

24 May 2023

Global Markets Research

Daily Market Highlights

24 May: Debt ceiling wrangle dragged on markets

PMI indicates continued divergence between the manufacturing and services sectors

US new home sales highest since March 2022; Singapore's core CPI sticky at +5.0%

Saudi Energy Minister issued warning to short sellers, sending oil prices up

- With ongoing debt ceiling discussions appeared to yield little progress, Wall Street closed in the red, with the S&P 500 dropping 1.1%, the Nasdaq Composite declining 1.3%, while the Dow Jones Industrial Average lost 0.7% d/d. In corporate news, Apple announced a new multibillion-dollar deal with Broadcom to develop 5G radio frequency components in the US.
- European stock markets also closed lower, with Stoxx 600 dipping 0.6%, while FTSE100 fell 0.1% d/d. Swiss private bank Julius Baer plunged 7.4% d/d after its quarterly results missed estimates. In Asia, the Nikkei 225 snapped its 7-day winning streak, closing down 0.4% d/d, while Hang Seng index reversed earlier gains and sank 1.3% d/d.
- UST yields were higher most of the day on increasing bets for a 25bps June rate hike, but reversed after news that the debt limit talks had stalled again. The 2Y yield closed just above the flatline at 4.32%, after briefly touching 4.41%. The benchmark 10Y pulled back by about 2bps to 3.69%, after testing 3.76%. The 10Y European bonds yield, meanwhile, closed in tune of 0 to +3bps. The exception was the UK gilts which closed up 10bps at 4.15%.
- USD saw sustained strength, benefitting from hawkish Fed views. The DXY closed 0.3% d/d higher at 103.49, just shy of its 103.65 peak. Amongst its G10 peers, EUR and GBP weakened by 0.4% and 0.2% d/d respectively, while in Asia, JPY closed flattish at 138.59. Similarly, CNH and MYR depreciated by 0.3% d/d and 0.5% d/d to 7.0649 and 4.5725. SGD closed just a shade weaker at 1.3472.
- Oil prices rallied between 1.1%-1.3% d/d after the Saudi Energy Minister issued a warning to short-sellers of pain ahead, raising prospect of further OPEC+ output cuts. Price of gold, meanwhile, closed slightly lower by 0.1% d/d.

S&P PMIs continued to paint divergence between the manufacturing and services sectors

- The US economy gathered momentum in May, but at an increasing dichotomy. While the services sector enjoyed a surge in post-pandemic pent-up demand, especially for travel and leisure, manufacturers struggled with over-filled warehouses. Consequently, the S&P Global Flash US Services Business Activity Index unexpectedly rose to its fastest in a year at 55.1 (Apr: 53.6), while the Manufacturing PMI fell more than expected to 48.5 (Apr: 50.2).

Key Market Metrics

	Level	d/d (%)
Equities		
Dow Jones	33,055.51	-0.69
S&P 500	4,145.58	-1.12
NASDAQ	12,560.25	-1.26
Stoxx Eur 600	466.10	-0.60
FTSE 100	7,762.95	-0.10
Nikkei 225	30,957.77	-0.42
Hang Seng	19,431.25	-1.25
Straits Times	3,218.08	0.22
KLCI 30	1,411.54	-0.53
FX		
Dollar Index	103.49	0.28
EUR/USD	1.0770	-0.40
GBP/USD	1.2413	-0.19
USD/JPY	138.59	-0.01
AUD/USD	0.6610	-0.65
USD/CNH	7.0649	0.25
USD/MYR	4.5725	0.51
USD/SGD	1.3472	0.04
Commodities		
WTI (\$/bbl)	72.91	1.28
Brent (\$/bbl)	76.84	1.12
Gold (\$/oz)	1,974.50	-0.14
Copper (\$\$/MT)	8,102.00	-0.31
Aluminum(\$/MT)	2,227.00	-1.61
CPO (RM/tonne)	3,680.50	-0.76

Source: Bloomberg, HLBB Global Markets Research

- Eurozone composite PMI slid to a 3-month low, as a steepening factory downturn offset the revival in the services sector. HCOB's Manufacturing PMI unexpectedly plunged to a 3-year low of 44.6 (Apr: 45.8), while the Services PMI edged down less than expected to 55.9 (Apr: 56.2). The former was led by Germany, where output posted the sharpest fall in 6 months. On a positive note, companies continue to hire more workers, even in the weakening industrial sector.
- Similarly, UK's services sector remained solid in May, albeit slowing from April's 1-year peak and more than expected at 55.1 (Apr: 55.9), while the manufacturing sector unexpectedly weakened to 46.9 (Apr: 47.8). The services sector was driven by consumers and financial services, while the hospitality sector was buoyed further by the Coronation. As spending was diverted away from goods to services, many companies have started to wind down their inventories, exacerbating the downturn in demand and driving both output and prices lower for the manufacturing sector.
- The Japanese economy continued with its upward trajectory in May, with the composite index reaching its strongest since October 2013 and second highest in record. The service industry continued to report strong growth momentum at 56.3 (Apr: 55.4), supported by a resumption of both domestic and international tourism, while the manufacturing index recorded its first expansion in 7 months at 50.8 (Apr: 49.5). Of note, there were renewed increases in both output and new orders, with both sub-indices highest in 13 months. Manufacturers also indicated that supply chain issues had shown signs of improvement, as suppliers' delivery times shortened for the first time since January 2020.

US new home sales unexpectedly rose to its highest since March 2022, weak District activities

- April's new homes sale unexpectedly rose to its highest level since March 2022 while prices declined. Meanwhile, builders continued to benefit from limited inventory. Sales rose 4.1% m/m to 683k (March: +4.0% m/m to 656k) as median sales prices fell 8.2% y/y. This is the largest decline since April 2020. There were also 433k new homes for sale at the end of April or 7.6 months at the current sales rate, a 1-year low.
- The Richmond Fed Manufacturing Index unexpectedly deteriorated to -15 in May (Apr: -10), with shipments and new orders worsening but the employment sub-index rising slightly to the positive territory. The services sector also remained soft but improved, with the current local business conditions rising to -17 (Apr: -27). On a positive note, expectations for future revenue and demand improved.
- Non-manufacturing activity in the Philadelphia region remained weak for the same month, with the current regional activity index increasing but remained negative for the third month at -16.0 (Apr: -22.8). Of note, the new orders and sales/revenues sub-indices turned positive but remained low.

Singapore's core inflation remained stubborn at +5.0%

- Singapore's headline and core inflation remained stubborn in April, unexpectedly accelerating to +5.7% y/y (March: +5.5% y/y) for the former and staying unchanged at +5.0% y/y for the latter. Prices were driven by higher prices for travel-related services, which more than offset lower price pressures for electricity and gas, food as well as retail & other goods. In tandem with this, MAS maintained its CPI projection for headline and core inflation at 5.5%–6.5% and 3.5%–4.5% respectively for 2023, with upside risks

emanating from fresh shocks to global commodity prices and more persistent-than-expected tightness in the domestic labour market.

Vietnam cut key policy rate by 50bps to 5.00% to support the economy

The State Bank of Vietnam cut its refinancing rate by 50bps to 5.00% wef 25 May. In tandem with this, the interbank market rate will also be slashed by 50bps to 5.50%, but the discount rate will remain at 3.50%. The cut in policy rates is expected to result in lower lending rates to aid businesses and quicken economic growth. As it is, the government's GDP growth target of 6.5% for 2023 remained challenging at this juncture, given that the economy grew a mere +3.3% y/y in 1Q, as higher interest rates hampered businesses, and amidst a slowdown in exports and property sector.

House View and Forecasts

FX	This Week	2Q-23	3Q-23	4Q-23	1Q-24
DX	102-104	100.97	99.96	97.96	96.98
EUR/USD	1.07-1.09	1.10	1.11	1.12	1.13
GBP/USD	1.23-1.25	1.24	1.25	1.24	1.24
USD/JPY	136-140	131	130	128	128
AUD/USD	0.66-0.67	0.68	0.68	0.69	0.70
USD/MYR	4.54-4.60	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	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
24-May	AU Westpac Leading Index MoM (Apr)	-0.01%
	UK CPIH YoY (Apr)	8.90%
	UK PPI Output NSA YoY (Apr)	8.70%
	UK PPI Input NSA YoY (Apr)	7.60%
	UK House Price Index YoY (Mar)	5.50%
	US MBA Mortgage Applications	-5.70%
25-May	US FOMC Meeting Minutes	
	SI GDP SA QoQ (1Q F)	-0.70%
	US Initial Jobless Claims	242k
	US Continuing Claims	1799k
	US GDP Annualized QoQ (1Q S)	1.10%
	US Chicago Fed Nat Activity Index (Apr)	-0.19
	US Pending Home Sales MoM (Apr)	-5.20%
	US Kansas City Fed Manf. Activity (May)	-10
25-31 May	VN CPI YoY (May)	2.81%
	VN Exports YoY (May)	-17.10%
	VN Imports YoY (May)	-20.50%
	VN Trade Balance (May)	\$1510m
	VN Industrial Production YoY (May)	0.50%
	VN Retail Sales YoY (May)	11.50%

Source: Bloomberg

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