

25 May 2023

Global Markets Research

Daily Market Highlights

25 May: Risk-off mood amid lingering debt ceiling saga

FOMC: Higher probability policy rates peaking; peak rates to be maintained until Jan 2024

UK inflation eased much less than expected to +8.7%; core CPI unexpectedly accelerated

Singapore's 1Q GDP revised higher; no change to full year growth forecast

- The Dow Jones Industrial Average fell for a fourth straight day as US lawmakers struggled to reach a debt ceiling deal, heightening worries of a potential default. The Dow dropped 0.8%, the S&P 500 lost 0.7%, while Nasdaq Composite edged 0.6% d/d lower. House Speaker Kevin McCarthy said in a press conference that negotiators remain at odds on spending caps, and said that the standoff was not his fault. Stocks hovered near their lows even as minutes released from the FOMC meeting signalled more "uncertainty" as to whether the central bank should hike again in June. The tail-end of earnings season stretched on with Nvidia posting results after the bell, with the semiconductor giant soared after it topped estimates driven by AI chip demand.
- European markets were also rattled by the debt ceiling drama, sending Stoxx 600 and FTSE 100 down 1.8% d/d each. In Asia, Hang Seng and Nikkei 225 posted their second-straight daily losses, closing down 1.6% and 0.9% d/d respectively.
- UST yields rose, with the 2Y up 11bps at 4.38%, while the 10Y climbed 5bps to 3.74%. The 10Y European bonds yield closed mixed, between -4 to +5bps.
- DXY hit a 2-months high of 103.91 before closing at 103.89 or up 0.4% d/d on increasingly hawkish Fed views. GBP weakened 0.4% d/d to a 1-month low of 1.2365 despite data showing British inflation slowed by much less than markets had expected. Similarly, EUR also depreciated by 0.2% d/d/. In Asia, JPY closed 0.6% d/d weaker, while CNH closed flattish. MYR and SGD depreciated by 0.5% and 0.2% d/d respectively at 4.5935 and 1.3495 respectively.
- Oil prices rose 2.0% d/d after an EIA report showed a large drawdown in US crude inventories and on prospects of further OPEC+ output cuts after the Saudi Energy Minister's warning. Gold, on the other hand, slipped 0.5% d/d as the Dollar firmed.

FOMC minutes showed that Fed officials were less confident on the need for more rate hikes

- Key highlights from the latest FOMC minutes include: 1) Fed officials assigned a much higher probability to the peak federal funds rate being between 5.00-5.25%, with some seeing the need for more tightening. In this context, some officials commented that returning inflation to 2% could continue to be unacceptably slow. 2) Officials expect the peak rate to be maintained through

Key Market Metrics

	Level	d/d (%)
Equities		
Dow Jones	32,799.92	-0.77
S&P 500	4,115.24	-0.73
NASDAQ	12,484.16	-0.61
Stoxx Eur 600	457.65	-1.81
FTSE 100	7,627.10	-1.75
Nikkei 225	30,682.68	-0.89
Hang Seng	19,115.93	-1.62
Straits Times	3,214.21	-0.12
KLCI 30	1,409.62	-0.14
FX		
Dollar Index	103.89	0.39
EUR/USD	1.0750	-0.19
GBP/USD	1.2365	-0.39
USD/JPY	139.47	0.63
AUD/USD	0.6544	-1.00
USD/CNH	7.0661	0.02
USD/MYR	4.5935	0.46
USD/SGD	1.3495	0.17
Commodities		
WTI (\$/bbl)	74.34	1.96
Brent (\$/bbl)	78.36	1.98
Gold (\$/oz)	1,964.60	-0.50
Copper (\$\$/MT)	7,901.50	-2.47
Aluminum(\$/MT)	2,205.00	-0.99
CPO (RM/tonne)	3,610.50	-1.90

Source: Bloomberg, HLBB Global Markets Research

the January 2024 FOMC meeting, implying a rate cut is not on the drawing board 3). Officials expressed uncertainty about how much more policy tightening may be appropriate, with many participants focused on the need to retain optionality, suggesting a more data approach. 4) Real GDP expected to decline modestly in 4Q and 1Q of 2024, with upside risks should the banking-sector stress abate more quickly. 5) Some participants noted concerns that the debt ceiling might not be raised in a timely manner.

- US mortgage rates rose to a more than 2-months high of 6.69%, reducing home purchase and refinance activities. Consequently, mortgage applications fell for the second week by 4.6% w/w for the week ended May 19 to the lowest level since March (May 12: -5.7% w/w).

UK inflation exceeded all estimates

- Although registering a single-digit print for the first time in eight months, UK's inflation rate topped all estimates to increase by +8.7% y/y in April (March: +10.1% y/y), while core CPI unexpectedly accelerated to +6.8% y/y (March: +6.2% y/y). The easing in inflation mainly reflected softening prices for gas and electricity due to base effect, but this was partially offset by upward price pressures from recreation and culture, mobile phone bills, higher tobacco duties and increases in second-hand cars. Food prices, meanwhile, held near its 45-year high at +19.1% y/y as BOE blamed it on hedging by producers. With the inflation rate stickier than expected, there is no change in our call that BOE will raise the bank rate by another 25bps to 4.75% when they next meet on 22-June.
- Separate data showed that PPI output and input prices softened sharper than expected to +5.4% y/y (March: 8.5% y/y) and +3.9% y/y (March: 7.3% y/y) led by prices for metals and non-metallic minerals as well as petroleum products, while the House Price Index decelerated more than expected to +4.1% y/y in March (Feb: +5.8% y/y). This marks the 5th consecutive month of deceleration with London registering the slowest y/y growth.
- In the manufacturing sector, the CBI trends total orders improved more than expected to -17 in May (Apr: -20). Although at a 3-months high, reading at this level suggests subdued order book balance and is below the historic average of -13. Of note, the better performance was also underpinned by past performance, namely volume of output past 3 months.

Australia's Westpac Leading Index dipped 0.03%

- Australia's Westpac Leading Economic Index, fell 0.03% m/m in April (March: +0.01% m/m). In tandem with this, the index worsened to -0.8% on a 6-month annualized basis (March: -0.7%), weighed down by the RBA commodity prices as well as yield spread sub-indices.

Singapore's 1Q GDP revised upwards to +0.4% y/y

- Singapore's 1Q GDP Singapore's 1Q GDP was revised upwards to +0.4% y/y in 1Q (Initial: +0.1% y/y vs 4Q: +2.1% y/y), while its q/q contraction was less than it had initially estimated at -0.4% (Initial: -0.7% q/q vs 4Q: +0.1% q/q). Both data was better than consensus estimates. At the same time, the Ministry of Trade and Industry (MTI) maintained its 2023 GDP growth forecast at "0.5% to 2.5%" but added that growth will likely to come in at around the mid-point of the range.

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
25-May	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%
26-May	JN Tokyo CPI YoY (May)	3.50%
	JN PPI Services YoY (Apr)	1.60%
	AU Retail Sales MoM (Apr)	0.40%
	MA CPI YoY (Apr)	3.40%
	SI Industrial Production SA MoM (Apr)	9.30%
	UK Retail Sales Inc Auto Fuel MoM (Apr)	-0.90%
	US Personal Income (Apr)	0.30%
	US Wholesale Inventories MoM (Apr P)	0.00%
	US Advance Goods Trade Balance (Apr)	-\$84.6b
	US Personal Spending (Apr)	0.00%
	US Real Personal Spending (Apr)	0.00%
	US Retail Inventories MoM (Apr)	0.70%
	US Durable Goods Orders (Apr P)	3.20%
	US PCE Deflator YoY (Apr)	4.20%
	US Durables Ex Transportation (Apr P)	0.20%
	US Cap Goods Orders Nondef Ex Air (Apr P)	-0.60%
	US U. of Mich. Sentiment (May F)	57.7
	US U. of Mich. 1 Yr Inflation (May F)	4.50%
	US U. of Mich. 5-10 Yr Inflation (May F)	3.20%
	US Kansas City Fed Services Activity (May)	7

Source: Bloomberg

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