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WEEKLY MARKET UPDATE | JUNE 12, 2023

# An abnormally low VIX

## KEY MARKET MOVES

| Name | WTD | MTD | YTD | Last px |
|---|---|---|---|---|
| MSCI ACWI Index | 0.58% | -1.32% | 6.77% | 667.08 |
| S&P 500 Index | 0.39% | 0.25% | 8.86% | 4,298.86 |
| Dow Jones Industrial Average | 0.34% | -3.49% | -0.72% | 33,876.78 |
| NASDAQ Composite Index | 0.14% | 5.80% | 23.59% | 13,259.14 |
| EURO STOXX 50 Price EUR | -0.78% | -3.24% | 11.19% | 4,289.79 |
| STOXX Europe 600 Price Index EUR | -0.46% | -3.19% | 6.32% | 460.01 |
| Nikkei 225 | 2.35% | 7.04% | 18.37% | 32,501.49 |
| Tokyo Stock Exchange Tokyo Price Index TOPIX | 1.91% | 3.56% | 12.63% | 2,240.39 |
| MSCI AC Asia Pacific Index | 1.68% | -1.20% | 1.70% | 165.16 |
| MSCI AC Asia Pacific Excluding Japan Index | 1.40% | -2.65% | -0.93% | 520.85 |
| MSCI Emerging Markets Index | 1.83% | -1.90% | 0.22% | 1,002.33 |
| Shanghai Shenzhen CSI 300 Index | -0.65% | -5.72% | -1.89% | 3,827.38 |
| Hang Seng Index | 2.32% | -8.35% | -7.82% | 19,316.56 |
| India NSE Nifty 50 Index | 0.16% | 2.60% | 2.37% | 18,563.40 |
| Taiwan Stock Exchange Index | 1.07% | 6.42% | 17.27% | 16,946.74 |
| Korea KOSPI Index | 1.53% | 3.02% | 15.24% | 2,632.19 |
| Singapore Straits Times Index STI | 0.65% | -3.42% | -2.85% | 3,200.56 |
| Thailand SET Index | 1.56% | 0.29% | -8.10% | 1,555.11 |
| Jakarta Stock Exchange Composite Index | 0.92% | -4.08% | -3.17% | 6,680.54 |
| Philippines Stock Exchange PSEi Index | -0.07% | -2.23% | -1.36% | 6,507.15 |
| Vietnam Ho Chi Minh Stock Index / VN-Index | 1.53% | 2.48% | 6.76% | 1,107.53 |

*9 June, 2023*

| Name | WTD | MTD | YTD | Last px |
|---|---|---|---|---|
| US Generic Govt 10 Year Yield | 0.01 | 0.06 | (0.06) | 3.75 |
| Euro Generic Govt Bond 10 Year | 0.03 | (0.01) | (0.11) | 2.38 |
| Japan Generic Govt 10Y Yield | 0.03 | 0.11 | 0.03 | 0.43 |
| MARKIT CDX.NA.HY.32 06/24 | -2.06% | 1.96% | -1.83% | 441.19 |
| MARKIT CDX.NA.IG.32 06/24 | -0.93% | -0.18% | -7.79% | 70.63 |
| MARKIT CDX.EM.31 06/24 | -5.15% | 3.83% | 3.45% | 219.77 |
| EUR-USD X-RATE | 0.38% | -2.99% | -0.15% | 1.07 |
| GBP-USD X-RATE | 0.96% | -1.00% | 2.96% | 1.26 |
| CHF-USD X-RATE | 0.65% | -1.76% | 1.52% | 1.11 |
| USD-JPY X-RATE | -0.37% | 2.23% | 6.27% | 139.53 |
| USD-CNY X-RATE | 0.45% | 2.83% | 3.04% | 7.14 |
| USD- HKD X RATE | 0.02% | -0.25% | 0.36% | 7.84 |
| USD-INR X-RATE | 0.20% | 1.09% | -0.01% | 82.47 |
| NYMEX Light Sweet Crude Oil | -2.19% | -11.32% | -15.16% | 69.36 |
| ICE Brent Crude Oil Future | -1.76% | -8.65% | -15.42% | 73.93 |
| VIX Index | -5.27% | 13.69% | -17.21% | 13.83 |
| Gold Spot | 0.68% | -1.37% | 7.60% | 1,955.60 |
| Silver Spot | 2.91% | -6.26% | -1.96% | 24.13 |
| Palladium Spot | -6.72% | -9.19% | -23.67% | 1,320.58 |
| Bitcoin/USD | -4.09% | -7.60% | 63.95% | 25,963.82 |
| Etherum/USD | -7.02% | -1.44% | 55.57% | 1,748.40 |

Source: Bloomberg

## MACRO OVERVIEW

### GLOBAL

US markets closed the week higher notching its fourth consecutive weekly gain. The S&P 500 entered a technical bull market Thursday joining some European and Asian benchmarks in bull territory despite recession warnings.

Tech continued to be the main tailwind behind the market's positive performance with AI stocks outperforming. Tesla had a good day in the sun once again after its Model 3 sedans became eligible for a full US tax credit set by the US Treasury Dept and General Motors announcing that it would adapt its electric vehicles to Tesla's superchargers. Yet, strategists remain divided with Technicians calling for a continued rally in the S&P 500 while others reiterated their bearish outlook when viewed more through a global lens. "The worry is how fast it's risen and the concentration within a select few names. A pullback at the top wouldn't be too much of a surprise as markets take a breather." Talks of possible hike in July after June's expected pause, brought on by unexpected hikes in Australia and Canada kept bulls at bay. This coming week's CP data and subsequent FOMC will give us more clarity on the Fed's path.

Thursday's economic data release showed a cooling labour market which bolstered optimism of a Fed-pause. Jobless claims jumped to its highest since October 2021 signalled that the labour market while largely still resilient, is starting to show signs of some cooling. What's really driving the market right now is a lessening of odds of a US recession over the next 12 months, based on waning banking sector stress and suspension of the debt ceiling limit. Whether the Fed increases in June or pauses until July, few are expecting a more than 25 bps hike unless inflation heats up again. Cash VIX closed Friday night at 3-year lows, at 13.83.

A big week ahead of us this week: CPI on Tuesday is expected to come in at 4.1% YoY and 5.2% core YoY with monthly core CPI at 0.4%. PPI will follow suit on Wednesday before Thursday's FOMC announcement where rates are expected to come in unchanged at 5.25% and retail sales.

Cryptos took a knock a couple of times on the chin following SEC suits against Binnacle previously and now, Coinbase. Cathie Wood's ARK however dove into Coinbase's correction upping her holding in the company. BTC and ETH trades $25.8k and $1,750 respectively.

In investments, we think NOW is the time to put some hedges on, taking advantage of an abnormally low VIX. Whether a bull market is sustainable or otherwise, we are looking to hedge out a quarter of our US exposures by way of buying Puts till year-end. Whilst I think there is room for more upside, prudency dictates a hedge following a year-to-date performance of +11.96%. On rates, with a hold and see outlook, we also like a range-accrual articulation to capture this window. (see separate Advisory Note)

## Asia

Markets in Asia squeezed a positive close to the week except for the Shanghai Shenzhen CSI 300 index (-0.65%). China's economic recovery is slowing. China Exports contracted 7.5 per cent compared with the same period a year earlier, China's General Administration of Customs said. China's exports reversed into contraction in May after growing following the Covid reopening.

Higher interest rates are hampering global demand, leading the country's exports and imports to shrink last month compared to a year before. China's trade with the US fell 5.5 per cent during the first five months of 2023 compared with a year earlier, with its trade surplus with the world's largest economy dropping 14.5 per cent. Trade with Japan declined 3.5 per cent year on year. Trade with Russia however more than doubled in May.



Morgan Stanley trimmed its target for MSCI China index and Hang Seng China Enterprises index, citing delayed earnings recovery, a weaker yuan outlook and geopolitical risks. The bank's strategists maintained overweight recommendation but said they are cutting exposure. This came after a similar reduction by Goldman Sachs last week as re-opening optimism faded.

MSCI Asia ex Japan was up 1.4% last week. North Asia including Japan, South Korea and Taiwan are leading year to date returns while Thailand is lagging so far this year.

Members of the Association of Southeast Asian Nations (ASEAN) have introduced a new system to expedite cross-border payments. Malaysia, Indonesia and Thailand are currently on the new system, with Singapore, Vietnam and the Philippines expected to join later this year. The system involves each country's central bank making a settlement agreement using their local currency rather than the US dollar. It could be a step towards an ASEAN common market, especially if this same technology can be used to facilitate bigger transactions like business loans.

Singapore banks are so flush with deposits with no place to put the money to work, that DBS is loaning MAS S$30b. The liquidity surplus underscores how Singapore has been a beneficiary as Asia's wealthy shift their money to a perceived safe haven. Loan-to-deposit ratios have fallen precipitously for all local banks, down from nearly 90 per cent prior to the pandemic, to barely 80 per cent in 2023.

The Reserve Bank of India left its key interest rate unchanged for a second meeting and retained its tightening stance, signalling rate-setters want to see inflation moderating further while weaker monsoon risks remain a concern. The committee voted unanimously to keep the benchmark repurchase rate at 6.50%.
RBI also retained a 6.5% growth target in the current fiscal year, indicating it wants to preserve the trajectory of India's booming economy. The latest quarterly growth figures blew past estimates, bringing India's economic expansion to 7.2% and making the South Asian country one of the fastest growing regions in the world.

Australia's Reserve Bank (RBA) has raised its cash rate target to 4.15% for the second consecutive meeting, to an eleven year high. This move is meant to rein in inflation, despite the bank's belief that inflation has peaked. Australia's first-quarter gross domestic product expanded by 2.3% year-on-year, just slightly below analyst expectations.

Japanese government last week said it will aim to close wage gaps between Japan and other countries and attract more foreign talent while designating generative artificial intelligence and semiconductors as key policy areas for development. It also aims to boost the appeal of Japan as an investment destination and a key part of global supply chains to cope with rising geopolitical risks. With the fast-growing use of AI chatbot ChatGPT creating both opportunities and concerns, the plan states that the government will help boost the research and development of generative AI in Japan and promote greater use of AI in general in medicine, education, finance, manufacturing and administrative work.

## Geopolitics - US/China/Chips

Taiwan's exports of chips to the US rose for a 26th consecutive month in May, defying a downturn in the global semiconductor market. The island shipped $91 million worth of chipmaking machines to China and Hong Kong in May, down 44.2% from a year earlier. In contrast, exports of gear to the US surged 59.3%. The divergence may reflect a rapid expansion of US chipmaking capacity as Washington doles out incentives to try and bring advanced manufacturing back home. At the same time, US sanctions on advanced semiconductors and gear as well as persistently weak smartphone and PC demand have depressed Chinese imports.

## CREDIT/TREASURIES

US Treasury curve last week, the shape of the curve did not really change with the 2years, 5years and 10years yield up between 5 to 7bps. Only the 30years yield finished unchanged. In terms of performances over the past week US IG lost 30bps, US HY gained 30bps and leverage loans gained 40bps.

Following 10 consecutive FOMC meetings in which the Committee raised its policy rate, market consensus expects the Fed to skip a hike coming Wednesday, holding the fed funds rate steady at 5.125%. However, the meeting statement, SEP or Summary of Economic Projections and Chair Powell's press conference should skew hawkish, signalling the likely need for further policy tightening as soon as the July 26 meeting. We will also have the publication of the May Retail Sales as well as the June Empire Manufacturing and the June University of Michigan Sentiment index. We will also have, on the same day as the Fed announcement, the ECB June rate decision. Market is expecting another hike of 25bps and the ECB could leave the door open for further monetary policy tightening moving forward. We will also have PBOC & BOJ rate decision this week. Both Asian central banks are expected not to shift their monetary policy yet.

On an additional note, It seems that the idea that the Fed might move to a range target inflation is gaining strength. Some commentators, like the head economist of Moody's & the head of G10 FX research of Standard Chartered, are saying that using a range rather than a point target might make more sense. He is saying that several central banks already employ such a range, and you couldn't swear that their inflation and economic stabilization outcomes were any better or any worse than point targets. My feel is that we will likely hear more and more about target range unless inflation quickly and painlessly drops back to 2%. For the Fed a range has the enormous advantage that it is a halfway measure, between shifting the inflation target Vs doing-what-it-takes to get to the current target of 2%. It doesn't have the credibility implications of an explicit inflation target shift but effectively would give the Fed more flexibility on the pace at which it gets back to 2%. Some commentators are saying that 1.5-2.5% may be too tight a range and that 1-3% would be more appropriate. If this change should happen, the market would likely shift inflation expectations to the top of the target range which could lower the expected path of policy rates. The initial bond market response could well be bond yields lower on the expectations that fed funds could get back to neutral or easing quicker than under the current 2% target. Over the long-term inflation would be higher and yields would reflect the new higher inflation path. All of this might be USD negative. This market reaction could emerge suddenly if Powell refers to it.

Lastly, a $1tn US government borrowing spree is set to increase the strain on the country's banking system as Washington returns to the markets in the aftermath of the debt ceiling fight, analysts say. Following the resolution of the debt ceiling dispute, which had previously prevented the US from increasing its borrowing, the Treasury department will seek to rebuild its cash balance, which last week hit its lowest level since 2017.

## FX

DXY USD Index fell 0.44% to 103.56 as US initial jobless claims reached the highest level since October 2021. Weak ISM services index (Actual 50.3, C: 52.4) added to USD weakness. G10 FX displayed broad-based strength against USD, as both RBA and BoC delivered a hawkish surprise and raised its policy rate by 25 bps. AUDUSD gained 2%, while USDCAD fell 0.63%. USDCHF fell 0.64% to 0.9033, as SNB President commented that he expects further rate hikes, which are necessary to bring inflation. In addition, he commented that he observed second and third round effects of inflation, which underscored inflation is more persistent that he anticipated. We will have the US CPI number this Tuesday, and the FOMC rate decision this Wednesday, where the FED is expected to hold its policy rate.

EURUSD rose 0.38% to 1.0749 following broad based USD weakness. Data wise, final 1Q23 Euro Area GDP was marked down to a 0.1% q/q contraction (C: 0.0%: Preliminary: 0.1%), the second consecutive quarter of negative growth. In addition, ECB's April 2023 Consumer Expectations Survey shows significant declines in inflation expectations; median 12m ahead at 4.1% y/y (P: 5.0%), median 3y ahead at 2.5% y/y (P: 2.9%).

GBPUSD rose 0.96% to 1.2572 following broad based USD weakness. Resistance level at 1.27, whereas immediate support level at 1.247 (50 DMA) and 1.2310 (100 DMA).

USDJPY fell 0.37% to 139.4, as US Treasury yields below the 2 years tenor fell given the weak initial jobless claims and ISM services index. Data wise, final 1Q23 Japan GDP came in stronger at 0.7% q/q (C: 0.5%, Prior 0.4%).

## OIL & COMMODITY

Bloomberg Commodity Index rose 1.14%, as Gold and Silver rose 0.68% and 2.91% respectively. Gold rebounded from its 100 days MA (1940) intraweek to 1961.19. Iron Ore rose 7.67%, while Copper rose 1.65%.WTI and Brent fell 2.19% and 1.76% respectively to 70.17 and 74.79, as media reports indicated that the US and Iran are making progress on a temporary nuclear enrichment and oil export deal. Over the weekend, Goldman made its third downward price revision, trimming its estimate on Brent to USD 86 for the end of the year on rising supplies and waning demand.

## ECO

- M – JP PPI/ Machine Tool Orders
- T – AU Cons. Confid./ Biz Confid., UK Unemploy. Rate, NO GDP, EU Zew , US Small Biz Opti./ CPI
- W – NZ House Sales/ Food Prices, UK INdust. Pdtn/ Mfg Pdtn/ Trade Balance, SW CPI, EU Indust. Pdtn, US Mortg. App./ PPI/ FOMC Rate decision
- Th – NZ GDP, JP Core Machine, CH LFR/ Indust. Pdtn/ Retail Sales, AU Unemploy. Rate, EU TRade Balance/ ECB Rate Decision, CA Housing Starts/ Mfg Sales, US Retail Sales/ Initial Jobless Claims/ Empire Mfg/ Indust. Pdtn
- F – NZ Biz Mfg, EU CPI, US Mich Sentiment

Sources – Various news outlets including Bloomberg, Reuters, Financial Times, FactSet, Associated Press