

30 May 2024

## Global Markets Research

### Daily Market Highlights

## 30 May: Risk-off appetite amidst higher sovereign bond yields

**Lacklustre demand for 7Y UST auction, stronger Germany's CPI sent UST and EGB yields higher**  
**Global equity markets closed mostly in the red; US dollar closed above 105s on safety bids**  
**IMF raised China's growth forecast on its strong 1Q GDP and rollout of stimulus measures**

- US equities slid overnight as pressure from rising Treasury yields outweighed a continued rally in AI darling Nvidia. The Dow Jones Industrial Average fell 1.1% d/d, Nasdaq edged down 0.6% d/d while S&P 500 lost 0.7% d/d, with all 11 sectors for the latter closing in red. Wednesday's move down comes after Treasury yields ticked up across the curve and after the 10Y rose to its highest in a month following a lacklustre demand for the 7Y Treasury auction.
- Similarly, European stock markets closed lower for the second day after an accelerating CPI print in Germany lifted bund yields. Stoxx Eur 600 slipped 1.1% d/d, with all sectors and major bourses in negative territory and mining and leisure stocks leading losses. Among individual companies, Anglo American shares fell after BHP Group requested more time to make a firm acquisition offer, while Royal Mail-owner International Distribution Services closed higher after accepting a £3.6bn takeover offer from Czech billionaire Daniel Kretinsky. Asian markets also closed mostly lower and are expected to extend its downward trend today following the risk-off sentiment.
- Fed's high-for-longer stance, weak Treasury auction and spillover from weakness in the European government bonds following the stronger Germany's CPI all weighed down on Treasuries, sending yields for the 2Y up 2bps to 4.97% and the 10Y increasing 6bps to 4.61%. 10Y European bond yields jumped 8-12bps after Germany's inflation accelerated more than expected to +2.8% y/y in May from +2.4% y/y previously.
- A risk-off environment saw the Dollar strengthening against all its G10 peers and major regional currencies. DXY jumped 0.5% d/d to 105.12, with EUR, GBP, AUD and JPY depreciating between 0.3-0.6% d/d against the greenback. In central bank speak, ECB's Martin Kazaks said that the bank should not switch to "autopilot" in cutting rates following an expected first move next week. On the regional front, CNH, MYR and SGD weakened between 0.1-0.3% d/d against the Dollar to 7.2735, 4.7045 and 1.3522 respectively.
- Oil prices also sank 1.3% d/d after the weak Treasury auction creating a risk-off environment. Losses were nonetheless capped given the geopolitical risks in the Middle East and ahead of the OPEC+ meeting this Sunday.

#### Beige Book: Most districts reported slight or modest growth, painting a more pessimistic outlook

- Highlights from the latest Beige Book: 1) Economic activity continued to expand, with most districts reporting slight or modest growth and two noting no change. 2) On the consumer front, retail spending was flat to up slightly, with reports of lower discretionary spending and heightened price sensitivity among consumers, auto sales were roughly flat, while travel and tourism strengthened. 3) By industries, demand for nonfinancial services rose, activity

#### Key Market Metrics

	Level	d/d (%)
<b>Equities</b>		
Dow Jones	38,441.54	-1.06
S&P 500	5,266.95	-0.74
NASDAQ	16,920.58	-0.58
Stoxx Eur 600	513.45	-1.08
FTSE 100	8,183.07	-0.86
Nikkei 225	38,556.87	-0.77
CSI 300	3,613.52	0.12
Hang Seng	18,477.01	-1.83
Straits Times	3,323.20	-0.21
KLCI 30	1,605.35	-0.65
<b>FX</b>		
Dollar Index	105.12	0.49
EUR/USD	1.0801	-0.52
GBP/USD	1.2701	-0.48
USD/JPY	157.64	0.30
AUD/USD	0.6610	-0.60
USD/CNH	7.2735	0.14
USD/MYR	4.7045	0.31
USD/SGD	1.3522	0.26
<b>Commodities</b>		
WTI (\$/bbl)	79.28	-1.25
Brent (\$/bbl)	83.53	-1.26
Gold (\$/oz)	2,336.90	-1.08
Copper (\$\$/MT)	10,475.00	-0.56
Aluminum(\$/MT)	2,794.00	2.27
CPO (RM/tonne)	3,939.50	1.53

Source: Bloomberg, HLBB Global Markets Research

\* Dated as of 28 May for CPO

in transportation services. a guide to trade activities, was mixed, while manufacturing activity was flat to up. 4) Housing demand rose modestly, but the commercial real estate sector softened amid supply concerns, tight credit conditions and elevated borrowing costs. 5) Overall outlooks grew somewhat more pessimistic amid reports of rising uncertainty and greater downside risks.

- Mortgage rates increased for the first time in four weeks, with the 30Y fixed rate up to 7.05%, cutting mortgage applications heading into Memorial Day weekend (-5.7% vs +1.9% w/w). As both purchase and refinance applications fell, this pushed overall activity to its lowest level since early March. As it is, borrowers remain highly sensitive to rates movements, many buyers are struggling to find listings in their preferred price range, and applications were also weighed down by limited existing homes for sale.
- Echoing the Beige Book, activities varied across industries and districts. Although the Richmond Fed Manufacturing index unexpectedly improved to 0 in May (Apr: -7), this still signals sluggish activity. On the other hand, services activity in the district was mixed, with firms' optimism about local business conditions nearly unchanged at -9 (Apr: -6). In the Dallas region, its general business activity index remained negative and unexpectedly fell 2 points to -12.1. Nonetheless, expectations regarding future business activity reflected optimism.

#### **IMF raised China's GDP forecasts for 2024 and 2025**

- The IMF lifted China's GDP forecasts by 0.4ppts each to 5.0% in 2024 and 4.5% in 2025, the former within the Government's official target. The uplift was driven by its strong 1Q GDP reading and the recent rollout of policy measures. IMF added that risks are tilted to the downside from a greater- or longer-than-expected property sector adjustment and increasing fragmentation. Over the medium term, growth is expected to decelerate to 3.3% by 2029 due to aging and slower productivity growth. Inflation is expected to rise but remain low as output remains below potential output. With this, IMF is expecting core inflation to increase only gradually to average 1% in 2024

#### **Australia's inflation unexpectedly accelerated, largely due to volatile items**

- Inflation unexpectedly accelerated to +3.6% y/y in April (Mar: 3.5% y/y), largely driven by food & non-alcoholic beverages (+3.8% y/y vs +3.5% y/y), alcohol & tobacco (+6.5% y/y vs +6.1% y/y), transport (+4.2% y/y vs +4.5% y/y) as well as housing (+4.9% y/y vs +5.2% y/y). As seen, much of the price gains were largely attributable to volatile items like fuel, holiday travel, fruit and vegetables, and stripping this, prices largely held steady at +4.1% y/y, and thus, we expect the RBA to maintain its policy rates unchanged when they next meet in June.
- Further supporting our view is some stabilisation but soft growth momentum as seen by the Westpac Leading index (-0.03% m/m in Apr vs -0.05% m/m in Apr). Accordingly, drags from sharply higher living costs, interest rate rises and surging tax take has started to dissipate and there were improving signs from equities and hours workers.

#### **Japan's consumer confidence unexpectedly retreated**

- Consumer confidence unexpectedly fell 2.1ppt to 36.2 in May, with all the sub-indices recording m/m declines by 1-3bps. This comes after more consumers expect prices to move higher or stay about the same for the year ahead, and while this may suggest tepid consumer spending going forward, we expect this to be eclipsed by higher negotiated wage growth for the year.

### Vietnam's inflation above Government's target for the second month, raising rate hike expectations

- Inflation quickened to its fastest pace in 16 months at +4.44% y/y in May (Apr: +4.40% y/y). The uptick was mainly driven by pork price increases due to supply shortages after the African swine fever epidemic, as well as increased electricity prices during the hot weather. With inflation above the 4% mark for the second straight month and the State Bank of Vietnam recently raising the reverse repurchase rate to 4.50% to stabilise VND, this has fuelled bets it may increase its benchmark rates to support the currency and contain imported inflation going forward.
- Meanwhile, other robust economic data was positive and supportive of a rate hike. Most importantly, retail sales accelerated to +9.5% y/y (Apr: +9.0% y/y) in a sign of sturdy consumer spending as well as robust tourism spending. Both the exports and imports also rose more than forecast by +15.8% y/y and +29.9% y/y respectively (Apr: +10.6% y/y and +19.9% y/y), the former driven by electronics, computers, components, phones, garment & textiles, footwear and timber and consequently, IPI continued to maintain a positive growth trend of +8.9% y/y (Apr: +6.3% y/y).

### 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	154-160	152	149	146	143
AUD/USD	0.64-0.69	0.65	0.65	0.65	0.66
USD/MYR	4.67-4.74	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	4.50	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
30-May	AU Private Capital Expenditure (1Q)	0.80%
	AU Building Approvals MoM (Apr)	1.90%
	EC Economic Confidence (May)	95.6
	EC Unemployment Rate (Apr)	6.50%
	US GDP Annualized QoQ (1Q S)	1.60%
	US Initial Jobless Claims	215k
	US Advance Goods Trade Balance (Apr)	-\$91.8b
	US Pending Home Sales MoM (Apr)	3.40%
30 May-6 June	UK Nationwide House Px NSA YoY (May)	0.60%
31-May	UK Lloyds Business Barometer (May)	42
	JN Jobless Rate (Apr)	2.60%
	JN Tokyo CPI YoY (May)	1.80%
	JN Industrial Production MoM (Apr P)	4.40%
	JN Retail Sales YoY (Apr)	1.20%
	AU Private Sector Credit MoM (Apr)	0.30%
	CH Manufacturing PMI (May)	50.4
	CH Non-manufacturing PMI (May)	51.2
	JN Housing Starts YoY (Apr)	-12.80%

### Hong Leong Bank Berhad

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

[HLMarkets@hbb.hongleong.com.my](mailto:HLMarkets@hbb.hongleong.com.my)

HK Retail Sales Value YoY (Apr)	-7.00%
UK Mortgage Approvals (Apr)	61.3k
EC CPI Estimate YoY (May)	2.40%
US Personal Income (Apr)	0.50%
US Personal Spending (Apr)	0.80%
US PCE Core Deflator YoY (Apr)	2.80%
US MNI Chicago PMI (May)	37.9

Source: Bloomberg

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