

21 June 2024

## Global Markets Research

### Daily Market Highlights

## 21 June: Sentiment largely swayed by monetary policy decisions

**BOE, Norges Bank maintained their policy rates; SNB surprised with its second rate cut in 2024**  
**Weaker-than-expected housing data & jobless claims reaffirmed trend of a slower US economy**  
**Continued growth in exports and imports affirmed improving outlook for Malaysia**

- The S&P 500 pulled back after briefly passing the 5.5k level for the first time ever, as market bellwether Nvidia gave up earlier gains and slid 3.5% d/d. The broad market index fell 0.3% d/d to close the day, while Nasdaq also dropped 0.8% d/d. The Dow Jones Industrial Average was the outlier, gaining 0.8% d/d. The pullback comes after data on housing and labour came worse than expected, reaffirming expectations of a slower US economy and possibly, corporate earnings going forward.
- In Asia, equity markets were mostly lower as China kept its lending rates unchanged, but European stocks rallied as the BOE kept rates unchanged at 5.25% but kept rate cut hopes alive. BOE's decision followed Swiss National Bank's (SNB) unexpected decision to lower its policy rates for the second time this year, by 0.25ppts to 1.25%.
- Treasuries traded in the red amidst lingering concerns over its budget outlook after the Congressional Budget Office (CBO) updated its forecast. Yields, nonetheless, closed off their highs after the weaker than expected housing and claims prints. The 2Y yield gained 3bps to close at 4.74%, while the 10Y rose 4bps to 4.26%. As it is, the CBO is projecting a budget deficit of nearly \$2tn this year and \$22tn over the 2025–2034 period. Federal debt held by the public is expected to reach 122% of GDP in 2034, its highest ever recorded. In Europe, 10Y sovereign bond yields were up 1-13bps save the UK gilts.
- DXY closed 0.3% d/d higher at 105.59, benefitting from a weak JPY and CHF, while higher UST yields also supported the Dollar. CHF depreciated 0.8% d/d after the SNB unexpectedly lowered its policy rates, while GBP weakened 0.5% d/d after the BOE maintained its bank rate but the statement suggests that rate cut remains in the pipeline. On the flipside, NOK appreciated 0.1% d/d against USD after the Norges Bank held its benchmark deposit rates at 4.50%. In Asia, regional currencies mostly weakened against the greenback. CNH depreciated 0.1% d/d against USD after PBoC maintained its lending rates, while SGD and MYR weakened by 0.3% d/d and 0.1% d/d to 1.3544 and 4.7095 respectively.
- Oil extended its rally driven by the risk-on tone, after the Energy Information Agency reported that US crude inventories shrank by 2.55m barrels. This sent both the WTI and Brent up in tune to +0.7-0.8% d/d.

#### BOE maintained its bank rate at 5.25% in a 7-2 vote

- As widely, the Bank of England (BOE) kept its bank rate unchanged at 5.25%. The vote split was 7-2, with 2 members continuing to call for a cut. Key highlights from the statement include: 1) The bank maintained its forward guidance, which has for some time signalled that “monetary policy needs to

#### Key Market Metrics

	Level	d/d (%)
<b>Equities</b>		
Dow Jones	39,134.76	0.77
S&P 500	5,473.17	-0.25
NASDAQ	17,721.59	-0.79
Stoxx Eur 600	518.91	0.93
FTSE 100	8,272.46	0.82
Nikkei 225	38,633.02	0.16
CSI 300	3,503.28	-0.72
Hang Seng	18,335.32	-0.52
Straits Times	3,300.00	-0.12
KLCI 30	1,592.69	-0.44
<b>FX</b>		
Dollar Index	105.59	0.32
EUR/USD	1.0702	-0.39
GBP/USD	1.2657	-0.50
USD/JPY	158.93	0.53
AUD/USD	0.6656	-0.25
USD/CNH	7.2910	0.13
USD/MYR	4.7095	0.06
USD/SGD	1.3544	0.27
<b>Commodities</b>		
WTI (\$/bbl)	82.17	0.74
Brent (\$/bbl)	85.71	0.75
Gold (\$/oz)	2,353.80	1.00
Copper (\$\$/MT)	9,858.00	0.74
Aluminum(\$/MT)	2,521.50	0.90
CPO (RM/tonne)	3,972.00	0.84

Source: Bloomberg, HLBB Global Markets Research  
 \* Dated as of 19 June

be restrictive for an extended period of time.” 2) The bank discussed the recent developments in services inflation. Although eased to 5.7% in May (Mar: 6.0%), this was higher than BOE’s forecast at the time of the May Report. 3) Among the 7 members who voted to hold, there was disagreement over the level of accumulated evidence that would be required to warrant a change in bank rate and their decisions were "finely balanced." In this regard, some members wanted more evidence of diminishing inflation persistence, while some said that the upside surprise in services inflation did not alter significantly their view of a disinflationary trajectory. 4) As it is, OIS is pricing in 2 rate cuts by the end of 2024.

- Data this morning showed that consumer confidence continued with its upward trend and rose to its strongest level in 2.5 years, although the headline index remains negative as the cost-of living crisis continues to batter household budgets. The GfK consumer confidence index also came in stronger than expected at -14 in June (May: -17), suggesting that the economy has turned a corner and is on track to eke out stronger growths in the months ahead.

#### **1- and 5Y lending rates were unchanged at 3.45% and 3.95% in China**

- As widely expected, the 1Y- and 5Y loan prime rates were unchanged at 3.45% and 3.95% respectively. Speaking at the 15th Lujiazui Forum, PBOC Pan Gongsheng also pledged to continue with his accommodative stance moving forward, and said that the central bank is looking into trading government bonds in the secondary market to regulate liquidity and also consider moving into a single short-term rate to guide markets or narrow the corridor which market rates are allowed to fluctuate to provide a clearer policy target.

#### **US housing starts fell to its 4-year low, jobless claims lingered near its 10-month high**

- Housing starts in May fell sharply to its lowest in 4 years, another sign of the impact that high interest rates have had on builders and the housing market in general. Starts slid 5.5% m/m in May after April’s +4.1% m/m, while forward looking indicator building permits suggests that housing activity will remain sluggish going forward with the third monthly contraction (-3.8% m/m vs -3.0% m/m). Both indicators were worse than consensus’ forecasts.
- Signs of a cooling labour market remain prevalent with jobless claims continuing to linger near its 10-month high and jobless claims higher than expected. After 2 weekly increases, jobless claims fell 5k to 238k for the week ended June 15 (June 8: +14k), while continuing claims rose at a smaller pace of 15k to 1828k the week prior (June 1: +22k).
- The Philadelphia Fed Business Outlook index unexpectedly edged lower but remained positive at 1.3 in June (May: 4.5). This is the lowest reading since January. Most future activity indicators remained positive but suggest less widespread expectations for overall growth over the next six months.

#### **Eurozone’s consumer confidence improved again but below long-term average**

- Consumer confidence improved for the fifth month, albeit marginally to -14.0 in June (May: -14.3). The index at this level, nonetheless, fell short of consensus estimate and its long-term average, suggesting still soft consumer spending going forwards.

#### Australia's composite PMI fell to its 5-month low

- The composite S&P PMI pulled back in June but remains in expansionary territory at 50.6 in June (May: 52.1). This is the lowest in 5 months and forward-looking indicators like prices, suggest a slower pace of business expansion going forward. The real weakness in the June report was in the manufacturing sector (47.5 vs 49.7), as output and new orders fell back towards the cyclical low, while service industry activity also pulled back slightly but remained comfortably in the expansionary territory at 51.0 (May: 52.5).

#### Japan's inflation accelerated, backing case for rate hike

- Although below expectations, headline and core inflation accelerated to 2.8% y/y and 2.5% y/y in May (Apr: 2.5% and 2.2%) after the government increased its renewable energy-related levies, a result that will back calls for the BOJ to raise rates in the coming months. Factors driving the upticks were energy costs, primarily electricity, while food prices moderated due to base effects.

#### Hong Kong's unemployment rate was unchanged at 3.0%

- Unemployment rate held low and steady at 3.0% in May, and the labour market should stay tight in the near term supported by steady economic growth.

#### Continued growth in exports and imports affirmed improving outlook for Malaysia

- Exports saw extended albeit slightly softer growth of 7.3% y/y in May (Apr: +9.0% y/y), within our expectation but surpassed consensus estimates. A closer look at the details showed the export performance was a tad mixed, with acceleration in some and deceleration and even contraction in some especially on the mining front, adding to signs of uneven recovery. Meanwhile, import growth also pulled back slightly to 13.8% y/y in May (Apr: +15.5% y/y), but nevertheless marked its 3rd straight month of double-digit expansion, a sign of solid domestic demand. Trade surplus widened to RM10.1bn in May (Apr: RM7.7bn), as a result of faster m/m increase in exports (+11.8% m/m) compared to imports (+10.4% m/m).
- Looking ahead, the world economy is expected to continue expanding at a moderate pace, underpinned by a resilient US economy and added signs of bottoming out in the Eurozone and UK economies. Sustained growth outlook in the region is also expected to help cushion potential slowdown risks in China in the wake of added signs of softening domestic demand given ongoing housing debacle and trade restrictions with the West. Against a backdrop of a stable world economy barring unforeseen materialization of downside risks, we expect exports outlook for Malaysia to remain sanguine, further reinforced by uptick in the global tech cycle and still elevated commodity prices. We expect exports growth to pick up steam ahead, hitting double-digit growth in the second half of the year, but overall contribution to GDP growth is expected to be mitigated by tandem, if not stronger, recovery in imports on the back of further expansion in domestic demand.

#### 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	1.06-1.09	1.06	1.05	1.06	1.06
GBP/USD	1.26-1.29	1.24	1.22	1.23	1.24

USD/JPY	154-159	152	149	146	143
AUD/USD	0.65-0.68	0.65	0.65	0.65	0.66
USD/MYR	4.68-4.73	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
21-June	JN Jibun Bank Japan PMI Mfg (Jun P)	50.4
	JN Jibun Bank Japan PMI Services (Jun P)	53.8
	UK Retail Sales Inc Auto Fuel MoM (May)	-2.30%
	EC HCOB Eurozone Manufacturing PMI (Jun P)	47.3
	EC HCOB Eurozone Services PMI (Jun P)	53.2
	UK S&P Global UK Manufacturing PMI (Jun P)	51.2
	HK CPI Composite YoY (May)	1.10%
	UK S&P Global UK Services PMI (Jun P)	52.9
	US S&P Global US Manufacturing PMI (Jun P)	51.3
	US S&P Global US Services PMI (Jun P)	54.8
	US Leading Index (May)	-0.60%
	US Existing Home Sales MoM (May)	-1.90%
	22-June	SI CPI YoY (May)
MA Foreign Reserves		\$113.6b
UK CBI Trends Total Orders (Jun)		-33
US Dallas Fed Manf. Activity (Jun)		-19.4

Source: Bloomberg

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