

7 June 2024

Global Markets Research

Daily Market Highlights

7 June: EUR strengthened as ECB delivered a hawkish cut

ECB raised inflation forecasts and highlighted concerns over elevated wage growth

Muted US markets ahead of NFP; data continued to echo a cooling but resilient job market

Japan recorded its first yearly household spending growth in 14 months amidst wage hike deal

- Trading in the US equity markets was more muted as traders were largely reluctant to make big bets ahead of today's nonfarm payrolls (NFP) report for May. The three major indices closed mixed, with the S&P and Nasdaq dragged by technology stocks like Nvidia and Apple. Gains in other sectors, nonetheless, negated the damage. Consumer stocks rose following positive earnings results from Lululemon Athletica and J.M Smucker, while the communication services group also gained, supported by Alphabet.
- Stoxx Eur 600 closed up 0.7% d/d and just shy of record after the ECB took the historic step of cutting rates before the Fed. All major bourses and most sectors traded in the green, with banking and healthcare stocks outperforming while real estate and utilities were the laggards. Asian stocks also rose before the cut, with softer US labour market data also fuelling hopes that the Fed might follow suit, further boosting market sentiment.
- Similar to the equity markets, trading in Treasuries were also muted and yields closed just slightly up between 0-1bps across the curve. The 2Y yield closed the day at 4.72% and the 10Y at 4.29%. With the exception of the UK gilts, 10Y Europeans bond yields rose in tune to 1-5bps after ECB delivered a relatively hawkish cut.
- The Dollar traded weaker against all of its G10 peers amid positioning ahead of today's NFP, sending DXY down 0.2% d/d to 104.10. CHF, JPY and NOK led gains (0.3-0.5% d/d) against the greenback while EUR strengthened 0.2% d/d to 1.0890 after ECB lowered its policy rate but raised its inflation forecasts. Regional currencies also mostly strengthened against the Dollar save for the INR. CNH closed flat at 7.2593, while MYR and SGD appreciated 0.1-0.2% d/d to 4.6950 and 1.3458 respectively.
- Crude oil prices gained for the second day after OPEC ministers said that the group retains the option to pause or reverse the production path to prevent the market from being oversupplied. Also supporting prices were Russia's deputy prime minister's comment that Russia will pare output to make up for exceeding quotas earlier this year.

ECB lowered policy rates by 25bps, raised inflation forecasts

- As widely expected, the European Central Bank (ECB) lowered the three key policy rates by 25bps. With this, the interest rates on the main refinancing operations, the marginal lending facility and the deposit facility will fall to 4.25%, 4.50% and 3.75% respectively. Key highlights include: 1) ECB said that **domestic price pressures remain strong as wage growth is elevated, and inflation is likely to stay above target well into next year.** With this, the ECB revised its projections for both headline and core inflation upwards to 2.5% in 2024, 2.2% in 2025 and 1.9% in 2026 (for headline) and 2.8% in 2024, 2.2%

Key Market Metrics

	Level	d/d (%)
Equities		
Dow Jones	38,886.17	0.20
S&P 500	5,352.96	-0.02
NASDAQ	17,173.12	-0.09
Stoxx Eur 600	524.68	0.66
FTSE 100	8,285.34	0.47
Nikkei 225	38,703.51	0.55
CSI 300	3,592.25	-0.07
Hang Seng	18,476.80	0.28
Straits Times	3,330.81	0.02
KLCI 30	1,614.73	0.39
FX		
Dollar Index	104.10	-0.16
EUR/USD	1.0890	0.19
GBP/USD	1.2791	0.03
USD/JPY	155.61	-0.32
AUD/USD	0.6666	0.27
USD/CNH	7.2593	0.00
USD/MYR	4.6950	-0.06
USD/SGD	1.3458	-0.22
Commodities		
WTI (\$/bbl)	75.55	2.00
Brent (\$/bbl)	79.87	1.86
Gold (\$/oz)	2,370.30	0.69
Copper (\$\$/MT)	10,149.00	2.25
Aluminum(\$/MT)	2,647.50	0.97
CPO (RM/tonne)	3,944.50	-0.19

Source: Bloomberg, HLBB Global Markets Research

* Dated as of 5 June for CPO

in 2025 and 2.0% in 2026 for core inflation. 2) Economic growth is expected to pick up to 0.9% in 2024, 1.4% in 2025 and 1.6% in 2026. 3) Risks to growth are balanced in the near term but tilted to the downside over the medium term due to the trade tensions between major economies and potentially, a weaker global economy. 4) President Christine Lagarde refrained from giving clear forward guidance at the press conference. The statement said that policy decisions will “follow a data-dependent and meeting-by-meeting approach.” 5) With the ECB striking a more cautious note on wage growth in this statement, this suggests that the next rate cut may only materialize in September, as pencilled in the OIS.

- Meanwhile, retail sales continued to slump in the Euro area, falling more than expected by 0.5% m/m in April (Mar: +0.7% m/m) as consumers continued to struggle with elevated inflation and interest rates.

Jobless claims increased in the US, hiring announcements fell but employers also announced less job cuts

- Thursday's labour report echoed earlier data showing a cooling-but-resilient labour market. Jobless claims increased more than expected by 8k to 229k for the week ended June 1 (May 25: +5k), while continuing claims rose 2k to 1792k the week prior (May 18: 3k). According to Challenger Gray & Christmas, hiring announcements slid to its lowest in a decade in May, but employers also announced less job cuts during the month at 63.8k (-1.5% m/m and -20.3% y/y vs -28.3% m/m and -3.3% y/y). Again, the technology sector continues to lead all industries in job cut announcements in May, followed by auto, energy and aerospace/defense as companies grappled with new technologies, AI, new competition, legislation requiring energy efficiency, and consumer demand. Labor disputes have also impacted operations. Meanwhile, consumer-facing sectors like entertainment/leisure, retail and apparel are also feeling the pinch of rising costs and consumers' tightening their spending.
- Trade deficit widened more than expected to its largest since October 2022 on a surge in imports of goods, including motor vehicles, computers and industrial supplies. Trade deficit grew to \$74.6bn in May (Apr: -\$68.6) as imports jumped 2.4% m/m to its highest since mid-2022, outpacing export growth of +0.8% m/m (Mar: -1.5% m/m and -1.7% m/m). As it is, trade gaps may continue to drag on 2Q GDP growth, as imports may stay elevated given the resilient US consumer spending, while softer overseas economies could restrain exports.

UK's 1Y inflation expectations held steady at 2.9%

- The DMP's 1Y CPI expectations unexpectedly remained unchanged at 2.9% in May, but fell 0.1ppt to 2.6% for 3Y ahead. With firms expecting output costs to moderate going forward, this should help to contain inflationary pressure as well.

Australia's lending for home loans rose strongly, trade surplus widened

- A mixed string of data from Australia in our opinion. Lending for home loans continued to rise strongly and by more than expected by 4.8% y/y in April (Mar: +3.8% y/y), with lending to investors continuing to outpace owner-occupiers, driven by increasing loan sizes. This likely reflects expectations of higher rental yields and the greater borrowing capacity of investors. Meanwhile, the trade surplus widened more than expected to A\$6.5bn in April (Mar: A\$4.8bn), but this was only because imports took a dive after

several months of gains, in line with softer demand. Imports plunged 7.2% m/m (Mar: +4.2% m/m) due to processed industrial supplies, though exports also fell 2.5% m/m (Mar: 0.6% m/m) due to metal ores and minerals.

Japan's household spending registered its first growth in 14 months

- Matching expectations, household spending rebounded and recorded its first growth in 14 months at +0.5% y/y in May. This followed April's -1.2% y/y, and the latest sign that the virtual cycle linking rising wages to consumer spending and inflation, long sought by the central bank may be starting to emerge.

House View and Forecasts

FX	This Week	2Q-24	3Q-24	4Q-24	1Q-25
DXY	103-107	105.43	105.56	103.45	101.38
EUR/USD	1.06-1.10	1.06	1.05	1.06	1.06
GBP/USD	1.25-1.29	1.24	1.22	1.23	1.24
USD/JPY	154-159	152	149	146	143
AUD/USD	0.64-0.68	0.65	0.65	0.65	0.66
USD/MYR	4.67-4.73	4.73	4.68	4.64	4.57
USD/SGD	1.33-1.37	1.35	1.35	1.34	1.33

Rates, %	Current	2Q-24	3Q-24	4Q-24	1Q-25
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	3.75	3.50	3.50
BOE	5.25	5.25	4.75	4.50	4.50
BOJ	0 - 0.10	0 - 0.10	0 - 0.10	0 - 0.10	0 - 0.10
RBA	4.35	4.35	4.35	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
7-June	JN Leading Index CI (Apr P)	112.2
	EC GDP SA QoQ (1Q F)	0.30%
	US Change in Nonfarm Payrolls (May)	175k
	US Average Hourly Earnings MoM (May)	0.20%
	US Average Weekly Hours All Employees (May)	34.3
	CH Exports YoY (May)	1.50%
10-June	JN GDP SA QoQ (1Q F)	-0.50%
	JN Bank Lending Incl Trusts YoY (May)	3.10%
	MA Manufacturing Sales Value YoY (Apr)	1.40%
	MA Industrial Production YoY (Apr)	2.40%
	JN Eco Watchers Survey Outlook SA (May)	48.5
	MA Foreign Reserves	\$113.3b
	EC Sentix Investor Confidence (Jun)	-3.6
	US NY Fed 1-Yr Inflation Expectations (May)	3.26%

Source: Bloomberg

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