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Global Markets Research

Daily Market Highlights

05 Aug: Bank of England lifted bank rate by 50bps

BOE delivered first 50bp rate hike in current cycle, warned of recession in 4Q22

US treasury yields continued to fall; key yield curve remains inverted

Dollar weakened ahead of NFP job report; oil plunged

- US stock benchmarks closed on a mixed note on Thursday with the Dow Jones and S&P 500 losing 0.3% and 0.08% respectively and NASDAQ rising 0.4%. Investors digested corporate earnings and predicted Fed's rate path as the inverted yield curve continued to signal an impending recession.
- Treasury yields retreated further as the market recalibrated its monetary policy expectations. The benchmark 10Y UST yield edged down 2bps to 2.69% while the 2Y yield also dropped 2bps lower to 3.05%. The spread between these two benchmark yields remained at 36bps for the second consecutive day.
- The dollar reversed gains alongside lower yields, trading weaker against most G10 currencies ahead of tonight's nonfarm payroll report. The dollar index shed 0.8% to 105.69 after two winning sessions. EUR traded 0.8% higher at 1.0246 while JPY gained 0.7% to 132.89. GBP was little changed (+0.09%) at 1.2160 after a volatile session as the Bank of England raised its benchmark rate by 50bps.
- In the Asia-ex-Japan basket, THB (+0.7%) was the best performing currency on Thailand's positive tourism data. SGD rose 0.3% to 1.3764 while MYR was flat at 4.4575.
- Oil slipped further as the softer US gasoline demand fuelled recession fear. Brent crude fell 2.8% to \$94.12/barrel and WTI plummeted 2.3% to \$88.54/barrel, the levels last seen before the Russia-Ukraine war in February.

Bank of England lifted key rate by 50bps:

- The Bank of England MPC voted 8-1 to lift the bank rate by 50bps to 1.75%, its biggest rate hike since 1995 and also its sixth consecutive hike since December last year. The more aggressive move was intended to curb the UK inflation which had hit a record high of 9.4% in June. BOE expects inflation to rise further than previously projected in May, to "just over 13% in 2022 Q4" and to remain elevated throughout much of 2023, before falling to the 2% target two years ahead. Inflation will exacerbate the fall in the UK household real incomes and the latest rise in gas prices led to another significant deterioration in the UK and Europe's activity outlook.
- The BOE now predicts that the UK will enter recession from the fourth quarter of this year. It reaffirmed its resolve to bring down inflation, citing the primacy of price stability (2% inflation target) in its policy framework as before but said that policy is not on a pre-set path. It did signal that it would "if necessary act forcefully" towards indications of more persistent inflationary pressures, suggesting that another 50bp rate hike may still be on the table. A part of the UK yield curve briefly inverted to reflect

Key Market Metrics

	Level	d/d (%)
Equities		
Dow Jones	32,726.82	-0.26
S&P 500	4,151.94	-0.08
NASDAQ	12,720.58	0.41
Stoxx Eur 600	439.06	0.18
FTSE 100	7,448.06	0.03
Nikkei 225	27,932.20	0.69
Hang Seng	20,174.04	2.06
Straits Times	3,269.86	0.55
KLCI 30	1,507.71	1.15
FX		
Dollar Index	105.69	-0.76
EUR/USD	1.0246	0.79
GBP/USD	1.2160	0.09
USD/JPY	132.89	-0.72
AUD/USD	0.6971	0.33
USD/CNH	6.7511	-0.17
USD/MYR	4.4575	0.01
USD/SGD	1.3764	-0.33
Commodities		
WTI (\$/bbl)	88.54	-2.34
Brent (\$/bbl)	94.12	-2.75
Gold (\$/oz)	1,788.50	1.73
Copper (\$\$/MT)	7,727.50	0.65
Aluminum (\$/MT)	2,403.00	1.05
CPO (RM/tonne)	4,011.50	1.11

Source: Bloomberg, HLBB Global Markets Research

recessionary risk and the pound had initially tumbled as much as 0.7% to 1.2066 on BOE's warning, before recovering to the 1.21 handle.

US initial jobless claims rose further; trade gap narrowed:

- Initial jobless claims rose to 260k for the week ended 30 July (prior: 254k), the highest level in more than eight months, thus confirming that hiring demand is indeed slowing in the US economy.
- The US trade deficit narrowed for the third month in a row to \$79.6b in June, from 84.9b in May, reflecting the extended gain in exports (+1.7% m/m) and a fall in imports (-0.3% m/m). The weaker exports in recent months showed that companies scaled back on accumulating inventories from overseas amid a slowdown in consumer demand for goods.

Japan's household spending and wages rose:

- Household spending in Japan rose 3.5% y/y in June (May: -0.5%), after having fallen for three months in a row. This coincides with a 2.2% y/y increase in labour cash earnings (May: +1.0%), its largest increase in four years.

Australia's exports rose sharply in June:

- Australia's trade surplus widened to A\$17.67b in June (May: A\$15.01b), reflecting the strong export performance (+5.1% m/m) as imports rose marginally by 0.7% m/m. Shipment to China, its largest trading partner, picked up for the second consecutive month (+7.6% m/m), reflecting the Shanghai reopening effect. In fact, exports to the Asia Pacific rose for the fourth month in a row, offering some comfort that demand continued to hold up in the region.

House View and Forecasts

FX	This Week	3Q-22	4Q-22	1Q-23	2Q-23
DXY	105-107	106.00	105.00	103.00	102.00
EUR/USD	1.01-1.03	1.02	1.03	1.05	1.04
GBP/USD	1.20-1.22	1.21	1.22	1.24	1.23
AUD/USD	0.69-0.71	0.67	0.69	0.70	0.70
USD/JPY	131-135	138.00	135.00	133.00	132.00
USD/MYR	4.44-4.46	4.42	4.40	4.38	4.35
USD/SGD	1.37-1.39	1.40	1.38	1.37	1.36

Rates, %	Current	3Q-22	4Q-22	1Q-23	2Q-23
Fed	2.25-2.50	2.50-2.75	3.00-3.25	3.00-3.25	3.00-3.25
ECB	-0.50	0.25	0.50	0.50	0.50
BOE	1.25	1.75	2.00	2.00	2.00
RBA	1.35	1.60	1.85	1.85	1.85
BOJ	-0.10	-0.10	-0.10	-0.10	-0.10
BNM	2.25	2.50	2.75	2.75	2.75

Source: HLBB Global Markets Research

Up Next

Date	Events	Prior
05/08	SG Retail Sales YoY (Jun)	17.8%
	MA Foreign Reserves (29 Jul)	\$107.0b
	US Change in Nonfarm Payrolls (Jul)	372k
	US Unemployment Rate (Jul)	3.6%
	US Average Hourly Earnings YoY (Jul)	5.1%
	US Labor Force Participation Rate (Jul)	62.2%
08/08	EZ Sentix Investor Confidence (Aug)	-26.4

Source: Bloomberg

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