

Cooling summer months ahead?

Macro Overview

GLOBAL

US equities notched its best week since mid-June following cooling inflation data and optimism the Fed Reserve is close to ending its rate hikes. For the week, all 3 major indices ended up more than 2% as earnings from big banks beat estimates and buoyed investor sentiment. However, **analysts are expecting corporate earnings resilience to be put to the test from next week as profits for S&P 500 companies are forecast to drop for a 3rd straight quarter. Die-hard bears are expecting the biggest contraction in earnings growth during Q2, where profits are expected to fall by 9% year over year.**

In the meantime, CPI showed that headline inflation rose 3% from 4.0% YoY – the smallest advance in more than 2 years, and core rose 4.8% from last month’s 5.3% YoY. Monthly core rose 0.2%, lower than expected. Still a way to get to 2% and Fed speakers were quick to the blower, SF’s Daly saying that its too soon for policymakers to say they have done enough and prefers a wait and see approach, while Chicago’s Goolsbee said easing consumer price data was promising though still too high. Atlanta’s Bostic however, said officials can be patient amid evidence of an economic slowdown. US Treasury Secretary Janet Yellen said earlier in the week, she wouldn’t rule out the threat of a US recession, saying it’s “appropriate and normal” for growth to moderate and that inflation remains too high. Markets also took joy on news that St Louis’ James Bullard who called for aggressive hikes, resigned to leave for Academia. Swaps pricing continue to show expectations that the Fed is virtually certain to raise its benchmark rate by another 25 basis point when it meets later this month.

Wholesale inflation (PPI) echoed CPI’s drop, with YoY rising only 0.1% from last month’s revised 0.9% whilst core rose 2.4%, below expectations.

US consumer sentiment jumped in early July to an almost two-year high, bolstered by easing inflation and a strong labour market. Prelim. U. of Mich. inflation expectations ticked up slightly to 3.4% and 3.1% for the 1 year and 5-10 years’ respectively. Cryptos had a wild week trading a high of BTC \$31,800 after news that a court had ruled that the SEC got it wrong in determining XRP (Ripple) was a security and that sales of XRP did not qualify as the sale of securities. BTC has since settle back at around \$30,300 and ETH at \$1,930. A quieter week ahead in data releases, with retail sales, industrial production and housing data of note.

We hedged out part of our portfolios via S&P 500 mini Puts strike at 4500 expiring Dec 2023. We think prudence dictates a hedge of about 1/3rd exposure. VIX remains an attractive entry point circa 13.30.



U. of Mich. inflation expectations ticked up slightly to

1 Year at 3.4% 5-10 Year at 3.1%

ASIA

Markets in Asia were on fire. MSCI ex Japan index closed up 5.59% for the week. Hong Kong and Chinese stock markets saw significant gains following the extension of financial support to the property sector until December 2024 by the People's Bank of China and the National Financial Regulatory Administration.

Banks have also been advised to extend loans to property developers beyond their initial due dates. This led to a 5.7% increase in the Hang Seng Index and a 1.92% rise in the CSI300 Index.

China consumer price index was flat year on year and declined 0.2 per cent compared with the previous month, while factory gate prices fell at the fastest pace since 2016 as demand for consumer and manufactured products softened.

This morning, we had the **China GDP numbers. The 6.3% GDP print for the second quarter marked a 0.8% pace of growth from the first quarter, slower than the 2.2% quarter-on-quarter pace recorded in the first three months of the year. The unemployment rate among young people ages 16 to 24 was 21.3% in June, a new record.**

China's Jul Politburo meeting is expected to be held towards the end of this month (likely around July 28th), which will set the broad tone for economic policies in 2H of this year.

Japan's wholesale inflation slowed for a sixth straight month in June due to sliding fuel and commodity prices, a sign the cost-push pressure that drove up consumer prices is steadily easing. The data underscores the central bank's view that consumer inflation will slow in coming months. The corporate goods price index (CGPI), which measures the price companies charge each other for their goods and services, rose 4.1% in June from a year earlier. The rise, which followed a 5.2% gain in May, was the slowest annual pace since April 2021, data by the BOJ showed.

India is on its way to becoming the world's second-largest economy by 2075 Goldman Sachs predicts. The country's GDP will outpace the US's by then as well at current trajectories.

The Reserve Bank of India is targeting one million transactions per day through the central bank digital currency (CBDC) by the end of this year. The RBI has devised the e-rupee as a digital alternative to physical cash - using blockchain distributed-ledger technology. There are 1.3 million customers and 0.3 million merchants, who are using CBDC as of June 2023.

Indian tourists are streaming into Southeast Asia, cementing the world most populous country's position as a key growth market for a travel and tourism replacing weakness from Chinese tourists. Southeast Asia is very well positioned for a lot of the growth. In May, more Indians than Chinese visited Singapore while that same month nearly 63,000 Indians visited Indonesia compared with just over 64,000 Chinese. Flight bookings from India to Bangkok jumped by 270% between January to June this year compared with the same period in 2019.

AI - China to start regulating ai robots like ChatGPT from Aug 15th while the US Federal Trade Commission is investigating whether ChatGPT has harmed people with false information.

GeoPolitics - US/ China/ Asia

In Taiwan, authorities have announced they will hold Taiwan's first large-scale safety drill in decades to simulate a Chinese attack on the island. Around 3 million people are expected to take part in the simulation.

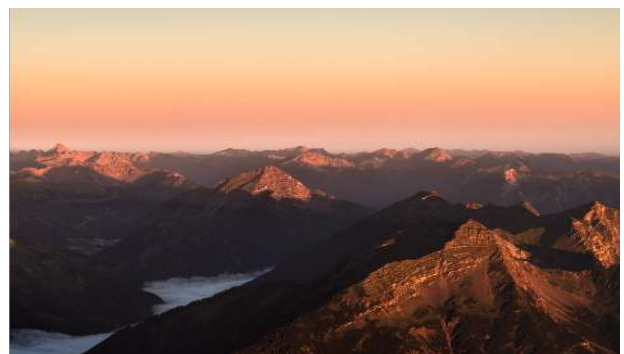
China, Russia to start joint air and sea drill in Sea of Japan. Codenamed "Northern/Interaction-2023", the drill marks enhanced military cooperation between China and Russia.

This would be the first time both Russian forces take part in the drill. Days before Russia invaded Ukraine in February 2022, President Vladimir Putin and Chinese President Xi Jinping declared a "no limits" partnership they said was aimed at countering the influence of the United States.

The U.S., South Korea and Japan held a joint naval missile defence exercise on Sunday to counter North Korea's evolving nuclear and missile threats. Sunday's trilateral drill was conducted in international waters between South Korea and Japan, bringing together destroyers equipped with Aegis radar systems from the three countries, the navy said. Washington and its Asian allies have been working to improve their information-sharing system on North Korea's missiles.

Russia meanwhile is investigating whether the North Korean intercontinental ballistic missile crashed in its waters during a test launch.

North Korea on Tuesday condemned U.S. President Joe Biden's decision to send cluster munitions to Ukraine as a "criminal act" and demanded an immediate withdrawal of the plan. The United States announced last week it would send Ukraine the weapons controversial for the danger they pose to civilians long after fighting ends as part of an \$800 million security package. Many U.S. allies and partners helping aid Ukraine are among the 111 state parties to the Convention on Cluster Munitions, which prohibits all use, stockpiling, production, and transfer of cluster munitions and came into force in 2010. North Korea is not a party to the convention. Russia, Ukraine and the United States have also not signed the convention.



Credit/Treasuries

Aggressive US treasury rally ensues after downside risks to June CPI materialize for both core and headline.

2 years yields fell 18 bps, 5 years and 10 years fell 31 and 22 bps, while 30 years fell 11 bps. 10 years and 30 years yield closed the week at 3.83% and 3.93% respectively, with US treasury yields bull steepened last week. Both US high yields and Investment grade credit spreads tighten further, indicating a lower probability of US recession risk.

FX

DXY USD Index fell 2.31% to 99.91, below the strong psychological level of 100 (first time since April 2022), as US June CPI surprises to the downside and therefore, markets position for faster Fed rate normalization (over six 25 bps rate cuts) in 2024. Core CPI slowed considerably, to 0.16% mom (C: 0.3%; P: 0.44%), and brought the yoy rate down to 4.86% (C: 5.0%; P: 5.3%).

Core goods (-0.05% mom) inflation turned negative, which reflected the impact from a sharp reversal in used car prices (-0.5% mom) after two consecutive +4.4% mom readings. A further cooling in used car prices is likely over the coming months, as suggested by Manheim data. In June, the Manheim Used Vehicle Value Index fell 4.2% mom, a record decline for the month of June and the largest mom decline since April 2020 for all months. Core services inflation decelerated to 0.25% mom (P: 0.40%) as the moderation in both rent (0.46% mom) and owners' equivalent rent (0.45% mom) continued.

Headline CPI moderated to 0.18% mom (C: 0.3%; P: 0.12%) and brought the yoy rate down to 2.97% (C: 3.1%; P: 4.0%). Even Fed Chair Powell's closely watched core services (ex-shelter) measure slowed considerably, to 0.0% mom (P: 0.24%). Sentiment in the preliminary July University of Michigan Consumer Sentiment release came in at 72.6 (C: 65.5; P: 64.4). Expectations increased to 69.4 (C: 62.0; P: 61.5) and Current Conditions rose to 77.5 (C: 70.5; P: 69.0). Near-term Inflation Expectations rose to 3.4% (C: 3.1%; P: 3.3%), while Longer-term Inflation Expectations edged up to 3.1% (C: 3.0%; P: 3.0%).

Consumer sentiment bounced back for the second consecutive month, as a moderation in inflationary pressures and a stable labour market boosted optimism.

EURUSD rose 2.38% to 1.1228 (YTD high), above key psychological level of 1.10. Industrial Production (ex-construction) surprised to the downside at 0.2% m/m in May (C: 0.3%; P: 1.0%) and Zew Survey Expectation came in at -12.2 (P: -10.0). ECB Governing Council Member Villeroy believes rates are near the peak but notes the ECB will need to stay at the terminal rate long enough to prevent risk of prolonged inflation persistence.

GBPUSD rose 1.98% to 1.3093 (YTD High), above key psychological level of 1.30. UK May Labor Market data was mixed, with strength in wages (average weekly earnings at 3.9%, C: 3.8%) and higher than consensus unemployment rate (A: 4.0%, C: 3.8%). UK GDP contracted 0.1% mom in May (C: -0.3%; P: 0.2%).

USDJPY fell 2.40% to 138.8, below key support level of 140, due to broad based USD weakness. In addition, market participants increasingly positioned for a YCC adjustment at the July BoJ meeting (28-July), adding to USDJPY downside.



Oil & Commodities

Bloomberg Commodity Index rose 2.63% due to USD weakness and positive risk sentiment. Gold rose 1.57% to 1955.21, while silver rose 8.06%. WTI and Brent rose 2.11% and 1.78% respectively, to 75.42 and 79.87.

Base metals rose substantially as well, with Aluminium rising 6.04% and Copper rising 4.11%. On another news, China has increased support for its ailing property market by extending relief measures for cash-strapped developers, adding to commodity upside.

Economic News This Week

- **Monday** – CH GDP/ Indust. Pdtn/ Retail Sales, US Empire Mfg
- **Tuesday** – JP Tertiary Industry Index, US Retail Sales/ Indust. Pdtn, CA CPI
- **Wednesday** – NZ CPI, UK CPI/ PPI, EU CPI, US MBA Mortg. App/ Building Permits/ Housing Starts
- **Thursday** – JP Trade Balance, CH LPR, AU Unemploy. Rate, US Initial Jobless Claims/ Existing Home Sales/ Leading Index, EU Cons. Confid.
- **Friday** – JP CPI, UK Retail Sales



Key Market Moves

14 July, 2023

Name	WTD	MTD	YTD	Last px
MSCI ACWI Index	3.38%	1.96%	15.01%	696.22
S&P 500 Index	2.42%	1.24%	17.34%	4,505.42
Dow Jones Industrial Average	2.29%	0.29%	4.11%	34,509.03
NASDAQ Composite Index	3.32%	2.36%	34.85%	14,113.70
EURO STOXX 50 Price EUR	3.86%	0.02%	15.99%	4,400.11
STOXX Europe 600 Price Index EUR	2.94%	-0.24%	8.46%	460.83
Nikkei 225	0.01%	-2.40%	24.13%	32,391.26
Tokyo Stock Exchange Tokyo Price Index TOPIX	-0.70%	-2.16%	18.36%	2,239.10
MSCI AC Asia Pacific Index	4.39%	3.37%	8.35%	168.75
MSCI AC Asia Pacific Excluding Japan Index	5.59%	4.04%	5.76%	534.76
MSCI Emerging Markets Index	4.88%	3.94%	7.54%	1,028.49
Shanghai Shenzhen CSI 300 Index	1.92%	1.47%	0.71%	3,899.10
Hang Seng Index	5.71%	2.63%	-1.86%	19,413.78
India NSE Nifty 50 Index	1.20%	1.96%	8.06%	19,564.50
Taiwan Stock Exchange Index	3.72%	2.18%	22.25%	17,283.71
Korea KOSPI Index	4.02%	2.50%	17.52%	2,628.30
Singapore Straits Times Index STI	3.48%	1.33%	-0.08%	3,248.63
Thailand SET Index	1.84%	0.99%	-9.03%	1,517.92
Jakarta Stock Exchange Composite Index	2.28%	3.12%	0.28%	6,869.57
Philippines Stock Exchange PSEI Index	3.85%	2.42%	0.89%	6,624.79
Vietnam Ho Chi Minh Stock Index / VN-Index	2.67%	4.30%	16.02%	1,168.40

Source: Bloomberg

Name	WTD	MTD	YTD	Last px
US Generic Govt 10 Year Yield	(0.06)	(0.00)	(0.01)	3.83
Euro Generic Govt Bond 10 Year	(0.06)	0.04	(0.04)	2.48
Japan Generic Govt 10Y Yield	0.12	0.20	0.14	0.48
MARKIT CDX.NA.HY.32 06/24	-5.11%	0.04%	-11.18%	429.89
MARKIT CDX.NA.IG.32 06/24	-4.17%	1.35%	-18.18%	67.11
MARKIT CDX.EM.31 06/24	-6.29%	-3.71%	-13.90%	205.43
EUR-USD X-RATE	2.38%	2.89%	4.85%	1.12
GBP-USD X-RATE	1.98%	3.04%	8.33%	1.31
CHF-USD X-RATE	3.11%	3.89%	7.23%	1.16
USD-JPY X-RATE	-2.40%	-3.83%	5.84%	138.78
USD-CNY X-RATE	-1.15%	-1.54%	3.53%	7.14
USD-HKD X-RATE	-0.16%	-0.28%	0.17%	7.81
USD-INR X-RATE	-0.70%	0.15%	-0.69%	82.17
NYMEX Light Sweet Crude Oil	2.11%	6.00%	-6.70%	74.88
ICE Brent Crude Oil Future	1.78%	5.86%	-7.71%	79.29
VIX Index	-10.05%	-1.84%	-38.44%	13.34
Gold Spot	1.57%	1.68%	7.00%	1,951.67
Silver Spot	8.06%	9.06%	3.68%	24.84
Palladium Spot	2.22%	2.41%	-29.71%	1,260.08
Bitcoin/USD	0.02%	-0.61%	82.63%	30,206.00
Etherum/USD	2.48%	-0.58%	59.74%	1,915.86

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

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