

16 June 2023

Global Markets Research

Daily Market Highlights

16 June: ECB raised rates; PBoC cut rates

ECB raised rates by 25bps and signalled another rate hike in July

PBoC cut MLF rate to 2.65% amidst weak China economic data

Stronger than expected retail sales sent Wall Street up; UST yields and DXY retreated

- Cheered by stronger than retail sales data from the US, Wall Street logged a broad-based rally on Thursday with the Dow Jones Industrial Average back above the 34.4k level and gaining 1.3% d/d. S&P 500 logged its 6th straight day of winning streak and climbed 1.2% d/d. Nasdaq also gained 1.2% d/d and touched a 14-month peak. Microsoft shares added 3.2%, closing at a fresh record. In Europe, Stoxx 600 fell 0.1% d/d after ECB lifted its policy rates to its highest in 20 years but FTSE 100 gained 0.3% d/d. In Asia, CSI 300 climbed 1.6% d/d after PBoC cut its policy rate. Similarly, Hang Seng gained 2.2% d/d, but Nikkei 225 dipped slightly by less than 0.1% d/d.
- US yields closed near the lows of the day on lingering scepticism on whether the Fed will really hike its fed funds rate as guided by the dot plot. The 2Y was 5bps lower at 4.64%, while the 10Y slid 7bps to 3.72%. The 10Y European bonds yield closed mixed, in tune of -1 to +6 bps.
- DXY continued its slide and plunged 0.8% d/d to 102.12, hit by the double whammy of reduced Fed rate hike fears and a hawkish ECB. EUR was last up 1.1% d/d after touching a five-week high of 1.0947 earlier. GBP also strengthened 1.0% d/d. In Asia, JPY weakened 0.1% d/d ahead of BOJ's policy meeting today where expectations are that the central bank will maintain its ultra-loose policy. CNH closed the day 0.8% d/d stronger post rate cut. SGD also appreciated by 0.4% d/d to 1.3366 but MYR weakened slightly by 0.1% d/d to 4.6260.
- Prices of oil gained over 3.0% d/d on expectations of growing demand in China post rate hike, while gold edged up by 0.1% d/d on USD and UST yield weaknesses.

ECB raised rates by 25bps, signalled another rate hike in July

- In a widely anticipated move, the European Central Bank (ECB) raised its interest rates on the main refinancing operations, marginal lending facility and the deposit facility by 25bps each to 4.00%, 4.25% and 3.50% respectively. Key highlights of the statement and press conference include: 1) ECB President Christine Lagarde said that the ECB still has ground to cover and added that barring a material change to their baseline, it is very likely that ECB will continue to increase rates in July. 2) Headline inflation was revised upwards to average 5.4% in 2023, 3.0% in 2024 and 2.2% in 2025 on the back of past upward surprises and robust labour market. 3) Downward revisions of GDP forecast to 0.9% in 2023, 1.5% in 2024 and 1.6% in 2025.

Key Market Metrics

	Level	d/d (%)
Equities		
Dow Jones	34,408.06	1.26
S&P 500	4,425.84	1.22
NASDAQ	13,782.82	1.15
Stoxx Eur 600	464.33	-0.13
FTSE 100	7,628.26	0.34
Nikkei 225	33,485.49	-0.05
Hang Seng	19,828.92	2.17
Straits Times	3,242.85	0.77
KLCI 30	1,381.73	-0.27
FX		
Dollar Index	102.12	-0.81
EUR/USD	1.0945	1.06
GBP/USD	1.2784	0.95
USD/JPY	140.29	0.14
AUD/USD	0.6885	1.31
USD/CNH	7.1201	-0.75
USD/MYR	4.6260	0.09
USD/SGD	1.3366	-0.35
Commodities		
WTI (\$/bbl)	70.62	3.44
Brent (\$/bbl)	75.67	3.37
Gold (\$/oz)	1,957.80	0.13
Copper (\$\$/MT)	8,558.00	0.58
Aluminum(\$/MT)	2,249.50	-0.18
CPO (RM/tonne)	3,503.50	2.70

Source: Bloomberg, HLBB Global Markets Research

- Eurozone unexpectedly posted a SA trade deficit of €7.1bn in April (March: +€14.0bn). Unadjusted, trade deficit narrowed significantly to €11.7bn (March: €25.6bn) from €34.5bn in April 2022 as export and imports fell by 3.6% y/y and 11.9% y/y respectively, the latter reflecting the sustained fall in prices of energy imports since Russia's invasion of Ukraine.

PBoC cut MLF rate to 2.65% amidst weak economic data

- As per expectation, the People's Bank of China ramped up its monetary stimulus and lowered its rate for the 1-year medium lending facility (MLF) by 10bps to 2.65%. At the same time, PBoC also provided 237bn yuan of medium-term loans, more than expected (Previous: 125.0bn yuan).
- The move came shortly after official data showed that China's economy weakened further for the month of May. Growth in industrial output slowed to 3.5% y/y (Apr: +5.6% y/y), matching expectations, while retail sales slowed more than expected to +12.7% y/y (Apr: +18.4% y/y). Fixed asset investment and FDI also eased to 4.0% y/y and +0.15 y/y for the first 5 months of the year. Jobless rate was unchanged at 5.2%.

Stronger than expected retail sales, manufacturing output

- Retail sales came in stronger than expected at +0.3% m/m in May (Apr: 0.4% m/m) in a sign of consumer resilience. Most categories including discretionary goods posted gains and were led by building materials and autos. Stripping autos, gasoline, building materials and food services, these so-called core retail sales softened to +0.2% m/m (Apr: +0.6% m/m). Core retail sales correspond more closely with the consumer spending component of GDP.
- Industrial production fell more than expected by 0.2% m/m in May (Apr: +0.5% m/m) largely due to utilities and in tandem with this, capacity utilization dipped to 79.6% (Apr: 79.8%). Nonetheless, manufacturing output decelerated less than expected and remained in expansionary territory at +0.1% m/m (Apr: +0.9% m/m) as auto production softened sharply to +0.2% m/m (Apr: +9.8% m/m). While durable manufacturing output increased 0.3%, output of nondurable goods slipped 0.1%.
- Export and import prices resumed their m/m contraction, with the latter falling 0.6% m/m in May (Apr: +0.3% m/m) led by a drop in fuel import prices. Export prices also fell 1.9% m/m (Apr: -0.1% m/m) with contractions seen for prices of agriculture, industrial supplies as well as food and beverages.
- In the week ending June 10, jobless claims were unchanged at 262k (June 3: +29k), while continuing claims for the week ended June 3 rose 20k to 1775k (May 27: +39k to 1755k).
- Mixed district performances were reported. The Empire State Manufacturing index improved more than expected to a positive 6.6 in June (May: -31.8), with shipments growing strongly. Firms also became more optimistic about the six-month outlook. In contrast, Philadelphia's Manufacturing Business Outlook index worsened less than expected to -13.7 in June (May: -10.4). The survey's future indices improved but continued to suggest subdued expectations for growth over the next six months.

Australia added significantly more jobs than expected

- In May, Australian employers added more jobs than expected by 75.9k (Apr: -4.0K) driven by full-time positions. With this, the unemployment rate unexpectedly declined to 3.6%, within the 3.4%-3.7% range since last June, while the employment-to-population ratio climbed to a record high of 64.5%.

Separate data also showed that consumer inflation expectations held stable at 5.2% for the month of June.

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	4.00	4.00	4.25	4.25	4.25
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
16-June	SI Non-oil Domestic Exports YoY (May)	-9.80%
	UK BoE/Ipsos Inflation Next 12 Mths (May)	3.90%
	EC CPI Core YoY (May F)	5.30%
	EC Labour Costs YoY (1Q)	5.70%
	US New York Fed Services Business Activity (Jun)	-16.8
	US U. of Mich. Sentiment (Jun P)	59.2
	US U. of Mich. 1 Yr Inflation (Jun P)	4.20%
	US U. of Mich. 5-10 Yr Inflation (Jun P)	3.10%
	JN BOJ Policy Balance Rate	-0.10%
19-June	UK Rightmove House Prices YoY (Jun)	1.50%
	HK Unemployment Rate SA (May)	3.00%
	US NAHB Housing Market Index (Jun)	50

Source: Bloomberg

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