

14 June 2023

Global Markets Research

Daily Market Highlights

14 June: Hawkish Fed pause bets in view

US CPI saw extended easing to a 2-year low; raising odds of a Fed rate pause

S&P 500 and Nasdaq at 13-month highs; 2Y UST yield jumped to its highest since March

China cut 7-day repurchase rate; corporates weighed on lending

- The S&P 500 and the Nasdaq notched fresh 13-month highs on Tuesday after data showed that US inflation slowed again in May, adding to optimism of a hawkish Fed pause when the policy makers meet. The S&P 500 added 0.7% d/d, while the Nasdaq advanced 0.8% d/d. The Dow Jones Industrial Average also gained 0.4% d/d. In Europe, Stoxx 600 closed up 0.6% d/d ahead of the next ECB meeting, while FTSE 100 was 0.3% higher as investors digested the strong UK labor data. In Asia, Nikkei 225 rose 1.8% d/d, topping 33k, while Hang Seng continued a four-day winning streak and rose 0.6% d/d.
- Shorter term UST yields rose to their highest levels since March, with the 2Y gaining 9bps to close at 4.67%, while the 10Y added 8bps to 3.81%. The 10Y European bonds yield closed up between 0-9bps, with UK gilt yields remained firmly on the rise. The 2Y gilts jumped 26bps to 4.87%, while the 10Y rose 9bps to 4.43%.
- The DXY dropped 0.3% d/d to a three-week low of 103.34, while GBP jumped 0.8% d/d after its employment data came in much stronger than expected with wages rising sharply. EUR also strengthened 0.3% d/d ahead of the ECB meeting, at which a 25bps hike is widely expected. In Asia, CNH weakened 0.3% d/d after China surprised with a cut in its 7-day repurchase rate, the first cut in 10 months. JPY also weakened 0.4% d/d, but MYR and SGD closed mildly stronger by 0.1% d/d each at 4.6150 and 1.3423.
- Oil prices climbed by more than 3.0%, recovering from steep losses the previous session, after PBOC's move stoked bets of higher demand. Gold, meanwhile, fell 0.6% d/d as UST yields ticked up.

China cut 7-day repurchase rate by 10bps to 1.90%

- In an not entirely surprised move, the People's Bank of China (PBoC) cut its 7-day repurchase rate by 10bps to 1.90%. This is the first reduction since August 2022 and aimed to keep liquidity reasonably ample as well as to support the sluggish momentum in domestic demand as well as in the manufacturing and property sector. With the latest move, expectations are that PBOC will lower the 1-year medium term lending facility rate by 10bps to 2.65% when they next meet on June 15.
- China's new monthly aggregate financing rose less than expected to 1.6tn yuan in May (Apr: 1.2tn yuan), dragged by the corporate segment which saw lending nearly halved to 534bn yuan (Apr: 921bn yuan). Household loans, meanwhile, rose 367bn yuan after falling in April but were still below seasonal patterns, reflecting a housing market slump.

Key Market Metrics

	Level	d/d (%)
Equities		
Dow Jones	34,212.12	0.43
S&P 500	4,369.01	0.69
NASDAQ	13,573.32	0.83
Stoxx Eur 600	463.27	0.55
FTSE 100	7,594.78	0.32
Nikkei 225	33,018.65	1.80
Hang Seng	19,521.42	0.60
Straits Times	3,189.40	-0.21
KLCI 30	1,380.61	-0.44
FX		
Dollar Index	103.34	-0.30
EUR/USD	1.0793	0.33
GBP/USD	1.2612	0.82
USD/JPY	140.22	0.44
AUD/USD	0.6767	0.24
USD/CNH	7.1749	0.26
USD/MYR	4.6150	-0.10
USD/SGD	1.3423	-0.10
Commodities		
WTI (\$/bbl)	69.42	3.43
Brent (\$/bbl)	74.29	3.41
Gold (\$/oz)	1,944.60	-0.55
Copper (\$\$/MT)	8,460.00	1.80
Aluminum(\$/MT)	2,232.00	0.18
CPO (RM/tonne)	3,356.50	-2.00

Source: Bloomberg, HLBB Global Markets Research

US headline and core CPI eased to 4.0% and 5.3% y/y

- Matching expectations, headline inflation moderated to +0.1% m/m in May (Apr: +0.4% m/m), while core was unchanged at +0.4% m/m. The 3.6% slide in energy prices continued to pull down headline inflation, while shelter remained the largest contributor to the monthly increase at +0.6% m/m (Apr: +0.4% m/m). This was followed by used cars and trucks (+4.4% m/m). Food prices, meanwhile, picked up 0.2% m/m after being unchanged in the previous 2 months. On a y/y basis, prices eased to its lowest in 2 years at +4.0% y/y for headline (Apr: +4.9% y/y), while core softened to 5.3% y/y (Apr: +5.5% y/y). In tandem with this, separate data showed that the y/y contraction in real average weekly earnings decelerated to -0.7% y/y (Apr: -1.2% y/y).
- NFIB's Small Business Optimism Index unexpectedly improved to 89.4 in May (Apr: 89.0). This marks the 17th consecutive month below the 49-year average of 98. Small business owners expecting better business conditions over the next six months declined 1 point m/m to -50%, while 25% of owners reported that inflation was their single most important problem in operating their business, up 2 points m/m, followed by labor quality at 24%.

Eurozone's ZEW Survey worsened; Germany improved slightly

- Eurozone's ZEW Survey of Expectations worsened to -10.0 in June (May: -9.4). For Germany specifically, the index unexpectedly recorded a slight improvement to -8.5 (May: -10.7), but the assessment of the current situation declined very sharply to -56.5 (May: -34.8), most likely due to sectors focused on exports.

UK's unemployment rate unexpectedly dropped to 3.8%; wage growth picked up

- Matching consensus, the number of payrolled employees rose by 23k in May (Apr: +7k), showing a still strong labour market. While job vacancies continued to fall to 1.1m, this remained well above pre-pandemic levels and reflected uncertainty across all industries. Unemployment rate, meanwhile, unexpectedly eased to 3.8%, but the larger than expected pick-up in weekly earnings to +7.2% y/y (Apr: +6.8% y/y), will most likely keep BOE policy makers on their toes when they meet next week.

Australia's consumer sentiment remained low; business conditions fell

- The Westpac-Melbourne Institute Consumer Sentiment rose 0.2% m/m in May (Apr: -7.9% m/m) but has held around levels not seen since the deep recession of the late 1980s/early 1990s for the last year. Inflation remained the dominant drag on confidence, well ahead of RBA's rate hikes. House Price Expectations were resilient, while confidence in the labour market, which has stayed consistently positive, has now turned.
- The NAB Business conditions fell to +8 in May (Apr: +15), driven by declines across all three sub-components. While this suggests a solid decline in business conditions, the index at this level remained above average. More worrying was that business confidence declined to -4, and has tracked at or below 0 since February, and that forward orders fell sharply, driven by the consumer sector. This suggests growing risk that the RBA's attempts to maintain an even keel may be futile.

House View and Forecasts

FX	This Week	2Q-23	3Q-23	4Q-23	1Q-24
DXY	102-105	100.97	99.96	97.96	96.98
EUR/USD	1.06-1.09	1.10	1.11	1.12	1.13
GBP/USD	1.24-1.27	1.24	1.25	1.24	1.24
USD/JPY	138-141	131	130	128	128
AUD/USD	0.65-0.68	0.68	0.68	0.69	0.70
USD/MYR	4.58-4.68	4.39	4.35	4.31	4.28
USD/SGD	1.33-1.36	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	4.10	4.10	4.10	4.10	4.10
BNM	3.00	3.00	3.00	3.00	3.00

Source: HLBB Global Markets Research

Up Next

Date	Events	Prior
14-June	UK Monthly GDP (MoM) (Apr)	-0.30%
	EC Industrial Production SA MoM (Apr)	-4.10%
	US MBA Mortgage Applications	-1.40%
	US PPI Final Demand YoY (May)	2.30%
15-June	US FOMC Rate Decision (Upper Bound)	5.25%
	US FOMC Rate Decision (Lower Bound)	5.00%
	JN Exports YoY (May)	2.60%
	JN Core Machine Orders MoM (Apr)	-3.90%
	AU Consumer Inflation Expectation (Jun)	5.20%
	CH 1-Yr Medium-Term Lending Facility Rate	2.75%
	CH New Home Prices MoM (May)	0.32%
	AU Full Time Employment Change (May)	-27.1k
	AU Unemployment Rate (May)	3.70%
	CH Industrial Production YTD YoY (May)	3.60%
	CH Retail Sales YTD YoY (May)	8.50%
	CH Fixed Assets Ex Rural YTD YoY (May)	4.70%
	CH Property Investment YTD YoY (May)	-6.20%
	CH Surveyed Jobless Rate (May)	5.20%
	HK PPI YoY (1Q)	-0.40%
	HK Industrial Production YoY (1Q)	-0.10%
	EC Trade Balance NSA (Apr)	25.6b
	EC ECB Main Refinancing Rate	3.75%
	US Retail Sales Advance MoM (May)	0.40%
	US Import Price Index YoY (May)	-4.80%
	US Export Price Index YoY (May)	-5.90%
	US Initial Jobless Claims	261k
	US Continuing Claims	1757k
	US Empire Manufacturing (Jun)	-31.8
	US Philadelphia Fed Business Outlook (Jun)	-10.4
	US Industrial Production MoM (May)	0.50%
	US Capacity Utilization (May)	79.70%
	US Business Inventories (Apr)	-0.10%

Source: Bloomberg

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