a slightly faster increase of 1.8% m/m (flash estimate +1.7%), confirming a pick-up from the 1.2% m/m increase in April. Ex-transport, orders indeed saw extended decline for the 4th straight month (-0.5% vs -0.6%), a sign that weak demand is translating into factories.

PMI services continued to soften by and large reaffirming a softening outlook ahead

- Eurozone saw its final print of June PMI services revised lower to 52.0, from the earlier estimate of 52.4, pointing to a bigger pullback from May (55.1), which marked its weakest level in five months, dragged by a decline in new business.
- In the UK, the same gauge reported a final print of 53.7, unchanged from its flash reading confirming a pullback from 55.2 in May, also dampened by weaker new business.
- Final print showed the services sector in Japan expanded at a slower than initially estimated pace in June (54.0 vs 54.2 preliminary) and a rather sharp pullback from the 55.9 reading in May. This was due to softer employment and lower prices charged.
- China Caixin PMI services surprised significantly on the downside, pulling back sharply from 57.1 in May to 53.9 in June, its lowest in five months, adding to signs of less sanguine business outlook going forward that would necessitate more policy stimulus to spearhead the China economy.
- Hong Kong PMI also moderated to 50.3 in June (May: 50.6), marking its 4th straight month of moderation as a result of decline in new orders, pointing to prevalent headwinds in the China-dependent economy.

Singapore retail sales and PMI added to signs of slower growth outlook

- The S&P global PMI nudged 0.3ppt lower to 54.1 in June (May: 54.5), its lowest in three months as a rise in output was offset by a fall in new orders, suggesting prospect of a slowing economy ahead.

- Retail sales saw more modest growth of 1.8% y/y in May, slowing from the +3.7% y/y increase in April, and has been decelerating in the last three months. Slower sales and/ or bigger declines were seen across most categories, pointing to softening outlook in consumer spending. Declines were reported in sales at department stores (-0.6% y/y), supermarkets & hypermarkets (-2.2% y/y), petrol service stations (-18.2% y/y), recreational goods (-6.9% y/y), and furniture & household equipment (-0.7% y/y).

House View and Forecasts

FX	This Week	3Q-23	4Q-23	1Q-24	2Q-24
DXY	102-105	102	101	100	99
EUR/USD	1.07-1.10	1.11	1.12	1.14	1.12
GBP/USD	1.24-1.28	1.29	1.31	1.33	1.30
USD/JPY	143-147	141	139	136	133
AUD/USD	0.64-0.68	0.67	0.68	0.68	0.69
USD/MYR	4.65-4.72	4.69	4.64	4.60	4.55
USD/SGD	1.34-1.38	1.35	1.34	1.33	1.33

Rates, %	Current	3Q-23	4Q-23	1Q-24	2Q-24
Fed	5.00-5.25	5.25-5.50	5.25-5.50	5.00-5.25	4.50-4.75
ECB	4.00	4.25	4.25	4.25	4.00
BOE	5.00	5.50	5.50	5.50	5.00
BOJ	-0.10	-0.10	-0.10	-0.10	-0.10
RBA	4.10	4.35	4.35	4.35	4.35
BNM	3.00	3.00	3.00	3.00	3.00

Source: HLBB Global Markets Research

Up Next

Date	Events	Prior
6-Jul	AU Exports MoM (May)	-5%
	MA BNM Overnight Policy Rate (Jul)	3.00%
	EC Retail Sales MoM (May)	0.00%
	US MBA Mortgage Applications (30 Jun)	3.00%
	US ADP Employment Change (Jun)	278k
	US Trade Balance (May)	-\$74.6b
	US Initial Jobless Claims (1 Jul)	239k
	US S&P Global US Services PMI (Jun F)	54.1
	US JOLTS Job Openings (May)	10103k
	US ISM Services Index (Jun)	50.3
7-Jul	JN Household Spending YoY (May)	-4.40%
	JN Leading Index CI (May P)	96.8
	MA Foreign Reserves (30 Jun)	\$113.0b
	US Change in Nonfarm Payrolls (Jun)	339k
	US Unemployment Rate (Jun)	3.70%
	US Average Hourly Earnings MoM (Jun)	0.30%

Source: Bloomberg

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