

12 May 2023

Global Markets Research

Daily Market Highlights

12 May: BOE does not expect a UK recession

BOE raised rates by 25bps to 4.50% as expected; signalled near-end to rate hikes

US PPI eased but rebounded m/m on services; jobless claims highest since Oct 2021

China's inflation slowed to 2-year low; PPI deflation deepened; financing slowed

- The Dow Jones Industrial Average and S&P 500 were under pressure on Thursday as shares in Walt Disney, Peloton Interactive and regional banks weighed down on Wall Street, offsetting gains amongst the big techs. The S&P 500 declined 0.2% d/d, Dow Jones shed 0.7% d/d, but Nasdaq Composite added 0.2% d/d.
- European markets were muted, with Stoxx 600 closing flat, having evened out earlier gains and losses, while FTSE 100 dipped 0.1% d/d after BOE delivered a 25bps dovish hike. Notable movers include ING after it announced plans to buy back €1.5bn worth of shares and Bayer AG which said that profit will probably be at the lower end of its forecast. Miners underperformed after the weaker Chinese data stocked concerns on its economic recovery. Asian markets traded mixed with Hang Seng dipping slightly by 0.1% d/d, while Nikkei 225 closed just above the flatline.
- A pop in jobless claims, softening PPI and renewed concerns over regional banks supported the rally in US treasuries early in the day but faded towards close. The 2Y and 10Y yields edged down by 1 and 5bps to close at 3.90% and 3.38% respectively. The 10Y European bonds yield, meanwhile, closed lower in tune of 4-9bps.
- DXY jumped 0.6% d/d to 102.06 despite less hawkish Fed views vis-à-vis its ECB and BOE counterparts. EUR, GBP and JPY weakened by 0.6%, 0.9% and 0.1% d/d respectively against the greenback. In Asia, CNH depreciated by 0.3% d/d, while MYR and SGD weakened by 0.1% and 0.5% d/d respectively to 4.4640 and 1.3316.
- Oil fell for the second day, with the West Texas Intermediate (WTI) sliding back to the \$70/barrel level on softer economic indicators and weakness in underlying physical markets. WTI fell 2.3% d/d, while Brent slipped 1.9% d/d. Gold dipped 0.8% d/d as USD strengthened.

BOE increased rates to 4.50%; no longer sees recession

- As widely expected, the Bank of England (BOE) voted by a majority of 7–2, to increase the bank rate by 25bps to 4.50%. The committee also updated its projections for GDP and inflation and they are conditioned on a market-implied path for bank rate that peaks at around 4.75% in 2023 before ending the forecast period at just over 3.50%.
- Key highlights include: 1) The Committee no longer expects the UK economy to enter a recession this year. GDP is expected to be flat over the 1H of 2023,

Key Market Metrics

	Level	d/d (%)
Equities		
Dow Jones	33,309.51	-0.66
S&P 500	4,130.62	-0.17
NASDAQ	12,328.51	0.18
Stoxx Eur 600	463.62	0.00
FTSE 100	7,730.58	-0.14
Nikkei 225	29,126.72	0.02
Hang Seng	19,743.79	-0.09
Straits Times	3,229.55	-0.39
KLCI 30	1,425.18	-0.04
FX		
Dollar Index	102.06	0.57
EUR/USD	1.0916	-0.60
GBP/USD	1.2511	-0.90
USD/JPY	134.53	0.14
AUD/USD	0.6702	-1.14
USD/CNH	6.9596	0.30
USD/MYR	4.4640	0.12
USD/SGD	1.3316	0.50
Commodities		
WTI (\$/bbl)	70.87	-2.33
Brent (\$/bbl)	74.98	-1.87
Gold (\$/oz)	2,020.50	-0.81
Copper (\$\$/MT)	8,163.50	-3.68
Aluminum(\$/MT)	2,211.00	-2.51
CPO (RM/tonne)	3,995.00	-0.26

Source: Bloomberg, HLBB Global Markets Research

growing 0.9% by the middle of 2024 and 0.7% by mid-2025. 2) Inflation is expected to fall sharply from April, declining to an average of 8.2% in 2Q, 7.0% in 3Q and 5.1% in 4Q. 3) Governor Andrew Bailey, in his interview, said that BOE is “approaching a point when we should be able to in a sense rest in terms of the level of rates” but added that they haven’t seen evidence yet to give a “stronger sense of the read of that.”

US PPI eased to 2.3%, but rebounded m/m on services; jobless claims rose to the highest since October 2021

- US producer price inflation (PPI) eased more than expected to +2.3% y/y in April (March: +2.7% y/y), the slowest pace since early 2021. However, it should be noted that prices were higher on a m/m basis at +0.2% m/m (March: -0.4% m/m), with 80% of the increase driven by cost of services at +0.3% m/m (March: -0.1% m/m).
- In the labour market, jobless claims rose more than expected and to the highest since October 2021 by +22k to 264k for the week ended May 6 (Apr 29: +13k to 242k). Continuing claims also rose 12k to 1813k for the week ended April 29 (Apr 22: -42k to 1801k). The easing PPI and the pop in jobless claims, signalling decelerating price pressures and softer labour market reaffirmed our expectations that the Fed is at the end of its tightening cycle.

Japan Eco Watchers Outlook rose to 55.7

- Japan’s Eco Watchers Outlook rose more than expected to 55.7 in April (March: 54.1), driven by the employment, non-manufacturing corporate as well as household sub-indices.

China’s inflation slowed to 2-year low; PPI deflation deepened

- China’s inflation rate slowed more than expected to its lowest rate in over two years at +0.1% y/y in April (March: +0.7% y/y), pulled lower by high base effect as well as sharply slower increase in food (+0.4% y/y vs March: +2.4% y/y). Producer price deflation, meanwhile, deepened further to -3.6% y/y (March: -2.5% y/y), weighed down by falling commodity prices like ore and crude oil.
- Separately, aggregate financing slowed more than expected to +1.2tn yuan in April (March: 5.4tn yuan), with household loans the hardest hit and recording the fourth monthly drop at -241bn yuan (March: +1.2tn yuan). The latter signalled that the housing rout is not over and coupled with the undershoot in prices, suggests that recovery in domestic demand is tepid and leaves room for PBoC to cut its policy rate going forward.

House View and Forecasts

FX	This Week	2Q-23	3Q-23	4Q-23	1Q-24
DXY	100-103	100.97	99.96	97.96	96.98
EUR/USD	1.09-1.11	1.10	1.11	1.12	1.13
GBP/USD	1.25-1.27	1.24	1.25	1.24	1.24
USD/JPY	135-138	131	130	128	128
AUD/USD	0.66-0.68	0.68	0.68	0.69	0.70
USD/MYR	4.43-4.46	4.39	4.35	4.31	4.28
USD/SGD	1.32-1.34	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	4.50	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
12-May	MA GDP YoY (1Q)	7.00%
	HK GDP YoY (1Q F)	2.70%
	UK GDP QoQ (1Q P)	0.10%
	US Import Price Index YoY (Apr)	-4.60%
	US Export Price Index YoY (Apr)	-4.80%
	US U. of Mich. Sentiment (May P)	63,5
	US U. of Mich. 1 Yr Inflation (May P)	4.60%
15-May	US U. of Mich. 5-10 Yr Inflation (May P)	3.00%
	JN PPI YoY (Apr)	7.20%
	CH 1-Yr Medium-Term Lending Facility Rate	2.75%
	EC Industrial Production SA MoM (Mar)	1.50%
	EC EU Commission Economic Forecasts	
	US Empire Manufacturing (May)	10.8

Source: Bloomberg

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