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Global Markets Research
Daily Market Highlights

18 June: FOMC's hawkish pause spurred rally in UST yields

**US stocks closed lower as UST yields surged; DXY back above the 100-handle
FOMC paused; median dot plot projects a rate hike in 2026 and a rate cut in 2027
RBA paused; BOJ hiked; all within expectations; expect BOE to pause today**

- US stocks closed lower, while UST yields surged led by the short-dated bonds after the FOMC kept rates unchanged as expected but signalled the possibility of higher rates by end-2026. In short, the new dot plot was divided, with 9 out of 18 officials expecting at least one rate hike this year (of which 1 expecting three hikes, 5 expecting two hikes and 3 expecting one hike), while another nine anticipating either a hold (8 votes) or a cut (1 vote). Fed Chair Kevin Warsh meanwhile refrained from voting for the dot plot and has made a clear break from the norm by providing a much shorter communication with little policy guidance.
- The 3 major stock indices fell 1.0-1.3% d/d, with major tech bellwethers like Nvidia, Apple and Amazon leading losses, while on the bond front, the 2Y UST yield jumped 13bps to 4.18%, while the 10Y increased 5bps to 4.49% given the upshift in the median dots.
- Taking its cue from the flattening in UST yield curve, the DXY also jumped 0.6% d/d to 100.09. High beta FX like the kiwi and Scandies led G10 losses, while EUR, JPY and AUD depreciated between 0.1-0.9% d/d to settle at 1.1501, 160.65 and 0.7014. GBP weakened 1.0% d/d to 1.3293 with gilt yields down 2-4bps across the curve after UK's inflation held steady in May, easing pressure for the BOE to raise rates today.
- Similarly, most regional currencies weakened against the greenback, with KRW (-0.5% d/d), SGD (-0.5% d/d to 1.2881) and CNH (-0.3% d/d to 6.7762) notable laggards. MYR depreciated 0.5% d/d, closing Tuesday at 4.0695.

FOMC maintained policy rates as the Warsh era began; hawkish shifts opened the door for a rate hike

- As widely expected, and in a unanimous vote, the FOMC decided to maintain the target range for the Fed funds rate at 3.50-3.75%. The FOMC reiterated its commitment to the Fed's dual mandate, including the 2% inflation target. The statement described the economy as expanding at a solid

Key Market Metrics

| | Level | d/d (%) |
|--------------------|-----------|---------|
| Equities | | |
| Dow Jones | 51,492.55 | -0.98 |
| S&P 500 | 7,420.10 | -1.21 |
| NASDAQ | 26,021.66 | -1.34 |
| Stoxx Eur 600 | 639.31 | 0.52 |
| FTSE 100 | 10,508.61 | 0.14 |
| Nikkei 225 | 69,902.25 | 0.72 |
| CSI 300 | 4,931.39 | 0.97 |
| Hang Seng | 24,312.16 | -0.74 |
| Straits Times | 5,176.46 | 1.16 |
| KLCI 30 | 1,709.99 | 1.10 |
| FX | | |
| Dollar Index | 100.09 | 0.55 |
| EUR/USD | 1.1501 | -0.92 |
| GBP/USD | 1.3293 | -0.99 |
| USD/JPY | 160.65 | 0.14 |
| AUD/USD | 0.7014 | -0.76 |
| USD/CNH | 6.7762 | 0.29 |
| USD/MYR | 4.0695 | 0.46 |
| USD/SGD | 1.2881 | 0.47 |
| USD/KHR | 4,024.50 | -0.01 |
| USD/THB | 32.58 | 0.19 |
| Commodities | | |
| WTI (\$/bbl) | 76.79 | 0.97 |
| Brent (\$/bbl) | 79.55 | 0.75 |
| Gold (\$/oz) | 4,358.90 | 0.65 |
| Copper (\$/MT) | 13,814.50 | 0.29 |
| Aluminum(\$/MT) | 3,410.50 | 0.65 |
| CPO (RM/MT) | 4,501.00 | 2.02 |

Source: Bloomberg, HLBB Global Markets Research

pace, strong productivity growth and capital investment, job gains that have kept pace with the workforce and an unemployment rate that was little changed. Inflation was described as elevated, in part reflecting supply shocks. Please refer to our Research Alert for more details.

- Data wise, retail sales were firmer than expected, accelerating to 0.9% m/m in May after April's 0.4% m/m. Details suggest that gasoline station sales jumped as a result of higher prices, but sales in most retail categories also showed increases. The control group, which excludes volatile components and a better gauge for broader consumer trend, was also better than expected at 0.7% m/m (prior: 0.4% m/m). All in, the report continues to signal resiliency in consumers despite weak sentiment and squeezed household finances, and as such, 2Q GDP could show a re-acceleration. That said, it is worth noting that sales are based on nominal values and were also supported by temporary factors like higher tax refunds.
- Import prices rose more than expected by 1.9% m/m in May following a 2.0% m/m gain in April and 0.9% m/m in March, and on a yearly basis, recorded its strongest gain since August 2022 at 6.7% y/y. Fuel contributed to the bulk of the increase, with the 47.0% jump from February to May marking its largest 3-month advance since July 2020. Stripping fuel, prices also accelerated to 0.8% m/m (prior: 0.5% m/m) as higher prices for capital goods, nonfuel industrial supplies & materials, consumer goods, automotive more than offset lower prices for food, feeds & beverages.
- Housing starts fell 15.4% m/m to an annualized rate of 1.18m in May (prior: -8.5% m/m), its weakest pace in 6 years, with contractors showing restraint as they work down the supply of new homes for sale and cut prices amid sluggish demand (pending home sales showed an upward surprise at 3.8% m/m in May vs 0.3% m/m likely due to pent up demand during the spring selling season). Building permits, which point to future construction, also continues to signal softness, contracting 0.7% m/m versus -4.4% m/m previously.

RBA maintained bank rate at 4.35% as expected; expect a hold until end-year

- The Reserve Bank of Australia (RBA) decided to leave the cash rate target unchanged at 4.35% as expected. While ensuring that the transitory higher fuel prices pass through to the prices of other goods and services is not embedded remains in focus, the central bank is also of the view that slower growth is needed to reduce capacity pressure and help bring inflation back to target. Coupled with the assessment that financial conditions are now tighter than they were, and there

are signs that the economy is slowing as expected, our base case is unchanged, which is for the RBA to hold from here until end-year.

- Data wise, the Westpac Leading Index fell 0.04% m/m in May after growing 0.06% m/m previously, suggesting sluggish momentum carrying into 2H and with most components contributing to the weaker tone.

BOJ raised the uncollateralized overnight call rate by a quarter point to 1.00%; on track for another round of tightening

- In an 7-1 majority vote and as expected, the board of the Bank of Japan (BOJ) decided to increase the uncollateralized overnight call rate by 25bps to 1.00%. Kazuo Ueda was absent, while Toichiro Asada dissented, preferring to hold as he assessed greater downside risks to production and employment versus upside risks to prices.
- At the same time, the BOJ decided that it will continue cutting the planned amount of its monthly purchases of JGBs by about 200bn yen each calendar quarter until 1Q of 2027, before halting the taper and maintaining its monthly purchases of JGBs by about 2tn yen from April 2027.
- Data wise, Japan's exports rose for a ninth straight month and was better than forecast at 17.0% y/y in May (prior: 14.8% y/y), as solid semiconductor-related demand continued to offset the blow from supply disruptions from the US-Iran war. Exports to the US and China continued to record double digit growth, but an equally strong import growth at 12.5% y/y (prior: 9.8% y/y) likely due to a weaker yen, saw trade balance swinging to a deficit of 378.6bn yen versus a surplus of 299.3bn yen previously.
- Core machine orders were firmer than expected at 15.6% y/y and 8.7% m/m in April (prior: 5.9% y/y and -9.4% m/m), but capex outlook appears to darken with orders set to grow by a mere 0.3% q/q for 2Q (1Q: 6.4% q/q) amid a contraction of orders from the manufacturing sector and moderation for non-manufacturing.

Mild food inflation kept UK's inflation below 3.0%

- Barring an US-Iran deal fallout and oil prices spiking above the \$100/barrel again, UK's latest inflation data is the last piece of puzzle questioning the need for a rate hike today or even this year at all.
- At 2.8% y/y, May's headline was unchanged from the previous month and below consensus forecast of 3.0% y/y, while core also undershot expectations at 2.6% y/y versus 2.5% y/y in April. Food inflation contributed to the downtick, while the latest PPI suggests that food inflation will continue

to ease over the next couple of months. Services also remained below 4.0% level for the second month at 3.2% y/y (prior: 3.7% y/y), suggesting softer demand-pull inflation and with the bulk of the contribution coming from travel and transport services.

China's economy weakened with retail sales contracting for the first time in more than 3 years

- Disappointing data from China. Notably, retail sales fell for the first time in more than three years in May (-0.6% y/y vs 0.2% y/y), weaker than expected and partially reflecting impact from bad weather and paybacks from the trade in policy, while sales of jewellery also underperformed amid softer gold prices.
- Fixed asset investment slumped more than expected by 4.1% y/y for the period Jan-May, as private sector investment continues to lag (-7.1% y/y YTD), while state-owned investment contracted at a narrower pace of 0.4% y/y YTD. By industry, we continue to see divergence, solid investment into railways/ship as well as hi-tech investment, while the manufacturing sector (IPI better than expected at 4.5% y/y in May vs 4.1% y/y in April) continues to hold the fort, supported by the global investment upcycle for AI and in line with industrial modernisation and tech self-reliance efforts by the government.
- All in, May's data continues to signal deepening economic slump and deepening imbalance as well as a two-speed economy, and thus, a more pressing need for broad-based and fresh stimulus.

Singapore's NODX jumped as electronic exports surged 94.8% y/y

- Like Japan, robust demand for AI-related products boosted exports of integrated circuits, disk media products and PCs and saw Singapore's non-oil domestic exports (NODX) surging 38.4% y/y in May (prior: 24.4% y/y). Growth was better than expected and hit a 22-year high, with exports to its top 10 key markets recording double-digit growth at least, although shipments to Indonesia contracted during the month.

House View and Forecasts

| FX | This Week | 2Q-26 | 3Q-26 | 4Q-26 | 1Q-27 |
|---------|-----------|--------|-------|-------|-------|
| DXY | 98-102 | 100.63 | 99.80 | 97.96 | 96.48 |
| EUR/USD | 1.14-1.17 | 1.14 | 1.15 | 1.17 | 1.19 |
| GBP/USD | 1.32-1.36 | 1.31 | 1.32 | 1.34 | 1.35 |
| USD/CHF | 0.7-0.81 | 0.79 | 0.78 | 0.76 | 0.75 |
| USD/JPY | 157-162 | 159 | 155 | 152 | 152 |

| | | | | | |
|---------|-------------|-------|-------|-------|-------|
| AUD/USD | 0.69-0.72 | 0.68 | 0.69 | 0.70 | 0.71 |
| NZD/USD | 0.56-0.61 | 0.57 | 0.58 | 0.58 | 0.59 |
| USD/CNY | 6.75-6.80 | 6.93 | 6.88 | 6.84 | 6.77 |
| USD/MYR | 4.03-4.09 | 3.98 | 3.96 | 3.93 | 3.90 |
| USD/SGD | 1.27-1.30 | 1.29 | 1.28 | 1.27 | 1.25 |
| USD/THB | 32.40-33.10 | 31.60 | 31.80 | 31.80 | 31.40 |

| FX | Last close | 2Q-26 | 3Q-26 | 4Q-26 | 1Q-27 |
|---------|------------|-------|-------|-------|-------|
| EUR/MYR | 4.7206 | 4.55 | 4.55 | 4.60 | 4.66 |
| GBP/MYR | 5.4598 | 5.23 | 5.23 | 5.26 | 5.28 |
| AUD/MYR | 2.8759 | 2.72 | 2.72 | 2.75 | 2.77 |
| CNY/MYR | 0.6023 | 0.58 | 0.58 | 0.58 | 0.58 |
| SGD/MYR | 3.1747 | 3.09 | 3.10 | 3.11 | 3.12 |

| Rates, % | Current | 2Q26 | 3Q26 | 4Q26 | 1Q27 |
|----------|-----------|-----------|-----------|-----------|-----------|
| Fed | 3.50-3.75 | 3.50-3.75 | 3.50-3.75 | 3.50-3.75 | 3.50-3.75 |
| ECB | 2.25 | 2.25 | 2.50 | 2.50 | 2.50 |
| BOE | 3.75 | 4.00 | 4.25 | 4.25 | 4.25 |
| SNB | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| BOJ | 1.00 | 1.00 | 1.00 | 1.25 | 1.25 |
| RBA | 4.35 | 4.35 | 4.35 | 4.35 | 4.35 |
| RBNZ | 2.25 | 2.25 | 2.25 | 2.25 | 2.25 |
| BNM | 2.75 | 2.75 | 2.75 | 2.75 | 2.75 |

Source: HLBB Global Markets Research

Up Next

| Dat | Events | |
|--------|--|--------|
| 18-Jun | UK Average Weekly Earnings 3M/YoY (Apr) | 4.10% |
| | UK ILO Unemployment Rate 3Mths (Apr) | 5.00% |
| | UK Payrolled Employees Monthly Change (May) | -100k |
| | EC Construction Output MoM (Apr) | 0.80% |
| | UK Bank of England Bank Rate | 3.75% |
| | US Initial Jobless Claims (June 13 th) | 229k |
| | US Philadelphia Fed Business Outlook (Jun) | -0.4 |
| | US Leading Index (May) | 0.10% |
| 19-Jun | UK GfK Consumer Confidence (Jun) | -23 |
| | JN Natl CPI Ex Fresh Food YoY (May) | 1.40% |
| | MA CPI YoY (May) | 1.90% |
| | MA Exports YoY (May) | 36.90% |
| | UK Retail Sales Inc Auto Fuel MoM (May) | -1.30% |

Source: Bloomberg

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