

27 July 2023

## Global Markets Research

### Daily Market Highlights

## 27 July: The Fed voted unanimously for a 25bps hike

**The Fed hiked 25bps as expected; reiterating data dependent approach**

**Equities closed mixed; UST yields and DXY fell as the Fed left the door open for more hikes**

**Australia's inflation eased more than expected in 2Q; reaffirming RBA rate pause bets**

- The Dow Jones Industrial Average continued with its best winning streak since 1987, gaining 0.2% d/d, but the S&P 500 and Nasdaq edged down marginally by about 0.1% d/d each. Market initially bounced following the Federal Open Market Committee (FOMC) meeting but ended mixed given the lack of clear direction following Fed Chair Jerome Powell's press conference. Despite reiterating that policy makers have a long way to go in returning inflation to their 2.0% goal, Powell left all options open saying that "It is certainly possible that we would raise interest rates again at the September meeting, if the data warranted, and I would also say It's possible that we would choose to hold steady at that meeting". Fed-dated OIS pricing showed a marginal increase in the probability of a September hike from 18% prior to the FOMC meeting to 23% this morning.
- European and Asian stock markets, meanwhile, closed lower ahead of the Fed's decision. Stoxx Eur 600 and FTSE 100 fell 0.5% and 0.2% d/d respectively, with LVMH dropping over 5% after reporting a surprised slowdown in US sales. Deutsche Bank reported earnings that beat estimates while Rolls-Royce soared over 20% after it hiked its profit forecast for the year. In Asia, Nikkei 225 extended its losses to close just below the flatline while Hang Seng index retreated from Tuesday's rally and inched down 0.4% d/d.
- UST yields erased all pre-FOMC gains and ended the day lower, with both the 2Y and 10Y closing 2bps lower at 4.85% and 3.87% respectively. 10Y European bond yields fell at a slightly higher pace of 2-6bps during the day.
- DXY lost 0.5% d/d to close at 100.89, pulling back sharply from its day high of 101.44. EUR, JPY and JPY strengthened between 0.3%-0.5% d/d against USD. AUD weakened by 0.5% on expectation of a RBA rate pause outlook. In Asia, MYR and SGD traded 0.2-0.3% d/d stronger at 4.5487 and 1.3254, while CNH was the outlier, depreciating 0.2% d/d as the Politburo-related boost was quick to fizzle out due to lack of concrete details.
- Oil prices slipped between 0.9-1.1% d/d amid a smaller than expected decline in US stockpiles and as investors stayed on the sideline prior to the FOMC announcement.

### FOMC raised Fed funds rate by 25bps to 5.25%-5.50%; new home sales fell

- As widely expected, the FOMC raised the benchmark Fed funds rate by 25bps to 5.25%-5.50%. Key highlights from the statement and Chair Jerome Powell's

#### Key Market Metrics

	Level	d/d (%)
<b>Equities</b>		
Dow Jones	35,520.12	0.23
S&P 500	4,566.75	-0.02
NASDAQ	14,127.28	-0.12
Stoxx Eur 600	465.46	-0.53
FTSE 100	7,676.89	-0.19
Nikkei 225	32,668.34	-0.04
Hang Seng	19,365.14	-0.36
Straits Times	3,304.96	0.57
KLCI 30	1,449.29	0.87
<b>FX</b>		
Dollar Index	100.89	-0.46
EUR/USD	1.1086	0.28
GBP/USD	1.2941	0.30
USD/JPY	140.24	-0.47
AUD/USD	0.6758	-0.50
USD/CNH	7.1532	0.22
USD/MYR	4.5487	-0.32
USD/SGD	1.3254	-0.16
<b>Commodities</b>		
WTI (\$/bbl)	78.78	-1.07
Brent (\$/bbl)	82.92	-0.86
Gold (\$/oz)	1,970.10	0.33
Copper (\$\$/MT)	8,617.50	-0.65
Aluminum(\$/MT)	2,213.00	-1.21
CPO (RM/tonne)	4,061.50	1.69

Source: Bloomberg, HLBB Global Markets Research  
\* Dated as of 25<sup>th</sup> July for CPO

remarks include: 1) The hike was unanimous. 2) An upgrade of economic growth to “moderate” from “modest.” 3) The statement maintained its description on inflation as “elevated” and job gains as “robust”. 4) Repeated the statement “In determining the extent of additional policy firming that may be appropriate to return inflation to 2 percent over time, the Committee will take into account the cumulative tightening of monetary policy, the lags with which monetary policy affects economic activity and inflation, and economic and financial developments.” 5) In the press conference, Powell said that June’s CPI was softer than expected and that credit conditions are tight and getting tighter, yet added that it’s certainly possible that the FOMC will raise the fed funds rate again (or hold steady) at the September meeting, all depending on incoming data and information. While the Fed left the door open for more hikes ahead, we maintain our view that this could be the last hike in the current tightening cycle in anticipation of further moderation in inflation outlook.

- New home sales recorded its first contraction in four months, albeit less than expected by 2.5% m/m to 697k in June (May: +6.6% m/m to 715k) as high borrowing cost, home prices and limited inventory weighed down on sales. Sales at this level, nonetheless, suggests steady demand for new properties. In tandem with this, median sales price weakened slightly m/m to \$415k. Separately, mortgage applications declined 1.8% w/w for the week ended Jul 21 (Jul 14: +1.1% w/w), dragged by declines in both the purchases (-2.5% w/w) and refinancing indices (-0.4% w/w).

#### **Bigger than expected pullback in Australia’s inflation reaffirmed RBA rate pause expectations**

- Australia’s 2Q inflation decelerated sharper than expected to +6.0% y/y in 2Q (1Q: +7.0% y/y). While prices of goods eased during the quarter, inflation continued to rise across a range of services and to its highest since the introduction of the GST over 20 years ago. Contributing to this were stronger wage growth as well as increased costs for utilities, rents and insurance premiums.

#### **Japan’s leading index revised downwards slightly but still an improvement**

- The Leading Index was revised downwards by 0.3ppts to 109.2 in May (Apr: 108.1). Nevertheless, this still marked the second consecutive month of improvement with notable gains observed for machinery orders, housing starts and stock prices sub-indices during the month.

#### **Contraction in Singapore’s IPI narrowed**

- Singapore’s industrial output beat expectations to expand by 5.0% m/m in June (May: -3.6% m/m) but remained contractionary on a y/y basis (-4.9% y/y vs May: -10.5% y/y). Stripping off biomedical manufacturing, output fell 5.2% y/y, with most clusters in the red. Output for electronics notably registered a much slower contraction of 2.9% y/y (May: -23.7% y/y).

#### **House View and Forecasts**

<b>FX</b>	<b>This Week</b>	<b>3Q-23</b>	<b>4Q-23</b>	<b>1Q-24</b>	<b>2Q-24</b>
DX	98-103	102	101	100	99
EUR/USD	1.09-1.13	1.11	1.12	1.14	1.12
GBP/USD	1.26-1.31	1.29	1.31	1.33	1.30
USD/JPY	137-142	141	139	136	133
AUD/USD	0.66-0.70	0.67	0.68	0.68	0.69
USD/MYR	4.48-4.58	4.69	4.64	4.60	4.55

USD/SGD      1.31-1.35      1.35      1.34      1.33      1.33

Rates, %	Current	3Q-23	4Q-23	1Q-24	2Q-24
Fed	5.00-5.25	5.25-5.50	5.25-5.50	5.00-5.25	4.50-4.75
ECB	4.00	4.25	4.25	4.25	4.00
BOE	5.00	5.50	5.50	5.50	5.00
BOJ	-0.10	-0.10	-0.10	-0.10	-0.10
RBA	4.10	4.35	4.35	4.35	4.35
BNM	3.00	3.00	3.00	3.00	3.00

Source: HLBB Global Markets Research

## Up Next

Date	Events	Prior
27-Jul	CH Industrial Profits YoY (Jun)	-12.60%
	EC ECB Main Refinancing Rate	4.00%
	US GDP Annualized QoQ (2Q A)	2.00%
	US Durable Goods Orders (Jun P)	1.80%
	US Cap Goods Orders Nondef Ex Air (Jun P)	0.70%
	US Initial Jobless Claims	228k
	US Advance Goods Trade Balance (Jun)	-\$91.1b
	US Wholesale Inventories MoM (Jun P)	0.00%
	US Retail Inventories MoM (Jun)	0.80%
	US Pending Home Sales MoM (Jun)	-2.70%
	US Kansas City Fed Manf. Activity (Jul)	-12
27-28 Jul	SI Unemployment rate SA (Jun)	1.80%
28-Jul	JN Tokyo CPI YoY (Jul)	3.10%
	AU PPI YoY (2Q)	5.20%
	AU Retail Sales MoM (Jun)	0.70%
	EC Consumer Confidence (Jul F)	-15.1
	US Employment Cost Index (2Q)	1.20%
	US Personal Income (Jun)	0.40%
	US Real Personal Spending (Jun)	0.00%
	US PCE Core Deflator YoY (Jun)	4.60%
	US U. of Mich. Sentiment (Jul F)	72.6
	US Kansas City Fed Services Activity (Jul)	14

Source: Bloomberg

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