

21 June 2023

## Global Markets Research

### Daily Market Highlights

## 21 June: Markets await Powell's testimony

**PBoC cut lending rates by 10bps; RBA minutes said inflation risk was “finely” balanced**

**AUD and CNH led losses; DXY closed just above the flatline**

**US housing starts surged; Malaysia's festive-skewed trade data saw smaller contractions**

- Wall Street fell on Tuesday as the equities market took a breather ahead of Fed Chair Jerome Powell's semi-annual testimony to the Congress. The Dow Jones Industrial Average fell 0.7%, while Nasdaq lost 0.2% d/d. S&P 500 also slid 0.5% d/d, weighed down by energy stocks. Of note, economic bellwether FedEx tumbled 0.8% d/d as its forecast fell short of street estimates. In contrast, homebuilders outperformed following a stronger-than-expected housing data.
- In Europe, Stoxx 600 index ended the day 0.6% d/d lower, with most sectors in the negative. FTSE 100 lost 0.3% d/d ahead of UK's inflation data and BOE's monetary policy decision. Asian markets traded mixed as investors digested PBoC's decision to cut its lending rates. CSI 300 closed 0.2% d/d lower, while Hang Seng index slid 1.6% d/d. Nikkei 225 reversed earlier losses and ended the day marginally up 0.1% d/d.
- In the Treasuries market, the benchmark 10Y yield fell 4bps to 3.72%, while the 2Y dipped 3bps to 4.69%. The 10Y European bonds yield closed lower, in tune of 4 to 16 bps.
- DXY closed just above the flatline at 102.54. AUD led losses amongst the G10 currencies, weakening 1.0% d/d after minutes from its latest monetary policy meeting showed that the central bankers considered keeping its interest rates unchanged. EUR weakened just below the flatline, while GBP depreciated 0.2% d/d. JPY, on the other hand, strengthened 0.4% d/d. In Asia, CNH, MYR and SGD closed weaker between 0.2%-0.3% d/d each. MYR and SGD last traded at 4.6405 and 1.3433.
- Prices of oil eased in choppy trading, with Brent closing down 0.3% d/d at \$75.90/barrel, while the West Texas Intermediate fell 1.8% d/d to \$70.50/barrel. It was reported that demand for physical crude firmed in recent days amidst a flurry of buying by a giant Chinese refiner, although the country's biggest oil and gas producer cut its demand forecast for 2023. On the supply side, a flood of supply from Russia and Iran kept crude availability elevated. Price of gold, meanwhile, slid 1.2% d/d.

#### PBoC cut loan prime rates by 10bps

- In a widely anticipated move, the People's Bank of China (PBoC) cut the 1Y and 5Y loan prime rates by 10bps each to 3.55% and 4.20% respectively. This comes after recent regulatory guidance allowing banks to lower interests

#### Key Market Metrics

	Level	d/d (%)
<b>Equities</b>		
Dow Jones	34,053.87	-0.72
S&P 500	4,388.71	-0.47
NASDAQ	13,667.29	-0.16
Stoxx Eur 600	459.32	-0.59
FTSE 100	7,569.31	-0.25
Nikkei 225	33,388.91	0.06
Hang Seng	19,607.08	-1.54
Straits Times	3,220.23	-0.65
KLCI 30	1,388.33	0.07
<b>FX</b>		
Dollar Index	102.54	0.02
EUR/USD	1.0918	-0.03
GBP/USD	1.2765	-0.21
USD/JPY	141.47	-0.36
AUD/USD	0.6785	-0.96
USD/CNH	7.1823	0.26
USD/MYR	4.6405	0.21
USD/SGD	1.3433	0.17
<b>Commodities</b>		
WTI (\$/bbl)	70.50	-1.78
Brent (\$/bbl)	75.90	-0.25
Gold (\$/oz)	1,935.50	-1.17
Copper (\$\$/MT)	8,548.00	0.09
Aluminum(\$/MT)	2,230.00	-0.49
CPO (RM/tonne)	3,779.00	0.84

Source: Bloomberg, HLBB Global Markets Research

they pay for deposits. While we anticipate more cuts in the reserve requirement ratios and lending rates moving forward, we believe a more broad-based stimulus is needed to support both the economy and the property sector.

#### **RBA minutes showed that inflation risk was “finely” balanced**

- Key highlights from latest Reserve Bank of Australia’s monetary policy meeting minutes include: 1) The central bank considered pausing its tightening cycle but concluded that the “finely balanced” arguments were in favour of raising the cash rates to 4.10%. 2) Tight labour market, sticky inflation and rising home prices were amongst the reasons for the hike. 3) Wages growth was still consistent with the inflation target, but productivity has not picked up adequately. 4) The recent Annual Wage Review decision of the Fair Work Commission (FWC) to increase wages by 5.75% was higher than what was embedded in RBA’s forecast.

#### **US housing starts surged**

- Limited existing inventory, solid demand and improving supply chains helped push housing starts to the most since 2016, exceeding all estimates at 1.6m for the month May (Apr: 1.3m). On a y/y basis, starts surged 21.7% y/y, the fastest pace in a year. Of note, single-family starts also rose to an 11-month high. Overall permits, meanwhile, increased 5.2% y/y to 1.5m (Apr: -1.4% m/m to 1.4m). Mirroring better builder sentiment, these data suggest that housing construction in the US, at least for single-family residential construction, may have bottomed and are stabilising.
- Philadelphia’s non-manufacturing activities remained weak in June, with the Business Outlook Survey index still in the negative territory of -16.6 (May: -16.0). The new orders and sales/revenues indices returned to negative territory, while employment was negative. Price pressures also eased. Although the firms continue to expect growth over the next six months, expectations were less widespread.

#### **Hong Kong’s inflation rate unexpectedly eased to 2.0%**

- Hong Kong’s CPI unexpectedly eased to +2.0% y/y in May (Apr: +2.1% y/y). Netting out the effects of Government’s one-off relief measures, underlying inflation held steady at +1.8% y/y. Prices of energy-related items continued to increase sharply and those of clothing and footwear as well as meals out and takeaway food rose visibly. Price pressures on other major components remained broadly in check. Moving forward, domestic cost pressures are expected to increase in tandem with economic recovery.

#### **Malaysia’s external trade data improved but still contractionary**

- While the contraction in Malaysia’s trade data narrowed more than expected in May, there is no change in our view of a negative export print going forward on the back of lower commodity prices, below trend global economic growth and a contraction in global semiconductor sales. Exports fell at a much slower-than-expected pace of 0.7% y/y (Apr: -17.6% y/y), while imports dropped 3.3% y/y (Apr: -11.1% y/y).
- In May, the main drag to exports were agriculture products which worsened to -30.9% y/y (Apr: -29.2% y/y led by palm-oil and palm-oil based products. Exports of manufactured goods, on the other hand, posted a mild growth of 1.8% y/y (Apr: -15.5% y/y) mainly contributed by petroleum products, machinery, equipment and parts as well as electronics and electrical goods.

Imports, meanwhile, improved across the board although imports of intermediate goods remained in contractionary mode at -12.3% y/y (Apr: 24.2% y/y).

#### House View and Forecasts

FX	This Week	2Q-23	3Q-23	4Q-23	1Q-24
DXY	101-104	100.97	99.96	97.96	96.98
EUR/USD	1.07-1.11	1.10	1.11	1.12	1.13
GBP/USD	1.25-1.29	1.24	1.25	1.24	1.24
USD/JPY	139-143	131	130	128	128
AUD/USD	0.67-0.70	0.68	0.68	0.69	0.70
USD/MYR	4.58-4.65	4.39	4.35	4.31	4.28
USD/SGD	1.33-1.35	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
21-June	AU Westpac Leading Index MoM (May)	-0.03%
	UK CPI YoY (May)	8.70%
	UK PPI Output NSA YoY (May)	5.40%
	UK House Price Index YoY (Apr)	4.10%
	UK CBI Trends Total Orders (Jun)	-17
	US MBA Mortgage Applications	7.20%
22-June	MA Foreign Reserves	\$112.7b
	UK Bank of England Bank Rate	4.50%
	US Chicago Fed Nat Activity Index (May)	0.07
	US Initial Jobless Claims	262k
	US Existing Home Sales (May)	4.28m
	US Leading Index (May)	-0.60%
	EC Consumer Confidence (Jun P)	-17.4
	US Kansas City Fed Manf. Activity (Jun)	-1

Source: Bloomberg

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