

13 April 2023

## Global Markets Research

### Daily Market Highlights

## 13 April: Fed pencilled in mild recession risk

Wall Street, UST yields & DXY tumbled; FOMC minutes overshadowing softer CPI print

FOMC minutes cautioned over increased uncertainty and credit tightening

US CPI cooled sharper than expected to 5.0% y/y; core CPI accelerated to +5.6% y/y

- Wall Street made a U-turn and tumbled after minutes from March's FOMC meeting showed officials feared the recent bank stress could tilt the US economy into a mild recession later this year. The Dow Jones Industrial Average snapped a four-day winning streak and dipped 0.1% d/d. The S&P 500 also declined 0.4% d/d while Nasdaq Composite fell by 0.9% d/d. Major averages were up earlier after a subdued inflation rate raised expectations that the Fed will be pausing soon but sentiment turned negative in the afternoon after the release of the minutes.
- European markets, meanwhile, had closed slightly higher earlier in the day, following the release of US CPI print. Stoxx 600 index closed up 0.1% d/d while FTSE 100 shot up by 0.5% d/d. Markets in Asia were mixed, with Nikkei 225 rising 0.6% d/d while Hang Seng fell 0.9% d/d.
- A less hawkish Fed minutes as well as subdued inflation print also kept the UST yield-curve steepening on track. The 10Y yield fell 4bps to 3.39%, while the 2Y slid 7bps to 3.96%. The 10Y European bond yields, on the other hand, closed up between 1-6bps.
- DXY plunged 0.7% d/d to close at 101.50 after reaching as high as 102.16 during the day. Amongst its G10 peers, EUR strengthened 0.7% d/d, while GBP appreciated 0.5% d/d. In Asia, JPY rebounded to gain 0.4% d/d, while CNH appreciated slightly by 0.2% d/d. MYR and SGD strengthened by 0.2% d/d and 0.4% d/d respectively to close at 4.4093 and 1.3279.
- Oil rose between 2.0%-2.1% d/d bolstered by signs of tighter supplies after Russian shipments reportedly slid below 3m barrels per day for the first time in 8 weeks while oil inventories in Cushing slid for the 6<sup>th</sup> week to near its lowest since January. Bullion, meanwhile, edged up by 0.3% d/d on the lower CPI print and accompanying weaker USD.

#### FOMC: Mild recession risk; CPI cooled to 5.0%

- Key highlights from the latest FOMC minutes include: 1) Staff projection includes a mild recession risk later this year and greater uncertainty around the baseline projection. 2) Participants' concern over the effects of credit tightening following the recent banking crisis on small and middle-market lending. 3) Many see the appropriate path for the fed funds rate as higher than their December's assessment prior to the banking stress. 4) Labor market remained very tight and slower-than-expected progress on disinflation.

#### Key Market Metrics

	Level	d/d (%)
<b>Equities</b>		
Dow Jones	33,646.50	-0.11
S&P 500	4,091.95	-0.41
NASDAQ	11,929.34	-0.85
Stoxx Eur 600	462.38	0.13
FTSE 100	7,824.84	0.50
Nikkei 225	28,082.70	0.57
Hang Seng	20,309.86	-0.86
Straits Times	3,286.12	-0.36
KLCI 30	1,434.74	-0.08
<b>FX</b>		
Dollar Index	101.50	-0.69
EUR/USD	1.0992	0.73
GBP/USD	1.2485	0.49
USD/JPY	133.13	-0.41
AUD/USD	0.6691	0.56
USD/CNH	6.8809	-0.19
USD/MYR	4.4093	-0.21
USD/SGD	1.3279	-0.35
<b>Commodities</b>		
WTI (\$/bbl)	83.26	2.12
Brent (\$/bbl)	87.33	2.01
Gold (\$/oz)	2,010.90	0.30
Copper (\$\$/MT)	8,916.50	0.70
Aluminum(\$/MT)	2,325.00	0.98
CPO (RM/tonne)	4,300.50	0.14

Source: Bloomberg, HLBB Global Markets Research

- US inflation cooled sharper than expected to 5.0% y/y in March (Feb: +6.0%), partly due to higher base effect from the spike in oil prices following Russia's invasion of Ukraine. Core inflation, however, accelerated but matched expectations at +5.6% y/y (Feb: 5.5% y/y). On a m/m basis, headline and core inflation decelerated to +0.1% m/m (Feb: +0.4% m/m) and +0.4% m/m (+0.5% m/m) respectively. A 3.5% m/m drop in energy costs kept prices in check but this may be short-lived after OPEC+'s decision to cut output. Shelter costs, while remained the biggest contributor to inflation, rose at the slowest pace since November at +0.6% m/m (+8.2% y/y).
- A separate report showed that real average hourly earnings posted its first m/m increase in March at +0.2% m/m (Feb: -0.2% m/m), but were down 0.7% y/y (Feb: -1.3% y/y).
- Supported by a drop in mortgage rates, mortgage applications rebounded to grow by 5.3% w/w for the week ended Apr 7 (Mar 31: -4.1% w/w). The 30-year fixed rate fell to 6.30%, the lowest level in two months.

#### Japan's core machinery orders fell for the first time in 3 months

- Japan's core machinery orders fell for the first time in 3 months, albeit at a slower pace than expected by 4.5% m/m in February (Jan: +9.5% m/m). Of note, orders from non-manufacturing and agencies led the contraction. On a y/y basis however, the highly volatile leading indicator of capital spending, quickened more than expected to +9.8% (Feb: +4.5% y/y).
- Separately, bank lending softened to +3.0% y/y in March (Feb: +3.3% y/y), while producer prices decelerated less than expected to 7.2% y/y (Feb: +8.3% y/y).

#### House View and Forecasts

FX	This Week	2Q-23	3Q-23	4Q-23	1Q-24
DX	101-103	100.97	99.96	97.96	96.98
EUR/USD	1.08-1.10	1.10	1.11	1.12	1.13
GBP/USD	1.23-1.25	1.24	1.25	1.24	1.24
USD/JPY	130-134	131	130	128	128
AUD/USD	0.66-0.68	0.68	0.68	0.69	0.70
USD/MYR	4.37-4.42	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	4.75-5.00	5.00-5.25	5.00-5.25	5.00-5.25	5.00-5.25
ECB	3.50	4.00	4.00	4.00	4.00
BOE	4.25	4.25	4.25	4.25	4.25
BOJ	-0.10	-0.10	-0.10	-0.10	-0.10
RBA	3.60	3.60	3.60	3.60	3.60
BNM	2.75	3.00	3.00	3.00	3.00

Source: HLBB Global Markets Research

#### Up Next

Date	Events	Prior
13-April	UK RICS House Price Balance (Mar)	-48%
	AU Consumer Inflation Expectation (Apr)	5.00%
	AU Employment Change (Mar)	64.6k
	AU Unemployment Rate (Mar)	3.50%
	UK Monthly GDP (MoM) (Feb)	0.30%
	UK Industrial Production MoM (Feb)	-0.30%
	UK Trade Balance GBP/Mn (Feb)	-£5861m
	EC Industrial Production SA MoM (Feb)	0.70%
	US Initial Jobless Claims	228k

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	US Continuing Claims	1823k
	US PPI Final Demand YoY (Mar)	4.60%
	CH Exports YoY (Mar)	-9.90%
	CH Imports YoY (Mar)	-7.50%
14-April	US Retail Sales Advance MoM (Mar)	-0.40%
	US Capacity Utilization (Mar)	78.00%
	US Industrial Production MoM (Mar)	0.00%
	US Business Inventories (Feb)	-0.10%
	US U. of Mich. Sentiment (Apr P)	62

Source: Bloomberg

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