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Global Markets Research

Daily Market Highlights

17 May: Debt ceiling jitters continued to drag on markets

Hawkish Fed, stronger retail sales and production data cast doubts on rate cuts

Wall Street fell; DXY modestly firmer while UST yields gained

China's economic data undershot expectations; PBoC to maintain lending rates next week

- Wall Street fell on Tuesday as jitters over the debt ceiling as well as hawkish Fed speaks continue to weigh down on the market. Disappointing results and lacklustre guidance by big-retailer Home Depot also exacerbated worries over the state of consumer spending, thus worsening sentiment. The Dow Jones Industrial Average closed 1.0% d/d lower, the S&P 500 fell 0.6% d/d while Nasdaq Composite declined 0.2% d/d. In a news update, President Biden met with Congressional leaders but have yet to strike a deal in regards to the debt ceiling.
- European stock markets also closed lower, with the Stoxx 600 index down 0.4% d/d. Vodafone shares dropped more than 7% after it cut a record 11k jobs. FTSE 100 also fell 0.3% d/d, while Asian markets closed mixed. Nikkei 225 gained 0.7% d/d, while Hang Seng closed just above the flatline. CSI 300 closed 0.5% d/d lower as economic releases from China missed estimates.
- In the Treasuries market, the 2Y UST yields rose 7bps to 4.08%, while the 10Y was up 3bps to 3.53%, the highest in a month. The 10Y European bonds yield closed between 0 to +6bps.
- DXY was modestly firmer after US' builder confidence unexpectedly rose. DXY edged up as high as 102.69, before retreating to close at 102.56 or up +0.1% d/d. EUR slipped slightly by 0.1% d/d, while GBP weakened 0.3% d/d. In Asia, JPY and CHH weakened by 0.2% d/d and 0.6% d/d respectively. Similarly, SGD depreciated by 0.3% d/d to close at 1.3403, while MYR closed just slightly weaker at 4.4990.
- Oil prices edged lower, with the Brent and West Texas Intermediate slipping by 0.4% d/d each as the weaker-than-expected economic data from China overshadowed a forecast of higher global demand from the International Energy Agency (IEA). The agency raised its demand forecast by 2.2m barrels per day to 102m barrels amidst stronger China recovery. Price of gold also retreated by 1.5% d/d as US data and Fed speaks cast doubts on rate cuts

US retail sales rebounded, IPI surged led by auto, building confidence unexpected increased

- Retail sales rebounded in April following two months of declines, albeit less than expected by +0.4% m/m (March: -0.7% m/m). Stripping off autos and gasoline, sales nevertheless topped expectations at +0.6% m/m (March: -0.5% m/m), with 7 out of the 13 categories registering growth during the month.

Key Market Metrics

	Level	d/d (%)
Equities		
Dow Jones	33,012.14	-1.01
S&P 500	4,109.90	-0.64
NASDAQ	12,343.05	-0.18
Stoxx Eur 600	464.70	-0.42
FTSE 100	7,751.08	-0.34
Nikkei 225	29,842.99	0.73
Hang Seng	19,978.25	0.04
Straits Times	3,214.04	-0.02
KLCI 30	1,423.50	0.43
FX		
Dollar Index	102.56	0.13
EUR/USD	1.0862	-0.11
GBP/USD	1.2488	-0.33
USD/JPY	136.39	0.20
AUD/USD	0.6656	-0.66
USD/CNH	6.9986	0.57
USD/MYR	4.4990	0.04
USD/SGD	1.3403	0.31
Commodities		
WTI (\$/bbl)	70.86	-0.35
Brent (\$/bbl)	74.91	-0.43
Gold (\$/oz)	1,993.00	-1.47
Copper (\$\$/MT)	8,121.50	-1.83
Aluminum(\$/MT)	2,259.50	0.00
CPO (RM/tonne)	3,834.50	0.63

Source: Bloomberg, HLBB Global Markets Research

We also noted more discerning spending, as reflected by contractions in spending for discretionary goods like clothing, electronics and sporting goods.

- Industrial production unexpectedly accelerated to +0.5% m/m in April (March: 0%) and in tandem with this, capacity utilization edged up to 79.7% (March: 79.4%). Manufacturing production specifically, surged to +1.0% m/m, a huge rebound from March's -0.8% m/m led by durable goods. Auto and parts output contributed most to headline growth, suggesting that consumer spending should hold up moving forward if this translates into demand. This is especially so since auto is highly sensitive to interest rate hikes. In contrast, separate data showed that business inventories unexpectedly dipped 0.1% m/m in March (Feb: 0), while sales worsened to 1.1% (Feb: -0.3%). At March's sales pace, it would take 1.39 months for businesses to clear shelves, up from 1.38 months in February.
- Driven by tight existing inventory and correspondingly, emphasis on new construction, the NAHB Housing Market Index unexpectedly rose to 50 in May (Apr: 45). This marks the fifth straight month that builder confidence has increased and is the first time the index reached the midpoint mark since July 2022.
- The New York Fed Services Business Activity index fell sharply to -16.8 in May (Apr: -9.8), but more importantly, the index for future business activity climbed to 10.1, though only a third of respondents expect conditions to improve over the next six months. Employment is expected to grow modestly, while wage and price increases are expected to remain widespread.

Euro's ZEW Survey worsened to negative territory

- The ZEW Indicator of Economic Sentiment worsened considerably to -9.4 in May (Apr: +6.4), dampened by expectations of further interest rate hikes by the ECB as well as heightened uncertainties due to potential default by the US.
- Eurozone's 1Q GDP was maintained at +0.1% q/q (4Q: -0.1% q/q), while employment in the region accelerated to +0.6% q/q (4Q: +0.3% q/q). Separately, trade surplus widened to €25.6bn in March (Feb: +€4.6bn) as exports grew by 7.5% y/y while imports contracted by 10.0% y/y.

UK payrolled employees unexpectedly fall, unemployment rate and wage growth picked up

- In a sign that the labour market is softening, payrolled employees in the UK unexpectedly fell 136k in April (March: +42k) and in tandem with this, unemployment rate ticked up to 3.9% for the 3M to March (Feb: 3.8%). Nevertheless, wage growth accelerated in 1Q, albeit below expectations at +6.7% y/y (Feb: +6.6% y/y), suggesting no let-up in inflationary pressures soon. While the latest data suggest a general deceleration in the labour market, there is no change in our view of another 25bps hike in cash rate given the official makers have reiterated that there is no room for complacency given the double digit inflation rate.

RBA: Further increases may still be required

- Key highlights from the latest RBA minutes include: 1) Policy makers discussed the case for a pause and concluded that the arguments were "finely balanced." Just a recap, RBA decided to increase the cash rates by another 25bps to 3.85% during the meeting. 2) Members agreed that further increases may still be required. 3) In this regard, the central bank highlighted potential upside risk which includes sticky services inflation, strong

population growth and low rental vacancy rates which could see rents jumping, weak productivity growth leading to higher unit labor costs as well as a shift in price expectations and wage-setting behavior.

- The Westpac-Melbourne Institute Consumer Sentiment fell 7.9% m/m in May (Apr: +9.4% m/m) weighed down by pessimism after the surprise rate hike and mildly disappointing Budget. Nevertheless, it should be noted that while job market confidence softened, it was still relatively upbeat while house price expectations surged to 15-month high.

China's economic data undershot expectations

- China's economic data predominantly undershot expectations, suggesting that the economy may be losing momentum in April. IPI accelerated less than forecast by 5.6% y/y (March: +3.9% y/y), while on the consumption front, retail sales also jumped less than forecast by +18.4% y/y (March: +10.6% y/y). However, it should be noted that this still strong data was partially skewed by low base effects due to lockdown in Shanghai and other major cities in April 2022. The property sector, meanwhile, remained in the doldrums, as seen in property investments slipping 6.2% y/y YTD, also worse than expected and weighing down on fixed asset investment (YTD: +4.7% y/y). On a positive note, the jobless rate unexpectedly eased to 5.2% in April (March: 5.3%).

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	1.24-1.26	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
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%
18-May	US Building Permits MoM (Apr)	-8.80%
	US Housing Starts MoM (Apr)	-0.80%
	JN Exports YoY (Apr)	4.30%
	JN Imports YoY (Apr)	7.30%
	AU Employment Change (Apr)	53.0k
	AU Unemployment Rate (Apr)	3.50%
	HK Unemployment Rate SA (Apr)	3.10%

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US Initial Jobless Claims	242k
US Continuing Claims	1813k
US Philadelphia Fed Business Outlook (May)	-31.3
US Existing Home Sales MoM (Apr)	-2.40%
US Leading Index (Apr)	-1.20%

Source: Bloomberg

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