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Global Markets Research

Daily Market Highlights

29 May: Sticky prices raised rate hike bets for US

2Y UST yields rose on uptick in consumer spending and PCE prices

Bets of a Washington deal sent markets higher; a deal was sealed on Saturday

Continued moderation in Malaysia's CPI and services inflation

- Wall Street climbed on Friday as investors grew hopeful that lawmakers will reach a deal to raise the US debt ceiling. On Saturday, President Biden and House Speaker McCarthy have reached a deal in principle, paving the way for Congress approval next. The Dow Jones Industrial Average added 1.0% d/d, S&P 500 closed 1.3% d/d higher but Nasdaq Composite led gains at +2.2% d/d. Chips stocks drove gains during the session on optimism surrounding artificial intelligence (AI) after Nvidia's positive earnings. Marvel Technology led the rally, jumping 32.5% after reporting earnings that beat expectations.
- The European and Asian markets also mostly rode the positive momentum on Friday, with Stoxx 600 and FTSE100 up 1.2% and 0.7% d/d respectively. Nikkei 225 also advanced 0.4% d/d, while Hang Seng was closed for trading.
- In the treasuries market, 2Y UST yields edged higher for the 12th session, the longest streak of gains in more than 5 years boosted by an uptick in consumer spending and PCE price data. The 2Y rose 3bps to 4.56%, but the 10Y fell 2bps to 3.80%. The 10Y European bonds yield closed mixed between -4 to +6bps.
- DXY trimmed its losses after the PCE prices topped estimates, closing the day just below the flatline at 104.21 after dipping to an intra-day low of 103.95. EUR and GBP struggled to recoup recent losses against the Dollar. EUR closed flattish, but GBP regained some ground to close 0.2% d/d higher after British consumers picked up spending in April. In Asia, JPY weakened 0.4% d/d to 140.60, but CNH strengthened 0.3% d/d. SGD strengthened 0.2% d/d to 1.3522, despite its factory output data coming in worse than expected. Similarly, MYR was 0.6% d/d stronger at 4.6003.
- Oil prices rose between 0.9%-1.2% d/d as the US closed in on the debt deal, while gold wobbled and closed just above the flatline as sticky inflation drove up US rate hike bets.

US PCE prices accelerated; durable goods beat expectations on defense aircrafts

- Latest PCE price print showed why inflation remains a concern for the Fed. Headline prices accelerated more than forecast to +4.4% y/y in April (March: +4.2% y/y), while core unexpectedly picked up to +4.7% y/y (March: +4.6% y/y). Price increases were spread almost evenly, with goods rising 0.3% m/m and services up 0.4% m/m. Combined with a strong wage growth and consumer spending data, this suggests that demand-pull inflation may stay sticky in the near term. Personal income matched expectations but

Key Market Metrics

	Level	d/d (%)
Equities		
Dow Jones	33,093.34	1.00
S&P 500	4,205.45	1.30
NASDAQ	12,975.69	2.19
Stoxx Eur 600	461.41	1.15
FTSE 100	7,627.20	0.74
Nikkei 225	30,916.31	0.37
Hang Seng	18,746.92	-1.93
Straits Times	3,207.39	-0.01
KLCI 30	1,402.98	0.04
FX		
Dollar Index	104.21	-0.04
EUR/USD	1.0723	-0.02
GBP/USD	1.2344	0.19
USD/JPY	140.60	0.39
AUD/USD	0.6517	0.18
USD/CNH	7.0739	-0.25
USD/MYR	4.6003	-0.57
USD/SGD	1.3522	-0.18
Commodities		
WTI (\$/bbl)	72.67	1.17
Brent (\$/bbl)	76.95	0.90
Gold (\$/oz)	1,944.30	0.03
Copper (\$\$/MT)	8,135.00	2.17
Aluminum(\$/MT)	2,237.50	0.29
CPO (RM/tonne)	3,539.50	1.10

Source: Bloomberg, HLBB Global Markets Research

accelerated to 0.4% m/m (March: +0.3% m/m, while personal spending remained robust and grew more than expected at 0.8% m/m (March: +0.1% m/m). Of note, households continued to spend not only on services but also durable goods, namely motor vehicles and parts.

- The University of Michigan's Sentiment index was revised upwards by 1.5ppts to 59.2 in May (Apr: 63.5). Nonetheless, the 6.8% m/m sentiment decline erased nearly half of the gains achieved after the all-time historic low from last June and mirrored the plunge during the 2011 debt ceiling crisis. Both the year-ahead economic outlook and long-run expectations plunged double digit, indicating that consumers are concerned that any recession to come may cause lasting pain. In terms of inflationary expectations, both the 1Y and 5-10Y were revised lower to 4.2% and 3.1% (Apr: 4.6% and 3.0%), but remained elevated.
- Lifted by defense aircraft and parts, durable goods orders beat expectations to expand by 1.1% m/m in April (March: +3.3% m/m). Most other large segments, however, posted declines suggesting uneven spending going forward. Of note, non-defense aircrafts and parts plunged 8.3% m/m as Boeing's orders fell to 34 from 60 previously, but these were partially supported by higher orders for machinery (+1.0% m/m vs March: -0.2% m/m). More importantly, non-defense capital goods shipments ex aircraft, which feeds into GDP calculations, posted a modest gain of +0.5% m/m (March: -0.2% m/m).
- In another sign of robust domestic demand, US trade deficit widened more than expected to \$96.8bn in April (March: \$82.7bn) as imports rose 1.8% m/m (March: -1.9% m/m), while exports plunged 5.5% m/m (March: +2.1% m/m). The former was driven by imports of automatic and consumer goods, pointing to steady consumer spending.
- Kansas City Fed Services Activity eased slightly but remained positive at 3 in May (Apr: 7). Expectations for future activity also eased, and a majority of firms are expecting cost increases to be similar to or slightly less than last year. Of note, the decrease in revenue and sales was driven mostly by declines in wholesale trade, retail trade, autos, and transportation sectors.
- In its latest annual review, the International Monetary Fund (IMF) slightly raised its GDP forecast by 0.1ppts to 1.7% for 2023 but maintained its 2024's forecast at 1.0%. At the same time, inflation is expected to remain near 4.0% in 2023 before slowing to below 3.0% in 2024. The unemployment rate is projected to tick up slightly to 3.8% in 2023 then rise further to 4.4% in 2024. In its accompanying statement and press conference, IMF officials said that the US economy has proven resilient but warned of headwinds from higher interest rates which could reveal larger, more systemic balance sheets in banks as well as the ongoing stalemate in the US over raising borrowing limits before a June 1 deadline.

UK retail sales rebounded more than expected

- Retail sales rose more than expected by +0.5% m/m in April (March: -1.2% m/m), driven by a rebound in non-food as well as food stores sales. The former rose by 1.0% m/m following a fall of 1.8% m/m in March when poor weather conditions affected sales. Food stores sales also rose by 0.7% m/m (March: -0.8% m/m) but were still 2.7% below their February 2020 pre-COVID levels, suggesting the consumer spending remained under pressure due to the higher inflation and interest rates.

Signs of Australia's retail sales plateauing

- Australia's retail sales plateaued in April, unexpectedly staying flat (March: +0.4% m/m) as consumers spent less on discretionary goods in view of cost-of-living pressures and higher interest rates. Spending was also partially supported by increased spending on winter clothing due to cooler and wetter weather and consequently, clothing, footwear, and personal accessory retailing as well as department stores were the only retail segment to increase during the month.

China's industrial profits tumbled 20.6% YTD

- China industrial profits slumped 20.6% y/y in the first four months of 2023 (1Q: -21.4% y/y), as companies continued to struggle with margin pressures amidst deepening producer price deflation as well as soft demand. Moving forward, more policy support and stimulus will be needed to restore and export demand as well as to boost business confidence.

Singapore's factory output worse than expected as contraction in electronics deepened

- Mirroring the weak NODX, Singapore's manufacturing output weakened more than expected by -1.9% m/m and -6.9% y/y in April (March: +9.7% m/m and -3.8% y/y). This marks the 8th month of contraction with most clusters recorded declines. Of note, the contraction in electronics output worsened to -8.7% y/y (March: -7.6% y/y) on the back of declining demand.

Continued moderation in Malaysia's CPI

- Malaysia's headline inflation retreated for a 2nd straight month, to 3.3% y/y in April (Mar: +3.4% y/y), as expected. This marked a fresh low since June 2022, as the increase in prices moderated in seven out of the twelve subcategories, including the heavy-weight food & beverages and transport sectors. Meanwhile, four categories saw steady increases while one, miscellaneous goods and services, saw a bigger increase of 2.5% y/y (Mar: +2.1% y/y).
- In addition to the moderation in headline CPI, core CPI and services CPI also increased at a softer pace for the 2nd straight month, by 3.6% and 3.9% y/y respectively in April, down from +3.8% and +4.0% y/y in March. All these added to signs inflationary pressure is slowly but surely abating, although readings remain at above-average levels. On a month-on-month basis, CPI rose 0.1% m/m in April, maintaining the pace seen in March (+0.1% m/m).

House View and Forecasts

FX	This Week	2Q-23	3Q-23	4Q-23	1Q-24
DXY	103-106	100.97	99.96	97.96	96.98
EUR/USD	1.06-1.08	1.10	1.11	1.12	1.13
GBP/USD	1.22-1.25	1.24	1.25	1.24	1.24
USD/JPY	138-140	131	130	128	128
AUD/USD	0.64-0.66	0.68	0.68	0.69	0.70
USD/MYR	4.54-4.65	4.39	4.35	4.31	4.28
USD/SGD	1.34-1.37	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
29-May	JN Leading Index CI (Mar F)	97.5
	HK Exports YoY (Apr)	-1.50%
	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%
29 May - 9 June	EC OECD Publishes Economic Outlook	
30-May	JN Jobless Rate (Apr)	2.80%
	AU Building Approvals MoM (Apr)	-0.10%
	EC Consumer Confidence (May F)	-17.4
	EC Economic Confidence (May)	99.3
	US FHFA House Price Index MoM (Mar)	0.50%
	US S&P CoreLogic CS US HPI YoY NSA (Mar)	2.05%
	US Conf. Board Consumer Confidence (May)	101.3
	US Dallas Fed Manf. Activity (May)	-23.4

Source: Bloomberg

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