26 June 2023

Global Markets Research

Daily Market Highlights

26 June: Risk aversion likely take centre stage

Global equities remained in a sea of red; bonds rebounded

DXY saw extended rally amid lingering hawkish Fed rhetoric and recession fear

Russian debacle likely infuses risk-off market sentiments

- Major stock indices all settled in the red as investors became increasingly wary over the impact of aggressive rate hikes on economic growth. Fed Bostic echoed recent hawkish Fed speaks, saying the top priority is to tackle inflation. The three major US benchmark stock indices ended 0.7-1.0% d/d lower last Friday, the Stoxx Eur 600 lost 0.3% while the FTSE100 shed 0.5% d/d. In neighbouring Asia, equities fell to the tune of 2.0% as concerns over global recession and China's lethargic recovery story mounted.
- Russian domestic turmoil over the weekend is expected to aggravate geopolitical risks, likely triggering market jitters and risk aversion in the global financial markets, although the impact is expected to be more modest now given that a deal has been reached to drop criminal charges against the Wagner mercenary group and its leaders. Futures are pointing to generally lower openings in Asian equities today.
- Global bonds rallied after recent sell-offs, with the 10Y UST yields falling 6bps to 3.74%. European bond yields were seen falling 13-15bps by and large. Yields on the 10Y UK gilts shed 5bps to 4.31% while that of the German bunds lost 14bps to 2.35%.
- On the FX front, the DXY extended its rally, strengthening by a further 0.5% d/d to close Friday at 102.90 on expectations of more Fed rate hikes. The USD advanced against all G10s and major Asian pairs. DXY was also seen gapping up after flash PMI prints out of the Eurozone and the UK surprised on the downside, spurring recession fear in the region and boosted the greenback's appeal as a safe haven currency. The EUR weakened 0.6% vs the USD at 1.0894 while the GBP depreciated 0.3% vs the USD to 1.2714. It appears that BOE's hawkishness is doing more harm than good to the sterling. In the Asia sphere, we saw broad weakness. KRW led the declines followed by SGD, THB and MYR. The SGD and MYR weakened 0.5% d/d each to 1.3519 and 4.6783 respectively.
- Global oil prices saw extended but more muted decline. amid lingering demand concerns as recession fear mounts. The Brent closed 0.4% lower at $73.85/ barrel while the WTI lost 0.5% d/d to $69.16/ barrel.

Preliminary PMI manufacturing showed deeper contraction in June dragged by new orders

- US manufacturing PMI unexpectedly deteriorated further to a 6-month low at 46.3 in June, against expectations for a slight 0.1ppt uptick to 48.5 (May: 48.4), dragged by new orders and bigger contraction in input prices.
- Eurozone PMI manufacturing defied expectations for a steady print and fell to 43.6 in June (May: 44.8). The index has remained contractionary for a good

Key Market Metrics

	Level	d/d (%)
Equities		
Dow Jones	33,727.43	-0.65
S&P 500	4,348.33	-0.77
NASDAQ	13,492.52	-1.01
Stoxx Eur 600	453.14	-0.34
FTSE 100	7,461.87	-0.54
Nikkei 225	32,781.54	-1.45
Hang Seng	18,889.97	-1.71
Straits Times	3,191.60	-0.96
KLCI 30	1,390.89	-0.27
FX		
Dollar Index	102.90	0.50
EUR/USD	1.0894	-0.57
GBP/USD	1.2714	-0.27
USD/JPY	143.70	0.41
AUD/USD	0.6680	-1.12
USD/CNH	7.2157	0.28
USD/MYR	4.6783	0.51
USD/SGD	1.3519	0.51
Commodities		
WTI ($/bbl)	69.16	-0.50
Brent ($/bbl)	73.85	-0.39
Gold ($/oz)	1,919.10	0.33
Copper ($$/MT)	8,390.50	-2.14
Aluminum($/MT)	2,174.50	-1.20
CPO (RM/tonne)	3,618.00	-0.29

Source: Bloomberg, HLBB Global Markets Research one year now, and this marked its worst reading since May-20 during the pandemic era on bigger contraction in new orders.

- UK flash PMI manufacturing pulled back more than expected to also a 6-month low, at 46.2 in June (May: 47.1), marking its 11th straight month of contraction. The bigger contraction was dragged by decline in new orders.
- Japan PMI manufacturing failed to hold on to its fort, slipping to 49.8 in June (May: 50.6), proving May's expansion, the only above 50-print in the last seven months, as just a blip. Both output and new orders fell.
- On the contrary, Australia PMI manufacturing bucked the trend and 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.

PMI services broadly weakened but stayed expansionary in June; suggesting services will continue to lead growth moving forward

- US PMI services softened less than expected to 54.1 in June (May: 54.9), marking its fifth straight month of expansion albeit at a slower rate. Prices charged fell to 54.7 from May's 57.6. On a more positive note, business expectations indicator rose to its highest since May-22.
- Eurozone PMI services pulled back more than expected to 52.4 in June (May: 55.1), expanding at its slowest pace since Jan-23 amid softer gain in new business.
- UK flash PMI services slipped more than expected to 53.7 in June (May: 55.2), still in expansionary mode for the 5th straight month albeit at its slowest pace in three months, as new business slowed.
- Japan PMI services retreated to 54.2 in June (May: 55.9), still expanding albeit at a slower rate, dragged by slower gains in employment and prices.
- Down under, PMI services 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.

UK May retail sales surprised on the upside but headwinds await

- Retail sales pulled back less than expected, and still managed to increase 0.3% m/m in May (Apr: +0.5%), against expectations for a 0.2% m/m decline. Ex-auto fuel, retail sales also performed better than expected, ekeing out a 0.1% m/m increase in May (Apr: +0.7% m/m), believed to be driven by easing energy prices, extension of the government energy bills, and increase in welfare benefits. On an annual basis, overall retail sales saw extended declines for the 14th straight month, albeit at a slower rate of 2.1% y/y (Apr: -3.4%). We expect consumer spending and hence retail sales to face further headwinds, hit by sticky inflation and after effects of the BOE's aggressive policy tightening.

Singapore CPI decelerated more than expected to 5.1% y/y in May

- May CPI tapered off more than expected to 5.1% y/y (Apr: +5.7% y/y), marking its slowest gain since Feb-22. Prices from the key categories namely food (+6.8% vs +7.1%), housing & utilities (+4.45 vs +4.5%), and transport (+6.0% vs +8.6%), all registered smaller increases. Indeed, all key categories saw easier price growth, except healthcare, communication, and miscellaneous goods & services. Core CPI also moderated to 4.7% y/y, from +5.0% y/y in April, as expected, adding to signs of further softening in inflationary pressure, that would allow the MAS to stay on hold.

Malaysia CPI eased to a 10-month low at 2.8% y/y as expected

- Malaysia's headline inflation retreated for a 3rd straight month, to 2.8% y/y in May (Apr: +3.3% y/y), within our expectations but below consensus estimate. This is the smallest increase in a year, on the back of easier price gains in both the food and non-food categories.
- In addition to the moderation in headline CPI, core CPI and services CPI also increased at a softer pace for the 3rd straight month, by 3.5% and 3.6% y/y respectively in May (Apr: +3.6% and +3.9% y/y), both at its lowest in 10 months. This reaffirmed our view that inflationary pressure is slowly but surely abating, although absolute prices remain sticky and refuse to budge from elevated levels. Inflation outlook is on track to decelerate further going forward, bringing the headline CPI back to the 2.0% levels in 2H of the year and average 2.6% in 2023 (2022: +3.3%).

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	1.26-1.29	1.24	1.25	1.24	1.24
USD/JPY	141-146	131	130	128	128
AUD/USD	0.66-0.69	0.68	0.68	0.69	0.70
USD/MYR	4.61-4.70	4.39	4.35	4.31	4.28
USD/SGD	1.33-1.36	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

Up Next

Date	Events	Prior
26-June	JN PPI Services YoY (May)	1.60%
	SI Industrial Production YoY (May)	-6.90%
	US Dallas Fed Manf. Activity (Jun)	-29.1
27-June	JN Leading Index CI (Apr F)	97.6
	HK Exports YoY (May)	-13.00%
	US Durable Goods Orders (May P)	1.10%
	US Cap Goods Orders Nondef Ex Air (May P)	1.30%
	US FHFA House Price Index MoM (Apr)	0.60%
	US S&P CoreLogic CS US HPI YoY NSA (Apr)	0.66%
	US New Home Sales MoM (May)	4.10%
	US Conf. Board Consumer Confidence (Jun)	102.3
	US Richmond Fed Manufact. Index (Jun)	-15
	US Richmond Fed Business Conditions (Jun)	-17
	US Dallas Fed Services Activity (Jun)	-17.3

Source: Bloomberg

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