31 July 2023

31 July: BOJ to conduct YCC with greater flexibility

BOJ maintained policy rate, 10Y JGB yield target at -0.1%, 0%: JPY whipsawed, weakened

BOJ revised its 2023 forecast for inflation upwards; GDP downwards

US Core-PCE prices eased to 4.1%; Gains in the equities, UST markets; DXY weakened

- Wall Street rose on Friday as investors cheered data showing cooling inflation and stronger-than-expected corporate earnings. The Dow jumped 0.5% d/d, the S&P 500 added 1.0% d/d while Nasdaq gained 1.9% d/d. Big tech shares were the leading gainers, lifted by Alphabet and Meta Platforms. Intel also jumped after its CEO declared an end to the personal computer slump. Tesla and other EV stocks rose, although Ford retreated after the automaker sees higher EV losses. Chevron and Exxon Mobil moved lower after the oil giants' quarterly profits dipped.

- European stocks closed mixed, with Stoxx Eur 600 dipping 0.2% d/d while FTSE 100 closed just above the flatline. In Asia, Nikkei 225 plunged more than 2% after the Bank of Japan (BOJ)) adjusted its stance on the yield curve control (YCC) policy, but pared its losses to close 0.4% d/d lower. Hang Seng index climbed 1.4% d/d.

- Treasuries rallied, although yields closed the day off its lows. The 2Y and 10 Y UST yield fell 5bps each to 4.87% and 3.95% respectively. 10Y European bond yields increased between 1 to 7bps. In Asia, the 10Y JGB bond yield extended above the central bank's 0.5% target, closing 10bps higher at 0.54%.

- JPY whipsawed after BOJ's announcement, changing directions in a volatile trading session before closing 1.2% d/d weaker at 141.16 against the USD. Meanwhile, the DXY closed 0.2% d/d lower at 101.62. EUR and GBP appreciated between 0.3% d/d-0.4% d/d each against the USD, but AUD weakened 0.9% d/d. Regional currencies closed mixed, with CNH appreciating 0.3% d/d, SGD closing flattish at 1.3316 but MYR weakened 0.7% d/d to 4.5550.

- Signs of tightened global oil supply and better demand outlook boosted crude oil prices, sending the West Texas Intermediate and Brent up by 0.6% d/d and 0.9% d/d respectively. Inventories at Cushing, Oklohama declined by 7.5m barrels during the past 4 weeks, pushing to its lowest stockpile since May.

BOJ maintained policy rate, 10Y JGB yield target at -0.1%, 0%: To conduct YCC flexibly

- The BOJ kept its policy balance rate unchanged at -0.1% and will continue to allow the 10Y JGB yield to fluctuate in range of around +/-0.5ppts from the target level of 0%. However, the bank added that it will conduct the YCC with greater flexibility and not as rigid limits and will also offer to purchase 10Y JGBs at 1.0% every business day through fixed-rate purchase operations.

Key Market Metrics

	Level	d/d (%)
Equities		
Dow Jones	35,459.29	0.50
S&P 500	4,582.23	0.99
NASDAQ	14,316.66	1.90
Stoxx Eur 600	470.78	-0.20
FTSE 100	7,694.27	0.02
Nikkei 225	32,759.23	-0.40
Hang Seng	19,916.56	1.41
Straits Times	3,371.17	1.01
KLCI 30	1,450.35	-0.06
FX		
Dollar Index	101.62	-0.15
EUR/USD	1.1016	0.34
GBP/USD	1.2851	0.43
USD/JPY	141.16	1.20
AUD/USD	0.6650	-0.88
USD/CNH	7.1526	-0.25
USD/MYR	4.5550	0.69
USD/SGD	1.3316	0.01
Commodities		
WTI ($/bbl)	80.58	0.61
Brent ($/bbl)	84.99	0.89
Gold ($/oz)	1,960.40	0.76
Copper ($$/MT)	8,662.50	1.09
Aluminum($/MT)	2,222.00	0.77
CPO (RM/tonne)	3,951.00	-2.03

Source: Bloomberg, HLBB Global Markets Research
** Dated as of 27th July for CPO*

- At the same time, BOJ revised its CPI forecast to 2.5% and 1.9% respectively for fiscal years 2023 and 2024 (Previous forecast: +1.8%, +2.0%). The upward revision for 2023 was underpinned by upward movement in inflation expectations as well as higher wage growth due to the annual spring labour-management wage negotiations. GDP growth, on the other hand, was revised downwards to 1.3% (Previous: +1.4%) for fiscal year 2023, but BOJ maintained its GDP projection for 2024 at 1.2%.
- Separate data this morning showed that IPI rebounded less than expected to +2.0% m/m in June (May: -2.2% m/m) led by durable consumer and construction goods while retail sales worsened less than expected by -0.4% m/m (May: +1.4% m/m). On a y/y basis however, sales remained resilient at +5.9% y/y (May: +5.8% y/y), supported by a return in overseas tourists.

US Core-PCE price index eased to 4.1%; Growth in personal income softened, but spending picked up

- Data on the wages front disappointed in the US. The Employment Cost index rose at the slowest pace in two years by 1.0% q/q and 4.5% y/y (1Q: +1.2% q/q and +4.8% y/y), while separate data showed that personal income unexpectedly decelerated to +0.3% m/m in June (May: +0.5% m/m). Despite this, personal spending picked up more than expected to +0.5% m/m (May: +0.1% m/m), beating all estimates and raising expectations of a soft landing for the economy.
- The headline personal consumption expenditures price (PCE) index, meanwhile, matched expectations to soften to +3.0% y/y (May: 3.8% y/y), but its core eased more than expected to +4.1% y/y (May: +4.6% y/y). On a m/m basis, PCE price picked up to +0.2% m/m (May: +0.1% m/m), led by the services sector (+0.3% m/m vs May: +0.3% m/m). Energy also expanded by +0.6% m/m (May: -3.8% m/m), while prices for goods and food edged down by 0.1% m/m each. (May: -0.1% m/m and +0.1% m/m). The cooler prices reaffirmed our expectations that the Fed funds rate has peaked at the current rate of 5.25%-5.50%.
- The University of Michigan's final consumer sentiment index was revised downwards by 1ppts to 71.6 in July (June: 64.4). Still, this is the highest reading since October 2021 driven by continued slowdown in inflation and stability in the labor market. Year-ahead inflation expectations were left unchanged at 3.4% (June: +3.3%), but the long-run inflation expectations were revised downwards by 0.1ppts to 3.0% (June: +3.0%).
- The Kansas City Fed Services Activity slid to -1 in July (June: +14) but its expectations for the next six months rose slightly to +4 (June: -4) as firms anticipate increases in revenue and steady employment.

Eurozone's Economic Sentiment slipped

- Eurozone's Economic Sentiment Indicator (ESI) declined for the third month and more than expected to 94.5 in July (June: 95.3). The decline was due to lower confidence in the construction industry, but this was partially offset by improved confidence in retail trade and amongst consumers. Confidence in services remained broadly unchanged.

Australia's PPI decelerated, consumer spending unexpectedly fell

- Australia's producer price inflation decelerated to +3.9% y/y and 0.5% q/q in 2Q (1Q: +5.2% y/y and +1.0% q/q), the lowest quarterly growth since March 2021. The slower prices largely reflected a contraction in accommodation due to seasonal factors and cutbacks in discretionary spending, motor vehicles due to price cuts in some luxury and high-end vehicles as well as petroleum refining and petroleum fuel manufacturing due to a fall in crude oil prices. While price increases have largely moderated, the construction industry continued to drive prices (and wages) higher due to skilled labour shortages.

- Retail sales weakened more than expected to -0.8% m/m in June (May: +0.8% m/m) led by department stores and discretionary items like clothing, footwear and accessories. Food-related spending was mixed, with consumers notably switching to cheaper brands and buying less in response to food inflation. The loss of momentum for sales will weigh heavily on the upcoming RBA's decision.

Vietnam's retail sales and IPI picked up slightly; contraction in exports narrowed; CPI accelerated on food and utilities

- Economic indicators released in Vietnam showed that the economy improved slightly in July. Retail sales picked up to +7.1% y/y (June: +6.5% y/y) largely due to a pick-up in the trade sector, while tourism-related spending decelerated sharply to +6.5% y/y from double digit growths recorded in 1H of the year. The contraction in exports, meanwhile, narrowed more than expected to 3.5% y/y (June: -11.4% y/y) with improvements observed across most industries and in tandem with this, industrial output accelerated to +3.5% y/y (June: +2.8% y/y). Notable surge was observed in water supply while all sectors also reported improvements.
- In terms of prices, inflation unexpectedly accelerated for the first time in 6 months to +2.1% y/y for the same month (June: +2.0% y/y) mainly due to food and electricity. As a result, core prices remained contained at +4.1% y/y (June: +4.3% y/y).

House View and Forecasts

FX	This Week	3Q-23	4Q-23	1Q-24	2Q-24
DXY	99-103	102	101	100	99
EUR/USD	1.08-1.12	1.11	1.12	1.14	1.12
GBP/USD	1.26-1.30	1.29	1.31	1.33	1.30
USD/JPY	135-141	141	139	136	133
AUD/USD	0.65-0.69	0.67	0.68	0.68	0.69
USD/MYR	4.46-4.56	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	5.25-5.50	5.25-5.50	5.25.5.50	5.00-5.25	4.50-4.75
ECB	4.25	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
31-Jul	AU Melbourne Institute Inflation YoY (Jul)	5.70%
	AU Private Sector Credit MoM (Jun)	0.40%
	CH Manufacturing PMI (Jul)	49
	CH Non-manufacturing PMI (Jul)	53.2
	JN Consumer Confidence Index (Jul)	36.2
	JN Housing Starts YoY (Jun)	3.50%
	UK Net Consumer Credit (Jun)	1.1b
	UK Mortgage Approvals (Jun)	50.5k
	HK GDP YoY (2Q A)	2.70%
	HK GDP SA QoQ (2Q A)	5.30%
	EC CPI Estimate YoY (Jul)	5.50%
	US MNI Chicago PMI (Jul)	41.5
	AU CoreLogic House Px MoM (Jul)	1.20%

	US Dallas Fed Manf. Activity (Jul)	-23.2
1-Aug	AU Judo Bank Australia PMI Mfg (Jul F)	49.6
	UK Lloyds Business Barometer (Jul)	37
	JN Jobless Rate (Jun)	2.60%
	JN Jibun Bank Japan PMI Mfg (Jul F)	49.4
	MA S&P Global Malaysia PMI Mfg (Jul)	47.7
	VN S&P Global Vietnam PMI Mfg (Jul)	46.2
	AU Home Loans Value MoM (Jun)	4.80%
	AU Building Approvals MoM (Jun)	20.60%
	CH Caixin China PMI Mfg (Jul)	50.5
	AU RBA Cash Rate Target (37104)	4.10%
	UK Nationwide House PX MoM (Jul)	0.10%
	EC HCOB Eurozone Manufacturing PMI (Jul F)	42.7
	HK Retail Sales Value YoY (Jun)	18.40%
	UK S&P Global/CIPS UK Manufacturing PMI (Jul F)	45
	HK Retail Sales Volume YoY (Jun)	16.50%
	EC Unemployment Rate (Jun)	6.50%
	US S&P Global US Manufacturing PMI (Jul F)	49
	US Construction Spending MoM (Jun)	0.90%
	US JOLTS Job Openings (Jun)	9824k
	US ISM Manufacturing (Jul)	46
	US Dallas Fed Services Activity (Jul)	-8.2

Source: Bloomberg

Hong Leong Bank Berhad

Fixed Income & Economic Research, Global Markets
Level 8, Hong Leong Tower
6, Jalan Damanlela
Bukit Damansara
50490 Kuala Lumpur
Tel: 603-2081 1221
Fax: 603-2081 8936

HLMarkets@hlbb.hongleong.com.my

DISCLAIMER

This report is for information purposes only and does not take into account the investment objectives, financial situation or particular needs of any particular recipient. The information contained herein does not constitute the provision of investment advice and is not intended as an offer or solicitation with respect to the purchase or sale of any of the financial instruments mentioned in this report and will not form the basis or a part of any contract or commitment whatsoever.

The information contained in this publication is derived from data obtained from sources believed by Hong Leong Bank Berhad (“HLBB”) to be reliable and in good faith, but no warranties or guarantees, representations are made by HLBB with regard to the accuracy, completeness or suitability of the data. Any opinions expressed reflect the current judgment of the authors of the report and do not necessarily represent the opinion of HLBB or any of the companies within the Hong Leong Bank Group (“HLB Group”). The opinions reflected herein may change without notice and the opinions do not necessarily correspond to the opinions of HLBB. HLBB does not have an obligation to amend, modify or update this report or to otherwise notify a reader or recipient thereof in the event that any matter stated herein, or any opinion, projection, forecast or estimate set forth herein, changes or subsequently becomes inaccurate.

HLB Group, their directors, employees and representatives do not have any responsibility or liability to any person or recipient (whether by reason of negligence, negligent misstatement or otherwise) arising from any statement, opinion or information, expressed or implied, arising out of, contained in or derived from or omission from the reports or matter.

Potential and actual conflict of interest may arise from the activities of HLB Group. HLB Group constitute a diversified financial services group. These entities engage in a wide range of commercial and investment banking, brokerage, funds management, hedging transactions and other activities for their own account or the account of others. In the ordinary course of their business, HLB Group may effect transactions for their own account or for the account of their customers and hold long or short positions in the financial instruments. HLB Group, in connection with its business activities, may possess or acquire material information about the financial instruments. Such activities and information may involve or have an effect on the financial instruments. HLB Group have no obligation to disclose such information about the financial instruments or their activities.

The past performance of financial instruments is not indicative of future results. Whilst every effort is made to ensure that statements of facts made in this report are accurate, all estimates, projections, forecasts, expressions of opinion and other subjective judgments contained in this report are based on assumptions considered to be reasonable as of the date of the document in which they are contained and must not be construed as a representation that the matters referred to therein will occur. Any projections or forecasts mentioned in this report may not be achieved due to multiple risk factors including without limitation market volatility, sector volatility, corporate actions, the unavailability of complete and accurate information. No assurance can be given that any opinion described herein would yield favourable investment results. Recipients who are not market professional or institutional investor customer of HLBB should seek the advice of their independent financial advisor prior to taking any investment decision based on the recommendations in this report.

HLBB may provide hyperlinks to websites of entities mentioned in this report, however the inclusion of a link does not imply that HLBB endorses, recommends or approves any material on the linked page or accessible from it. Such linked websites are accessed entirely at your own risk. HLBB does not accept responsibility whatsoever for any such material, nor for consequences of its use.

This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation. This report is for the use of the addressees only and may not be redistributed, reproduced or passed on to any other person or published, in part or in whole, for any purpose, without the prior, written consent of HLBB. The manner of distributing this report may be restricted by law or regulation in certain countries. Persons into whose possession this report may come are required to inform themselves about and to observe such restrictions. By accepting this report, a recipient hereof agrees to be bound by the foregoing limitations.