13 July 2023

Global Markets Research

Daily Market Highlights

13 July: Markets rallied amid cooler US CPI

Lower than expected US headline and core CPI signalled near end of tightening cycle

S&P 500 closed at its highest since April 2022; UST yields tumbled led by short-end

DXY weighed down by BOC's rate hike and tightening expectations from the ECB and BOE

- Wall Street gained on Wednesday after the cooler than expected US CPI data raised expectations that the Federal Reserve is nearing the end of its tightening cycle. The S&P 500 reached a new high for 2023, gaining 0.7% d/d, while the Dow Jones Industrial Average closed up 0.3% d/d. Nasdaq Composite also added 1.2% d/d. Both the S&P 500 and Nasdaq closed at their highest levels since April 2022. European markets also reacted positively to the inflation report, with Stoxx 600 closing up 1.5%, while FTSE 100 rallied 1.8% d/d. Asian markets closed mixed ahead of the key inflation report. Nikkei 225 slid 0.8%, while Hang Seng Index gained 1.1% d/d.

- UST yields tumbled across the board led by short maturities. The 2Y plummeted 13bps to 4.75%. while the 10Y fell by 11bps to 3.86%. The former slid as much as 16bps to 4.71% earlier, the lowest this month before stabilising at 4.74%. 10Y European bond yields also closed lower between 4-16bps.

- USD slumped for the fifth day, with the DXY closing 1.2% d/d lower at 100.52. This is the lowest since the spring of 2022 as the USD bears the impact of cooler than expected US CPI, Bank of Canada's expected 25bps increase in its policy rate as well as expectations of more ECB and BOE tightening. The Dollar Index gapped down one big figure from 101.50s to 100.50s after the release of US CPI data. Within the G10 FX space, CHF strengthened 1.4% d/d, EUR appreciated 1.1% d/d, while GBP rallied 0.4% d/d, touching 1.30 at one point. JPY also closed 1.3% d/d stronger at 138.50, breaking below the 140 support for the first time in a month. Closer to home, SGD and MYR appreciated by 0.8% d/d and 0.2% d/d respectively to 1.3302 and 4.6518.

- Oil prices rose, with Brent gaining 0.9% d/d to just above $80/barrel. This is the highest since 25-April, on emerging signs of lower Russian supply as well as on EIA's report that global crude market is expected to tighten this year.

RBNZ maintained cash rates at 5.50%

- As widely expected, the Reserve Bank of New Zealand maintained the cash rate unchanged at 5.50%. In its accompanying statement, the central bank said that the current policy must remain restrictive for some time and that the lagged effects of previous monetary tightening is still passing through to households as more households move off lower fixed rates.

US inflation cooled to its lowest in 2 years

- Inflation cooled more than expected to its lowest in 2 years at +3.0% y/y in June (May: +4.0% y/y). Stripping out the volatile food and energy prices, core

Key Market Metrics

	Level	d/d (%)
Equities		
Dow Jones	34,347.43	0.25
S&P 500	4,472.16	0.74
NASDAQ	13,918.96	1.15
Stoxx Eur 600	458.54	1.51
FTSE 100	7,416.11	1.83
Nikkei 225	31,943.93	-0.81
Hang Seng	18,860.95	1.08
Straits Times	3,175.36	0.36
KLCI 30	1,398.06	0.47
FX		
Dollar Index	100.52	-1.19
EUR/USD	1.1129	1.09
GBP/USD	1.2988	0.43
USD/JPY	138.50	-1.33
AUD/USD	0.6787	1.51
USD/CNH	7.1657	-0.64
USD/MYR	4.6518	-0.15
USD/SGD	1.3302	-0.81
Commodities		
WTI ($/bbl)	75.75	1.23
Brent ($/bbl)	80.11	0.89
Gold ($/oz)	1,961.70	1.27
Copper ($$/MT)	8,499.50	2.13
Aluminum($/MT)	2,236.00	3.11
CPO (RM/tonne)	3,861.50	1.03

Source: Bloomberg, HLBB Global Markets Research

CPI also eased more than expected to +4.8% y/y (May: +5.3% y/y). The sharp decrease in headline figures largely reflects lower energy prices due to high base effect, while used vehicle prices, a primary source for the inflation surge in the early part of 2022, also declined. Shelter remained the largest contributor to the monthly inflation, accounting for over 70% of the increase.

- The easing in the CPI helped boost real average weekly earnings. Earnings adjusted for inflation rose 0.5% m/m and 0.6% y/y in June (May: -0.1% m/m and -0.6% y/y).
- Mortgage applications turned around to increase by 0.9% w/w for the week ended July 7 (June 30: -4.4% w/w) despite the 30-year fixed rate increasing to 7.07%. This is the highest level since November 2022.
- Key highlights from the latest Beige Book: 1) Overall economic activity increased slightly since late May. 2) Consumer spending was mixed, with some retailers noting shifts away from discretionary spending. 3) Manufacturing activity edged up in half of the districts but declined in the other. 4) Banking conditions were mostly subdued. 5) Demand for residential real estate remained steady, noting that sales were constrained by low inventories.

UK: RICS's House Price Balance worsened

- UK's RICS House Price Balance worsened more than expected to -46% in June (May: -30%), with all sub-indices deteriorating and contractionary, a sign of a weakening housing market.

Japan's machinery orders contracted; producer prices eased on energy

- Japan's core machinery orders, a highly volatile data regarded as a leading indicator of capital spending in the next 6-9 months, unexpectedly worsened to -8.7% y/y in May (Apr: -5.9% y/y), while producer prices eased more than expected to +4.1% y/y for the month of June (May: +5.1% y/y). The latter was underpinned by lower energy costs as reflected by reduced rates for electricity, power, gas and water.

Malaysia's IPI rebounded broadly post seasonal slump

- Industrial Production Index (IPI) registered a bigger than expected increase of 4.7% y/y in May (Apr: -3.3% y/y), beating consensus estimates for a flat growth and our expectation for a 3.5% y/y increase. This rebound from April's seasonal slump due to the Hari Raya festivities was broad-based, spanning across manufacturing (+5.1% vs -3.0% y/y), mining (+2.9% vs -4.9% y/y), and electricity (+5.0% vs -2.0% y/y). On a m/m comparison, overall IPI increased 7.3% m/m in May, after contracting 10.8% m/m in Apr. In the manufacturing sector, domestic-oriented industries led the rebound, growing 10.1% y/y in May (Apr: -2.1% y/y) while the export-oriented sectors showed a more modest increase of 2.8% y/y during the month (Apr: -3.5% y/y).
- In a separate release, manufacturing sales also rebounded to increase 3.3% y/y in May (Apr: -2.0% y/y). Mirroring IPI, sales in domestic-oriented sectors led with a 12.3% y/y gain in May, compared to the meagre 0.2% y/y increase in the export-oriented sectors, reflecting weakness in external demand and reaffirming that the domestic sectors will remain the primary growth driver for the Malaysian economy. Labour statistics in the manufacturing sector held largely steady, in line with the overall labour force data nationwide where unemployment rate stabilized at 3.5% for a 4th straight month in May. The number of employed in the manufacturing sector grew at a slightly faster pace of 2.6% y/y in May (Apr: +2.5%) while salary & wages sustained a 4.0% y/y

increase during the month, somewhat easing the wage price-spiral inflation concerns seen in some major economies.

House View and Forecasts

FX	This Week	3Q-23	4Q-23	1Q-24	2Q-24
DXY	100-103	102	101	100	99
EUR/USD	1.08-1.12	1.11	1.12	1.14	1.12
GBP/USD	1.26-1.30	1.29	1.31	1.33	1.30
USD/JPY	138-143	141	139	136	133
AUD/USD	0.65-0.68	0.67	0.68	0.68	0.69
USD/MYR	4.63-4.70	4.69	4.64	4.60	4.55
USD/SGD	1.32-1.35	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

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Date	Events	Prior
13-Jul	NZ BusinessNZ Manufacturing PMI (Jun)	48.9
	UK RICS House Price Balance (Jun)	-30%
	AU Consumer Inflation Expectation (Jul)	5.20%
	UK Monthly GDP (MoM) (May)	0.20%
	UK Industrial Production MoM (May)	-0.30%
	UK Manufacturing Production MoM (May)	-0.30%
	UK Index of Services MoM (May)	0.30%
	UK Construction Output MoM (May)	-0.60%
	UK Visible Trade Balance GBP/Mn (May)	-£14996m
	EC Industrial Production SA MoM (May)	1.00%
	US PPI Final Demand YoY (Jun)	1.10%
	US Initial Jobless Claims	248k
	CH Exports YoY (Jun)	-7.50%
14-Jul	SI GDP YoY (2Q A)	0.40%
	JN Industrial Production MoM (May F)	-1.60%
	EC Trade Balance SA (May)	-7.1b
	US Import Price Index MoM (Jun)	-0.60%
	US Export Price Index MoM (Jun)	-1.90%
	US U. of Mich. Sentiment (Jul P)	64.4
	US U. of Mich. 1 Yr Inflation (Jul P)	3.30%
	US U. of Mich. 5-10 Yr Inflation (Jul P)	3.00%

Source: Bloomberg

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