23 June 2023

Global Markets Research
Daily Market Highlights

23 June: Hawkish central banks

BOE and NOK hiked more than expected by 50bps; guided for more hikes ahead
Fed Chair Powell reiterated the need for one or two more hikes in 2023
Global equities and bond markets remained under pressure; DXY rebounded

- Central banks' moves took center stage, with the BOE's bigger than expected and hawkish 50bps hike stealing the limelight. The sterling rallied above 1.28s as a result although such gains were quick to fizzle out as recession fear quickly took hold instead. The Norges Bank also raised rates at a faster than expected pace of 50bps to 3.75% to combat inflation, and guided for more rate hikes going forward. Meanwhile, SNB decided to raise rates again after pausing since March, but at a slower pace of 25bps to 1.75%, amid continued easing in inflation. On Fed speaks, Fed Chair Powell reiterated the need for one or two more rate hikes in 2023 on the second day of his testimony, echoing his earlier stance. In the Asian region, BSP and BOT stood pat as expected.

- Global financial markets remained under pressure amid hawkish central banks' rhetoric. Equities struggled for direction and ended largely in the red, except for the megacap-led gains in S&P 500 and NASDAQ. Global bond yields were seen making their way up to the tune of 4-8bps in the US and Europe for the 10-year, except for UK gilts which shed 4bps to 4.36%.

- On the FX front, the DXY regained grounds after BOE's hawkish move, closing the day 0.3% higher at 102.39. The EUR weakened 0.3% to 1.0956 while the sterling erased all intraday gains to settle 0.2% d/d lower at 1.2748, as concerns over aggressive BOE tightening would quicken a deeper UK recession alarmed investors. USD/ JPY extended its rally to 143.11, its highest since Nov-22 and a level which could potentially invite intervention, in anticipation of widening yield differential amid hawkish Fed policy. In the Asian space, CNH, SGD and MYR all weakened 0.2-0.3% d/d, on the back of USD strength.

- Global oil prices fell again, amid demand concerns as recession fear mounts. The Brent closed 3.9% lower at $74.14/ barrel while the WTI lost 4.2% d/d to $69.51/ barrel.

BOE delivered a bigger than expected 50bps hike; signalled more increases ahead

- BOE delivered an outsized 50bps rate hike at its latest MPC meeting, bringing the bank rate to 5.00%, its highest since Apr-08. The move was not entirely surprising after a report released just a day ahead of the MPC showed UK core CPI unexpectedly ticked higher to a 30-year high of 7.1% y/y in May. The decision was however not unanimous, with two out of nine policy makers

Key Market Metrics

	Level	d/d (%)
Equities		
Dow Jones	33,946.71	-0.01
S&P 500	4,381.89	0.37
NASDAQ	13,630.61	0.95
Stoxx Eur 600	454.70	-0.51
FTSE 100	7,502.03	-0.76
Nikkei 225	33,264.88	-0.92
Hang Seng	19,218.35	-1.98
Straits Times	3,222.43	-0.04
KLCI 30	1,394.67	0.09
FX		
Dollar Index	102.39	0.31
EUR/USD	1.0956	-0.27
GBP/USD	1.2748	-0.17
USD/JPY	143.11	0.87
AUD/USD	0.6756	-0.60
USD/CNH	7.1956	0.26
USD/MYR	4.6547	0.21
USD/SGD	1.3450	0.34
Commodities		
WTI ($/bbl)	69.51	-4.16
Brent ($/bbl)	74.14	-3.86
Gold ($/oz)	1,912.70	-1.07
Copper ($$/MT)	8,574.00	-0.33
Aluminum($/MT)	2,201.00	-0.99
CPO (RM/tonne)	3,628.50	-3.89

Source: Bloomberg, HLBB Global Markets Research
Note: Hang Seng as at 21st June closing

voted for a pause. Tenreyro and Dhingra have been voting for a pause in the preceding four meetings, since Dec-22.

- Policy rhetoric remained hawkish, emphasizing the need to do whatever is necessary to bring inflation back to the 2.0% target, leaving the door open for more rate hikes ahead. OIS pricing now pencils in >100bps more hikes to 6.138% this year, a tall order which will quicken and heighten risk of a UK recession in our view. That said, the BOE expect 2Q GDP growth to come in flat, and will continue to closely monitor impact of the recent aggressive rate hikes.
- This morning, a release showed GfK consumer confidence improved more than expected to -24 in June (May: -27). While this marked its best level since Feb-22, it remained at pessimistic level and somewhat contrasted with the elevated cost of living issues faced by many Britons.

Mixed US data - job and district activities remained weak; leading index saw extended decline; surprised rebound in existing home sales

- US initial jobless claims remained at a 20-month high at 264k for the week ended 17-June, as the preceding week's claims were revised 2k higher from 262k, surpassing consensus estimates for a 259k print. Stubbornly high jobless claims at above the 250k-mark in the last three weeks are renewing concerns the labour market has started softening, amid rising recessionary concerns. The 4-week moving average claims has been inching up for the 2nd straight week, to 255.75k while continuing claims unexpectedly eased to 1759k for the week ended 10-Jun (prior: 1772k).
- Existing home sales staged a surprised rebound, ekeing out a 0.2% m/m increase in May (Apr: -3.2% m/m upwardly revised). This first gain in three months was driven by a rebound in condo/co-ops which offset the extended declines in single family home sales amid declines in the Northeast and Midwest. Lower supply from lower listing from sellers and higher mortgage rates continued to dampen the resale housing market. Three-month average sales were down 20.4% from a year ago while median house prices were 3.1% y/y lower.
- Leading index continued to contract for the 17th consecutive month, by 0.7% m/m in May (Apr: -0.6% m/m), signalling continued downside risks to the US economy. Average consumer expectations, ISM new orders, interest rate spread, and leading credit index remained the main drags.
- Regional Fed activity worsened suggesting remained below-trend-growth. Chicago Fed index slipped more than expected to -0.15 in May (Apr: +0.14 upwardly revised) dragged by contraction in output- and employment-related indicators. Meanwhile Kansas City Fed manufacturing index deteriorated more than expected to -12 in June (May: -1), its worst print since May-20 during the pandemic era, due to declines in new orders, production, employment, shipment and composite 6-month outlook.

Eurozone consumer confidence improved more than expected in June

- Consumer confidence improved more than expected in June (-16.1 vs -17.4), as consumers turned the least pessimistic since Feb-22. However, this remained well below the neutral threshold and long term average, implying downbeat consumer sentiments will continue to impede growth in the Euro region.

Japan headline CPI moderated as expected; core surprised on the upside

- National CPI moderated to 3.2% y/y in May as expected (Apr: +3.5%), as a result of bigger decline in utilities (-8.3% vs -3.8%), which offset the quicker gains in food (+8.6% vs +8.4%) and transport (+2.2% vs +1.8%). Core CPI ex-food and energy however edged up more than expected to 4.3% y/y during the same month (Apr: +4.1% y/y), suggesting price stickiness similar to that experiencing elsewhere. This could prompt an upward revision in BOJ's inflation forecast but not sufficient to change its ultra-loose policy at this juncture in our view.

Australia PMI manufacturing improved; services softened

- PMI manufacturing ticked higher to 48.6 in June (May: 48.4), but remained in contractionary territory for the 4th straight month, as slowing global demand continued to suppress output and new orders. Services PMI however softened to 50.7 in June (May: 52.1), its lowest in four months but remained expansionary for the 3rd month in a row, suggesting services activities will continue to lead growth in the near term.

Malaysia foreign reserves inched up slightly to $113.0bn

- Foreign reserves inched up again by $0.3bn to $113.0bn as at 15-June, from $112.7bn a fortnight ago as at end-May. This is not unexpected given the more muted MYR performance in the first half of June compared to the last two weeks of May. However, the reserves position remains sufficient to finance 4.8 months of retained imports and is 1.0x the short term external debt.

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	5.00	5.50	5.50	5.50
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

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Date	Events	Prior
23-June	JN PMI Mfg (Jun P)	50.6
	JN PMI Services (Jun P)	55.9
	MA CPI YoY (May)	3.30%
	SI CPI YoY (May)	5.70%
	UK Retail Sales Inc Auto Fuel YoY (May)	-3.00%
	EC Manufacturing PMI (Jun P)	44.8
	EC Services PMI (Jun P)	55.1
	UK Manufacturing PMI (Jun P)	47.1
	UK Services PMI (Jun P)	55.2
	US Manufacturing PMI (Jun P)	48.4

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	US S Services PMI (Jun P)	54.9
26-June	JN PPI Services YoY (May)	1.60%
	SI Industrial Production YoY (May)	-6.90%
	US Dallas Fed Manf. Activity (Jun)	-29.1

Source: Bloomberg