

16 May 2023

Global Markets Research

Daily Market Highlights

16 May: Debt ceiling negotiations in focus

US Empire manufacturing index plunged; supporting Fed rate pause expectations

Mixed Fed speaks; UST yields rose led by long-end; DXY retreated

China maintained MLF at 2.75%; injecting 125bn yuan of liquidity

- Wall Street closed higher as investors continued to assess the progress of the ongoing debt ceiling negotiations. S&P 500 added 0.3% d/d, while the Dow Jones Industrial Average snapped a 5-day losing streak, gaining 0.1% d/d/ Nasdaq Composite outperformed with a 0.7% d/d gain. Corporate earnings season, meanwhile, is drawing to a close, with major retailers like Home Depot, Target and Walmart set to release their results this week.
- European markets also closed mostly higher with investors following not only the debt ceiling negotiations, but also the Turkish elections and the revision in forecasts by the EC. Stoxx 600 closed 0.2% d/d higher, while FTSE 100 was up 0.3% d/d. Hang Seng index led gains in the Asia region and climbed 1.8% d/d. Nikkei 225 was up 0.8% d/d.
- UST yields inched up led by the long end. The 10Y rose 4bps to 3.50%, while the 2Y gained 2bps at 4.01%. The plunge in the Empire State report supported expectations that Fed will pause in June, but Fedspeak was mixed. Atlanta Federal Reserve President Raphael Bostic said that he finds interest rate cuts unlikely this year, while Chicago Fed President Austan Goolsbee said that his May FOMC hike vote was a close call. Minneapolis Fed President, on the other hand, said that the Federal Reserve has more to do to bring inflation back down. The 10Y European bonds yield also closed higher in tune of 1-4 bps
- DXY retreated 0.2% d/d to close at 102.43 after taking an early dive to 102.38, after data showed the Empire State manufacturing index plunging 42 points. EUR strengthened 0.2% d/d, while GBP appreciated 0.6% d/d. In Asia, JPY was 0.3% d/d weaker, but CNH strengthened 0.2% d/d. Similarly, SGD closed 0.2% d/d stronger at 1.3361, but MYR weakened 0.4% d/d to 4.4972. Notably, THB appreciated the most in 5-weeks by 0.6% d/d, as the opposition party led votes in the election.
- Oil prices rose between 1.4%-1.5% d/d boosted by the prospect of tightening supplies in Canada, although economic uncertainties kept pressuring the market. Gold gained 0.1% d/d on Dollar pullback.

China maintained MLF at 2.75%

- As widely expected, the People's Bank of China (PBOC) kept the medium-term lending facility (MLF) rate unchanged, while injecting 125bn yuan of liquidity via the MLF. Moving forward, liquidity operations will remain supportive while tepid recovery in domestic demand suggests a cut should not be discounted. Of note, Chinese banks have been reported to be lowering their

Key Market Metrics

	Level	d/d (%)
Equities		
Dow Jones	33,348.60	0.14
S&P 500	4,136.28	0.30
NASDAQ	12,365.21	0.66
Stoxx Eur 600	466.67	0.25
FTSE 100	7,777.70	0.30
Nikkei 225	29,626.34	0.81
Hang Seng	19,971.13	1.75
Straits Times	3,214.72	0.19
KLCI 30	1,417.37	-0.39
FX		
Dollar Index	102.43	-0.24
EUR/USD	1.0874	0.23
GBP/USD	1.2529	0.57
USD/JPY	136.12	0.31
AUD/USD	0.6700	0.81
USD/CNH	6.9589	-0.18
USD/MYR	4.4972	0.38
USD/SGD	1.3361	-0.16
Commodities		
WTI (\$/bbl)	71.11	1.53
Brent (\$/bbl)	75.23	1.43
Gold (\$/oz)	2,022.70	0.14
Copper (\$\$/MT)	8,272.50	0.24
Aluminum(\$/MT)	2,259.50	1.25
CPO (RM/tonne)	3,810.50	-1.19

Source: Bloomberg, HLBB Global Markets Research

deposit rates recently to preserve their interest margins and this could potentially unlock savings.

US Empire Manufacturing plunged 42.6 points

- The Empire State Manufacturing index fell sharper than expected to -31.8 in May (Apr: 10.8), led by new orders and shipment which had risen significantly last month. While the index for future business conditions edged up to 9.8 (Apr: 6.6), the index at this level suggests that firms do not expect activity to improve much over the next six months. This is reaffirmed by the capital spending index falling to 0.9, its lowest level in three years.

European Commission lifted its GDP forecast, IPI fell 4.1% led by Ireland and capital goods

- In its latest economic forecast, the European Commission: 1) Lifted the growth outlook for the EU economy to 1.0% in 2023 (Prior: 0.8%) and 1.7% in 2024 (Prior: 1.6%). Upward revisions for the euro area are of a similar magnitude, with GDP growth now expected at 1.1% and 1.6% in 2023 and 2024 respectively. 2) The upward revisions were underpinned by lower energy prices, abating supply constraints, a strong labour market as well as moderate growth in 1Q, dispelling fears of a recession. 3) The EC added that downside risks to outlook have increased on the back of persistent inflation, while renewed episodes of financial stress could lead to tightening of lending standards. 4) On the back of persisting core price pressures, inflation rates have also been revised upwards to 5.8% in 2023 and 2.8% in 2024 for the euro area.
- Eurozone's industrial production (IPI) for March declined faster than expected by -4.1% m/m (Feb: +1.5% m/m), adding risks to a downward revision in 1Q GDP. The contraction was primarily led by capital goods on a sectoral basis (-15.4% m/m vs. Feb: +2.0% m/m) and from Ireland on a country basis (-26.3% m/m vs. Feb: +3.0% m/m).

Japan PPI rose more than expected, but pace slowed for the 4th straight month

- On a y/y basis, Japan's producer prices decelerated for the 4th straight month, albeit less than expected to +5.8% in April (March: +7.4%). On a m/m basis, prices picked up to +0.2% (March: +0.1%) but taking note that imported inflation contracted 2.0% m/m. This underscores BOJ's view that inflation will likely slow as the effect of past spikes in raw material costs dissipate.

House View and Forecasts

FX	This Week	2Q-23	3Q-23	4Q-23	1Q-24
DXY	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	1.24-1.26	1.24	1.25	1.24	1.24
USD/JPY	133-136	131	130	128	128
AUD/USD	0.67-0.69	0.68	0.68	0.69	0.70
USD/MYR	4.45-4.50	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
15-May	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	
16-May	US Empire Manufacturing (May)	10.8
	AU RBA Minutes of May Policy Meeting	
	CH Industrial Production YTD YoY (Apr)	3.00%
	CH Retail Sales YTD YoY (Apr)	5.80%
	CH Fixed Assets Ex Rural YTD YoY (Apr)	5.10%
	CH Surveyed Jobless Rate (Apr)	5.30%
	UK Average Weekly Earnings 3M/YoY (Mar)	5.90%
	UK ILO Unemployment Rate 3Mths (Mar)	3.80%
	UK Employment Change 3M/3M (Mar)	169k
	EC ZEW Survey Expectations (May)	6.4
	EC GDP SA QoQ (1Q P)	0.10%
	EC Trade Balance SA (Mar)	-0.1b
	EC Employment QoQ (1Q P)	0.30%
	US Retail Sales Advance MoM (Apr)	-1.00%
	US New York Fed Services Business Activity (May)	-9.8
	US Industrial Production MoM (Apr)	0.40%
	US Capacity Utilization (Apr)	79.80%
	US Business Inventories (Mar)	0.20%
	US NAHB Housing Market Index (May)	45
17-May	JN GDP Annualized SA QoQ (1Q P)	0.10%
	AU Westpac Leading Index MoM (Apr)	-0.01%
	SI Electronic Exports YoY (Apr)	-22.30%
	SI Non-oil Domestic Exports YoY (Apr)	-8.30%
	AU Wage Price Index QoQ (1Q)	0.80%
	CH New Home Prices MoM (Apr)	0.44%
	JN Industrial Production MoM (Mar F)	0.80%
	JN Capacity Utilization MoM (Mar)	3.90%
	EC CPI YoY (Apr F)	6.90%
	US MBA Mortgage Applications	6.30%
	US Building Permits MoM (Apr)	-8.80%
	US Housing Starts MoM (Apr)	-0.80%

Source: Bloomberg

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