HongLeong Bank

7 July 2023

Global Markets Research

Daily Market Highlights

7 July: Broad risk aversion amid rate hike fear

Mounting selling pressure on global equities and bonds

Upside surprises in US jobs and services data spurred rate hike and growth fear

BNM stood pat; neutral policy tone reaffirmed our view for extended OPR pause in 2023

- Major stock indices all ended in the red as markets turned increasingly fearful of additional interest rate increases that are expected to push the world into a (deeper) recession sooner than later. The selloff was already evident in Asia and European sessions, and was seen extended into the US trading hours after upside surprises in US jobs and services reports bolstered expectations for a July and even a September Fed rate hikes. OIS pricing showed the probability of a July and September Fed rate hike rising to 89% and 28% respectively, up from 85% and 22% a day ago. US benchmark stock indices fell 0.8-1.1% on the day, with losses across the board led by energy and consumer discretionary counters. European stocks generally lost 2.0-3.0% while the Asian markets saw similar losses to the tune of 3.0% in Hang Seng.

- Sell-offs in bonds were extended for a 3rd day as building-up in rate hike outlook dominated market sentiments. UST yields rose 4-11ps across the curve while European bond yields spiked as much as 21bps – 10Y UK gilts (+17bps) and 10Y German bunds (+15bps).

- On the FX front, the Dollar Index took a step back for the first time in four days, shedding 0.2% d/d to 103.11 at close, after going through a day of volatile trade. Despite the pullback in the DXY, the greenback indeed traded mixed against the majors, weakening against the stronger JPY (+0.4%), CHF (+0.4%), EUR (+0.3%), DKK (+0.3%) and GBP (+0.3%) but strengthening against the weaker NOK, CAD, AUD, NZD and SEK by between 0.02-0.8%. Major Most Asian currencies however traded weaker against the greenback, with the THB (-0.5%) at the bottom of the list. The MYR registered modest losses of 0.2% d/d to 4.6605 at close, giving back prior days gains in the 4.65 levels ahead of OPR decision.

- Global crude oil prices turned in a little mixed with small gain in WTI but marginal losses in Brent as markets weighed between potential demand optimism stemming from positive economic data and supply outlook following a drawback in crude inventories. In line with the API report that showed a decline in stockpiles, EIA's latest report showed crude inventories fell to its lowest level since January. WTI and Brent last closed at $71.91 and $76.51/ barrel respectively.

Key Market Metrics

	Level	d/d (%)
Equities		
Dow Jones	33,922.26	-1.07
S&P 500	4,411.59	-0.79
NASDAQ	13,679.04	-0.82
Stoxx Eur 600	447.22	-2.34
FTSE 100	7,280.50	-2.17
Nikkei 225	32,773.02	-1.70
Hang Seng	18,533.05	-3.02
Straits Times	3,150.43	-1.10
KLCI 30	1,385.95	-0.28
FX		
Dollar Index	103.11	-0.21
EUR/USD	1.0889	0.32
GBP/USD	1.2740	0.28
USD/JPY	144.07	-0.41
AUD/USD	0.6626	-0.44
USD/CNH	7.2556	-0.09
USD/MYR	4.6605	0.18
USD/SGD	1.3536	0.01
Commodities		
WTI ($/bbl)	71.91	0.11
Brent ($/bbl)	76.51	-0.03
Gold ($/oz)	1,916.90	-0.30
Copper ($$/MT)	8,277.00	-0.55
Aluminum($/MT)	2,130.00	-0.33
CPO (RM/tonne)	3,827.50	-1.48

Source: Bloomberg, HLBB Global Markets Research

BNM left OPR unchanged at 3.00%; expect extended pause for the rest of 2023

- BNM maintained the OPR at 3.00% as expected, amid moderating domestic growth and inflation outlook. BNM also mentioned that it continued to see limited risks of future financial imbalances. The latest monetary policy statement turned out more neutral than the May statement in our view, although it reiterated that the current stance of policy remains "slightly accommodative". It has dropped the references to (1) a relatively balanced risk to growth outlook and (2) balance of risk to inflation outlook is tilted to the upside. Today's pause and narration in the policy statement reaffirmed our view for an extended pause in the OPR at 3.00% for the rest of the year.

Upside surprises in US jobs and services data cement a July Fed rate hike

- ADP private payroll showed a surprised jump, adding 497k jobs in June, almost doubled from May's 267k, and certainly bucked expectations for fewer job gains of 225k. This marked its biggest gain since Feb last year and reaffirmed the case of a still resilient US labour market. Unsurprisingly, about half of the job gains came from the leisure & hospitality sector (232k), followed by construction (97k). Meanwhile, losses were seen in manufacturing, information, financial activities and professional business services. In another sign of a steady labour market, JOLTS job openings fell to 9824k in May (April: 10320k), suggesting the supply-demand in labour is improving.
- Initial jobless claims rose again and by a more than expected pace of 12k to 248k in the week ended 1-Jul (prior: -29k to 236k), reflecting the swing over the two weeks in the wake of Juneteenth holiday. 4-week moving average claims and continuing claims meanwhile fell to a 4-month low of 253.25k (prior 256.75k) and 1720k (prior 1733k) respectively, pointing to a still resilient job market.
- ISM services picked up more than expected to a 4-month high of 53.9 in June (May: 50.3), driven by a sharp improvement in business activity (59.2 vs 51.5), employment (53.1 vs 49.2) and new orders (55.5 vs 52.9), while the price component pulled back to 54.1 in June (May: 56.2). This could potentially point to a strong NFP later tonight, in line with expectations of a still firm labour market and cooling inflation. Meanwhile, the final print of PMI services gauge also sprang some positive surprises, showing a milder pullback from May's reading of 54.9 to 54.4 in June (flash estimate of 54.1).
- Trade deficit narrowed to $69.0bn in June as expected (May: -$74.4bn), as imports fell at a faster pace (-2.3% m/m) compared to the decline in exports (-0.8% m/m). The decline in exports was due to extended fall in goods exports (-1.5% m/m) with declines in food & beverages, industrial supplies and capital goods, which far outweighed continuous increase in services exports (+0.5% m/m). Meanwhile, the decline in imports was broad-based, suggesting risks to domestic demand going forward.
- MBA mortgage applications fell again by 4.4% w/w for the week ended 30-Jun (prior: +3.0%), snapping three straight weeks of gain. Both new purchases (-4.6% vs +2.8%) and refinancing (-4.1% vs +3.3%) fell, as borrowing costs inched further up to 6.85% (prior: 6.75%), a sign higher interest rates are still biting.

Weaker than expected Eurozone retail sales spells greater risk ahead

- May retail sales showed stagnant growth for the 2nd straight month, missing expectations for a pick-up to +0.2% m/m. Compared to the previous corresponding month, sales saw sustained contraction of 2.9% y/y in May, marking its 8th straight month of decline. Sales fell across the board, with bigger declines in non-food products (-2.1% vs -1.2% y/y), while other main categories managed to narrow their falls in May. The broad-based weakness in sales underscored a weak consumer sector that would place the Eurozone economy at risk of a deeper recession ahead.

Australia exports rebounded in May; offering support to 2Q GDP

- Exports rebounded and grew 4.4% m/m in May (Apr: -6.4%), driven by higher exports to its top three exports markets – China, Japan and the US. The increase was driven by higher commodity exports including gold, oil and coal. Imports however sustained a 2.5% m/m gain, translating into a bigger trade surplus of A$11.8bn during the month (Apr: A$10.5bn revised). This shall offer some support to 2Q GDP.

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
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%
10-Jul	JN Trade Balance BoP Basis (May)	-¥113.1b
	CH CPI YoY (Jun)	0.20%
	CH PPI YoY (Jun)	-4.60%
	JN Eco Watchers Survey Outlook SA (Jun)	54.4
	EC Sentix Investor Confidence (Jul)	-17
	US Wholesale Inventories MoM (May F)	-0.10%

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

DISCLAIMER

This report is for information purposes only and does not take into account the investment objectives, financial situation or particular needs of any particular recipient. The information contained herein does not constitute the provision of investment advice and is not intended as an offer or solicitation with respect to the purchase or sale of any of the financial instruments mentioned in this report and will not form the basis or a part of any contract or commitment whatsoever.

The information contained in this publication is derived from data obtained from sources believed by Hong Leong Bank Berhad ("HLBB") to be reliable and in good faith, but no warranties or guarantees, representations are made by HLBB with regard to the accuracy, completeness or suitability of the data. Any opinions expressed reflect the current judgment of the authors of the report and do not necessarily represent the opinion of HLBB or any of the companies within the Hong Leong Bank Group ("HLB Group"). The opinions reflected herein may change without notice and the opinions do not necessarily correspond to the opinions of HLBB. HLBB does not have an obligation to amend, modify or update this report or to otherwise notify a reader or recipient thereof in the event that any matter stated herein, or any opinion, projection, forecast or estimate set forth herein, changes or subsequently becomes inaccurate.

HLB Group, their directors, employees and representatives do not have any responsibility or liability to any person or recipient (whether by reason of negligence, negligent misstatement or otherwise) arising from any statement, opinion or information, expressed or implied, arising out of, contained in or derived from or omission from the reports or matter.

Potential and actual conflict of interest may arise from the activities of HLB Group. HLB Group constitute a diversified financial services group. These entities engage in a wide range of commercial and investment banking, brokerage, funds management, hedging transactions and other activities for their own account or the account of others. In the ordinary course of their business, HLB Group may effect transactions for their own account or for the account of their customers and hold long or short positions in the financial instruments. HLB Group, in connection with its business activities, may possess or acquire material information about the financial instruments. Such activities and information may involve or have an effect on the financial instruments. HLB Group have no obligation to disclose such information about the financial instruments or their activities.

The past performance of financial instruments is not indicative of future results. Whilst every effort is made to ensure that statements of facts made in this report are accurate, all estimates, projections, forecasts, expressions of opinion and other subjective judgments contained in this report are based on assumptions considered to be reasonable as of the date of the document in which they are contained and must not be construed as a representation that the matters referred to therein will occur. Any projections or forecasts mentioned in this report may not be achieved due to multiple risk factors including without limitation market volatility, sector volatility, corporate actions, the unavailability of complete and accurate information. No assurance can be given that any opinion described herein would yield favourable investment results. Recipients who are not market professional or institutional investor customer of HLBB should seek the advice of their independent financial advisor prior to taking any investment decision based on the recommendations in this report.

HLBB may provide hyperlinks to websites of entities mentioned in this report, however the inclusion of a link does not imply that HLBB endorses, recommends or approves any material on the linked page or accessible from it. Such linked websites are accessed entirely at your own risk. HLBB does not accept responsibility whatsoever for any such material, nor for consequences of its use.

This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation. This report is for the use of the addressees only and may not be redistributed, reproduced or passed on to any other person or published, in part or in whole, for any purpose, without the prior, written consent of HLBB. The manner of distributing this report may be restricted by law or regulation in certain countries. Persons into whose possession this report may come are required to inform themselves about and to observe such restrictions. By accepting this report, a recipient hereof agrees to be bound by the foregoing limitations.