

30 June 2023

## Global Markets Research

### Daily Market Highlights

## 30 June: Risk-on sentiments prevail

**US stocks rose as pleasant surprises in US data continued to sooth recession fear**

**Global bond yields jumped as central bank chiefs reiterated higher rates outlook**

**DXY extended its rally; USD/ JPY at 7-month high raising intervention talks**

- US equities continued to trade on a bullish tone, supported by generally positive economic dataflow that continued to sooth fear of a recession, as well as a successful annual bank stress test by the Fed. This even overshadowed continuous hawkish guidance from key central bank chiefs, namely the Fed, ECB and BOE. At the annual policy conference in Portugal, Fed Chair Powell, ECB President Lagarde and BOE Governor Bailey, all sang the same tune and reiterated policy tightening path to tackle inflation while downplaying growth concerns. Unsurprisingly, BOJ Governor Ueda, was the only outlier at the forum, saying inflation did not call for rate hikes yet.
- Powell said that “policy hasn’t been restrictive enough for long enough”, implying rates will go higher and stay higher for longer. Meanwhile, the trio – Powell, Lagarde and Bailey, emphasized that strong jobs market was a catalyst for higher inflation (wage-price-spiral), a shift from energy and goods and services prices previously. Fed-dated OIS pricing is now pricing in a higher probability of 84% for a 25bps hike in the next FOMC meeting in July.
- The Dow added 0.8% while the S&P500 rose a more modest 0.5% d/d amid positioning adjustment ahead of quarter end. NASDAQ closed flat on the day. European stocks also ended marginally while the UK FTSE100 fell. Asian markets closed mixed. The Nikkei 225 edged 0.1% higher but the Hang Seng fell 1.2%. Futures are pointing to mixed openings in Asian equities today as markets continued to digest strong hints from major central bankers on further rate hikes.
- Global bonds saw broad-based and massive selloff after central bankers reiterated higher rate hike path. UST yields spiked between 9-16bps across the curve while European bond yields were seen jumping up to the tune of 12bps. Yields on 10Y UST added 13bps to 3.84% while the UK gilts rose 6bps to 4.37%.
- On the FX front, the DXD advanced for a 2<sup>nd</sup> straight day, by a further 0.4% to 103.37. The greenback strengthened against all G10s on Thursday, except for the AUD and CAD. The EUR lost 0.4% d/d to 1.0865 while the GBP shed 0.2% to 1.2613. USD/ JPY continued to march higher to its highest since Nov-22, last closed at 144.76, at levels inviting intervention speculation. In the Asia space, all major currencies in the region depreciated against the USD, with the KRW, CNH and SGD leading losses. The CNH and SGD weakened by 0.4% and 0.3% d/d respectively while the MYR was untraded yesterday amid Hari Raya Haji holiday, last closed at 4.6663 on Wednesday.

#### Key Market Metrics

	Level	d/d (%)
<b>Equities</b>		
Dow Jones	34,122.42	0.80
S&P 500	4,396.44	0.45
NASDAQ	13,591.33	0.00
Stoxx Eur 600	456.64	0.13
FTSE 100	7,471.69	-0.38
Nikkei 225	33,234.14	0.12
Hang Seng	18,934.36	-1.24
Straits Times	3,207.28	0.06
KLCI 30	1,388.37	0.12
<b>FX</b>		
Dollar Index	103.37	0.38
EUR/USD	1.0865	-0.44
GBP/USD	1.2613	-0.18
USD/JPY	144.76	0.19
AUD/USD	0.6616	0.24
USD/CNH	7.2686	0.35
USD/MYR	4.6663	-0.13
USD/SGD	1.3565	0.27
<b>Commodities</b>		
WTI (\$/bbl)	69.78	0.91
Brent (\$/bbl)	74.31	1.01
Gold (\$/oz)	1,916.20	-0.02
Copper (\$\$/MT)	8,173.00	-0.81
Aluminum(\$/MT)	2,161.00	-0.71
CPO (RM/tonne)	3,721.00	0.92

Source: Bloomberg, HLBB Global Markets Research  
Note: Straits Times, KLCI and USDMYR closing as at 28 Jun

- Global oil prices also gained for the 2<sup>nd</sup> day in a row, as a bout of positive US data spurred growth optimism and hence demand for oil, and as EIA report showed a bigger drop in crude inventories. The Brent closed 1.0% higher d/d at \$74.31/ barrel while the WTI saw a 0.9% increase to \$69.78/ barrel.

#### **Pleasant surprises in US 1Q GDP and initial jobless claims further soothed recession fear**

- Final 1Q GDP print was significantly revised higher to 2.0% q/q (1Q: +2.6% q/q), up from the 1.3% increase in the second reading and 1.1% growth in the first reading, beating consensus forecast for an upward revision to +1.4% q/q. The smaller moderation in 1Q growth bolstered hopes the US economy had remained resilient despite higher borrowing costs and inflation, and reduced concerns of a recession. The upgrade was due to upward revision in private consumption (+4.2% vs +3.8% q/q) and exports (+7.8% vs +5.2% q/q). Meanwhile, gross private investment and government spending was tweaked slightly lower. On a y/y basis, growth picked up more than initially estimated to 1.8% y/y (second reading: +1.6% y/y), after slowing to 0.9% y/y in 4Q.
- Initial jobless claims unexpectedly fell 26k to its one-month low at 239k for the week ended 24-June (prior: 265k), its first decline in six weeks and pointing to continued resiliency in the US labour market that would be supportive of the Fed's continuous policy tightening. Continuous claims also eased for the 2<sup>nd</sup> straight week, to 1742k for the week ended 16-June, its lowest in four months.
- Pending home sales fell more than expected by 2.7% m/m to its lowest level this year in May (Apr: -0.4% m/m), extending its contraction for the 3<sup>rd</sup> straight month as limited supply and higher borrowing costs continued to take a toll on home sales. As pending home sales is often seen as a leading indicator of existing home sales, we would expect existing home sales to turn in softer tin the months ahead, bucking the trend in new home sales. On a y/y basis, sales continued to see double-digit contraction, by 20.8% y/y, albeit at a slightly smaller pace than the 22.8% decline in April.

#### **Eurozone confidence levels generally softened in June**

- Final reading of consumer confidence improved to -16.1 in June (May: -17.4), marking its least pessimistic print since Feb-22. Economic confidence however pulled back more than expected to 95.3 in June (May: 96.4), while industrial and services confidence also deteriorated further to -7.2 and 5.7 during the same month respectively (May: 96.4 and 7.1). Extended pullbacks in overall confidence levels pointed to inherent economic challenges faced by the Eurozone, who has been grappling with rising costs and slower demand.

#### **UK mortgage approvals rose more than expected; net consumer credit slowed**

- May mortgage approvals increased to 50.5k in May (Apr: 49.0k upwardly revised), beating consensus estimate for a 49.7k print, suggesting the UK housing market is still chugging along despite higher interest rates.
- Net consumer credit however rose less than expected by £1.1bn in May (Apr: £1.5bn downwardly revised), to mark its lowest since Dec-22, dampened by lower increase in credit cards and other consumer credits, translating into a slower y/y increase of 7.5% during the month (Apr: +7.6%).

#### **More upbeat retail sales and consumer confidence in Japan**

- Retail sales picked up more than expected in May, increasing 5.7% y/y in May (Apr: +5.1% y/y), as a turnaround in household machines (+5.0% vs -4.8%) and fuel (+1.5% vs -0.1%), smaller declines in motor vehicles (-0.7% vs -8.0%), and sustained food & beverages (+0.9% vs +1.0%), more than offset declines in general merchandise, and apparel & accessories. The month-on-month rebound in sales momentum also bolstered expectations recovery in consumer confidence and tourism activities will help spur retail sales going forward. Consumer confidence continued to tick higher to 36.2 in June (May: 36.0), up from a 28-month low in Nov-22, lifted by improved outlook in income growth and employment.

#### **Australia bigger than expected easing CPI bolstered expectations of a RBA pause next week**

- CPI surprised significantly on the downside, easing more than expected to 5.6% y/y in May (Apr: +6.8%), raising expectations the RBA will stay pat on rates at its policy meeting next Tuesday. This lowest price gain in 13 months was attributable to much slower increase in transportation costs, recreation and declines in clothing & footwear. Core CPI also moderated albeit marginally to 6.4% y/y in the same month (Apr: +6.5%).
- May retail sales picked up more than expected to increase 0.7% m/m in May (Apr: 0.0%), marking its fastest pace of increase in four months. A rebound in the key components of food and household goods as well as discretionary spending like dining out, helped spruced up sales, offsetting declines in apparel and department store sales. This reflects sign of resilient consumer spending despite higher borrowing costs.

#### **Vietnam 2Q GDP surprised on the upside with a quicker 4.1% y/y growth**

- 2Q GDP picked up more than expected to increase 4.1% y/y in 2Q, beating consensus estimate for a +3.8% y/y increase, and improving from the 3.3% y/y expansion in 1Q. This marked its first acceleration in three quarters, driven by faster growth in agriculture/ forestry/ fishery, and industry/ construction, offsetting slower growth in services. It is believed that government stimulus measures including interest rate cuts to boost domestic consumption and measures to spur tourism are bearing fruits. In the first half of 2023, the Vietnamese economy expanded 3.7% y/y, still below pandemic levels of 5.7%. Services were the main growth pillar, expanding 6.3% y/y, followed by construction (+4.7%) and meagre growth in manufacturing (+0.4%), which was hit by power shortages in 2Q.
- Other key indicators for June however slowed, with the exception of industrial production, which grew at a faster pace of 2.8% y/y in June, a marked pick-up from a mere 0.1% y/y increase a month ago. CPI moderated more than expected to 2.00% y/y in June, from May's 2.43% increase. This marked its slowest increase in 16 months, amid bigger declines in transport costs, while most other key price categories saw smaller price gains, suggesting easing price pressure as seen elsewhere in the world. Core CPI also eased to 4.33% (May: +4.54%), its smallest increase since Sept-22.
- Retail sales grew at almost half the pace in June, by 6.5% y/y (May: +11.5%). Exports widened its decline more than expected to 11.4% y/y in the same month (May: -5.9% y/y), marking its 4<sup>th</sup> straight month of decline, on broad-based declines in most product categories from food to textile, electronics and iron & steel. Meanwhile, imports fell at a smaller than expected pace of 16.9% y/y (May: -18.4% y/y). On the contrary, Overall outlook is expected to

remain challenging in the 2H of the year as Vietnam remains export-dependent, and would not be able to shield itself from the global economic headwinds.

### 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
30-Jun	JN Jobless Rate (May)	2.60%
	JN Tokyo CPI YoY (Jun)	3.20%
	JN Industrial Production MoM (May P)	--
	CH Manufacturing PMI (Jun)	48.8
	CH Non-manufacturing PMI (Jun)	54.5
	JN Housing Starts YoY (May)	-11.90%
	UK GDP YoY (1Q F)	0.20%
	EC CPI Core YoY (Jun P)	5.30%
	US Personal Income (May)	0.40%
	US Personal Spending (May)	0.80%
	US PCE Core Deflator YoY (May)	4.70%
	US MNI Chicago PMI (Jun)	40.4
	US U. of Mich. Sentiment (Jun F)	63.9
	NZ Building Permits MoM (May)	-2.60%
3-Jul	AU Judo Bank Australia PMI Mfg (Jun F)	48.6
	JN Tankan Large Mfg Outlook (2Q)	3
	JN Tankan Large Non-Mfg Outlook (2Q)	15
	JN Tankan Large All Industry Capex (2Q)	3.20%
	JN Jibun Bank Japan PMI Mfg (Jun F)	49.8
	MA S&P Global Malaysia PMI Mfg (Jun)	47.8
	VN S&P Global Vietnam PMI Mfg (Jun)	45.3
	AU Home Loans Value MoM (May)	-2.90%
	AU Building Approvals MoM (May)	-8.10%
	CH Caixin China PMI Mfg (Jun)	50.9
	EC HCOB Eurozone Manufacturing PMI (Jun F)	43.6
	HK Retail Sales Value YoY (May)	15.00%
	UK S&P Global/CIPS UK Manufacturing PMI (Jun F)	46.2
	SI Purchasing Managers Index (Jun)	49.5
	SI Electronics Sector Index (Jun)	49.1
	US S&P Global US Manufacturing PMI (Jun F)	46.3
	US Construction Spending MoM (May)	1.20%
	US ISM Manufacturing (Jun)	46.9

Source: Bloomberg

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