20 July 2023

Global Markets Research

Daily Market Highlights

20 July: Longest winning streak since 2019 for DJIA

Stable bank earnings, easing inflation abroad supported Wall Street
DXY gained on abating hawkish ECB and BOE views; GBP depreciated sharply
Yields for 2Y gilts plunged after UK inflation decelerated sharply

- Dow Jones Industrial Average gained for the 8th consecutive day on Wednesday, logging its longest winning streak in nearly four years as regional banks reported that deposits stabilized in 2Q, reassuring investors. Easing inflation overseas and in the US also helped support the index. The Dow traded 0.3% d/d higher, while S&P 500 climbed 0.2% d/d. Nasdaq closed just above the flatline. Goldman Sachs gained 1.0% d/d even after the Wall Street heavyweight posted a steep drop in profits as it exited Main Street banking.

- European stocks also closed higher after UK inflation came in cooler-than-expected. Stoxx Eur 600 closed up 0.3% d/d, while FTSE 100 gained 1.8% d/d. Asian markets closed mixed, with Nikkei 225 popping up 1.2% d/d but Hang Seng index slid 0.3% d/d.

- UST yields held steady as investors awaited FOMC's meeting next week. The 2Y closed flat at 4.77%, while the 10Y fell 4bps to 3.75%. With the exception of Sweden and the UK, 10Y European bond yields generally closed higher in tune of 5-7bps. Yields for the 2Y UK gilts plunged 20bps to 4.84% while the 10Y fell 13bps to 4.20%, as sharper than expected deceleration in UK CPI dented BOE rate hike bets.

- DXY found some footing, gaining 0.3% d/d to close at 100.28 thanks to easing hawkish ECB and BOE views. The cooler than expected UK inflation data sent GBP sharply lower against other major currencies. Against USD, GBP weakened 0.7% d/d to close at 1.2940 after dipping as low as 1.2932 during the day. EUR depreciated at a slightly lower pace of 0.3% d/d. In Asia, JPY weakened 0.6% d/d after BOJ Governor Kazuo Ueda indicated that BOJ will keep easing unless there is a shift in the price view. Similarly, CNH and SGD also closed 0.5% and 0.2% d/d weaker at 7.2318 and 1.3250 respectively. MYR depreciated by 0.1% d/d to close at 4.5398 as of 18th July.

- In the crude oil market, the West Texas Intermediate fell 0.5% d/d while Brent inched down by 0.2% d/d on a stronger USD despite US stockpile data signalled tighter market. According to the EIA, US stockpiles at Cushing fell the most since October 2022.

US retail sales rose modestly; IPI contracted for the second month; low housing inventory boosted builder confidence and housing starts

- Retail sales rose more modestly than expected by 0.2% m/m in June (May: +0.5% m/m) as auto sales rose a mere 0.3% m/m after jumping 1.5% m/m earlier. Stripping this, gas, food and building materials, the control group, an

Key Market Metrics

	Level	d/d (%)
Equities		
Dow Jones	35,061.21	0.31
S&P 500	4,565.72	0.24
NASDAQ	14,358.02	0.03
Stoxx Eur 600	461.97	0.26
FTSE 100	7,588.20	1.80
Nikkei 225	32,896.03	1.24
Hang Seng	18,952.31	-0.33
Straits Times	3,275.24	0.64
KLCI 30	1,403.03	-0.22
FX		
Dollar Index	100.28	0.34
EUR/USD	1.1201	-0.25
GBP/USD	1.2940	-0.74
USD/JPY	139.65	0.59
AUD/USD	0.6772	-0.57
USD/CNH	7.2318	0.54
USD/MYR	4.5398	0.06
USD/SGD	1.3250	0.17
Commodities		
WTI ($/bbl)	75.35	-0.53
Brent ($/bbl)	79.46	-0.21
Gold ($/oz)	1,980.80	0.00
Copper ($$/MT)	8,429.00	-0.52
Aluminum($/MT)	2,190.50	-0.59
CPO (RM/tonne)	3,870.00	0.74

Source: Bloomberg, HLBB Global Markets Research
** Dated as of 17th July for CPO; 18th July for KLCI & USD/MYR*

important to estimate GDP, rose a much stronger 0.6% m/m (May: +0.3% m/m). While discretionary spending like clothing and electronics was strong, spending at restaurants and bars, a proxy to services, rose just 0.1% m/m (May: 1.2% m/m).

- IPI unexpectedly recorded a second month of contraction at -0.5% m/m (May: -0.5% m/m) as manufacturing weighed on headline (-0.3% m/m vs. May: -0.2% m/m). A decline in production of cars and parts contributed to decline, while output of non-durable consumer goods contracted as well, suggesting softening consumer spending.
- In the housing market, low existing inventory that is keeping demand solid for new homes helped to push the National Association of Home Builders (NAHB)/Wells Fargo Housing Market Index (HMI) up to 56 in July (June: 55). This is the seventh straight month that builder confidence has increased and marks the highest level since June 2022. Housing starts also retreated less than expected by 8.0% m/m in June (May: +15.7% m/m) but building permits, a proxy for future construction, slipped more than expected by -3.7% y/y (May: +5.6% m/m). This is despite permits to build 1-family homes scaling to a 1-year high. Separate data showed that mortgage applications rose 1.1% w/w for the week ended July 14 (Jul 7: +0.9% w/w) as the 30Y fixed mortgage improved, but remained high at 6.87%.
- The New York Fed Services Business Activity index climbed to 0 in July (June: -5.0), its first non-negative reading in 10 months, suggesting a steady services sector. Looking ahead, firms became more optimistic that conditions will improve over the next six months.

Eurozone core-inflation revised upwards to 5.5%

- While Eurozone's CPI was left unchanged at +5.5% y/y in June (May: +6.1% y/y), core inflation was revised upwards by 0.1ppts to 5.5% y/y (May: +5.3% y/y), a final report showed. Dutch central bank Chief Klaas Knot said that core inflation appears to have plateaued and added that any action beyond July as "a possibility but by no means a certainty."

UK's price pressures continued to moderate; dampening BOE rate hike bets

- UK's inflation decelerated sharper than expected to +7.9% y/y in June (May: +8.7% y/y), while core unexpectedly slipped to +6.9% y/y (May: +7.1% y/y). The easing in inflationary pressures largely reflect lower transport costs, particularly for motor fuels, while food and non-alcoholic beverages, furniture and household goods, and restaurants and hotels also contributed to the milder prices.
- Separately, producer prices slowed more than expected in June, with the input-PPI registering its first contraction since 2020 at -2.7% y/y (May: +0.4% y/y), while output PPI decelerated for the past 11 months to its lowest since December 2020 at +0.1% y/y (May: +2.7% y/y). Crude oil and petroleum products provided the largest downward contributions to the change in producer prices.
- UK's House Price Index decelerated for the 7th month in May, posting its slowest growth since 2020 at +1.9% y/y (May: +3.2% y/y).

RBA minutes revealed the case to hold rates at 4.10% as "stronger one"

- Key highlights from the minutes to the latest Reserve Bank of Australia (RBA)'s monetary policy meeting include: 1) Board members debated raising the cash rate but the case to stay pay at 4.10% was the "stronger one". 2) Some further tightening of monetary policy may be required. At the August meeting, the Board would have the additional data on 2Q inflation and an updated set of staff forecasts. 3) Mortgage interest payments as a share of household disposable income, were around a record high in May and would rise further as fixed-rate loans continued to mature. 4) Risk that output growth will slow more than expected and considerable uncertainty about the resilience of household consumption. RBA added that higher interest rates could encourage households to save more, which would affect consumption and demand for labour.

- The Westpac Leading Index turned around to register a positive growth of 0.1 m/m in June (May: -0.3% m/m). Despite this, the 6-month annualised growth rate remained in negative territory at -0.5% (May: -1.0%), suggesting that the economy will be operating below trend over the next 6-9 months. The index was lifted by the US IPI sub-index, dwelling approvals and market expectations of a lower RBA cash rate. Deteriorating confidence in the labour market was a drag on the Index.

FDI into China contracted 2.7% in 1H

- FDI into China recorded its first contraction since 2020 at -2.7% y/y for the 1H of 2023. Geopolitical uncertainties and relocation of production facilities are expected to continue undermine foreign investment going forward.

Japan registered its first trade surplus since 2021

- Japan unexpectedly registered its first trade surplus of ¥43.0bn in June (May: ¥1381.9bn) as export growth accelerated, albeit less than forecast at 1.5% y/y (May: +0.6% y/y). Imports, meanwhile, fell more than expected by 12.9% y/y for the same month (May: -9.8% y/y), dragged by a drop in crude and coal, while the acceleration in exports was led by shipments of cars and construction machinery. Demand was mixed across regions, with exports to US and Europe increasing while shipments to China fell 3.4% y/y.

Hong Kong unemployment rate improved to 2.9%

- Hong Kong's unemployment rate unexpectedly improved to 2.9% for the three months ended June (May: 3.0%) as the economy gathered strength. Notably, the consumption- and tourism-related sectors declined by 0.2ppts to 4.0%.

House View and Forecasts

FX	This Week	3Q-23	4Q-23	1Q-24	2Q-24
DXY	98-103	102	101	100	99
EUR/USD	1.10-1.14	1.11	1.12	1.14	1.12
GBP/USD	1.29-1.33	1.29	1.31	1.33	1.30
USD/JPY	134-142	141	139	136	133
AUD/USD	0.67-0.70	0.67	0.68	0.68	0.69
USD/MYR	4.52-4.62	4.69	4.64	4.60	4.55
USD/SGD	1.31-1.35	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

Up Next

Date	Events	Prior
20-Jul	CH 5-Year Loan Prime Rate	4.20%
	CH 1-Year Loan Prime Rate	3.55%
	AU NAB Business Confidence (2Q)	-4
	AU Unemployment Rate (Jun)	3.60%
	MA Exports YoY (Jun)	-0.70%
	HK CPI Composite YoY (Jun)	2.00%
	US Initial Jobless Claims	237k
	US Philadelphia Fed Business Outlook (Jul)	-13.7
	US Existing Home Sales MoM (Jun)	0.20%
	US Leading Index (Jun)	-0.70%
	EC Consumer Confidence (Jul P)	-16.1
31-Jul	UK GfK Consumer Confidence (Jul)	-24
	JN Natl CPI YoY (Jun)	3.20%
	UK Retail Sales Inc Auto Fuel MoM (Jun)	0.30%

Source: Bloomberg

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