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# Bears Preparing To Hibernate

## Macro Overview

US

The S&P 500 closed flat for the week while the Nasdaq Composite advanced 1.4% and the Dow slumped 2.3%. US stocks gained on Friday on low volumes, following a slow, down-start after data showed that US consumers tempered their inflation expectations toward the end of the month, boosting hopes on the outlook for rate cuts later this year. University of Michigan data showed consumers anticipated prices will grow at a 3.3% annual rate over next year versus 3.5% expected earlier in the month. US markets will be closed on Monday in observation of Memorial Day. Data out earlier on Thursday overshadowed the robust earnings season, as US business activity accelerated to at its fastest pace in some 2 years, stoking concerns about ongoing inflation pressures. The S&P Global US Manufacturing, Services and Composite PMI's all came in higher than expected. US jobless claims fell by more than expected, posting the biggest back-to-back drop since September. Economists at Goldman Sachs Group Inc. pushed out their call for the Fed's first rate cut to September from July amid those signs of ongoing economic strength. Still, sentiment remains upbeat, looking like another up month which would give the S&P 500 Index a gain of 4 out of 5 months for the year. Investment is expected to pick up even more as competition in AI innovations and applications heat up which would reinforce productivity gain. ***Nvidia delighted investors when it announced a 10-for-1 stock split earlier this week after reporting street-beating earnings and a positive outlook for the sector.*** The move may be the start of a trend, as several prominent tech companies trade at prices high enough to tip the scales toward similar splits, according to a note from Bank of America. Apple had its price target raised citing iPhone demand is turning the corner into an AI driven iPhone16 supercycle (Wedbush). Even Morgan Stanley's Chief US economist Mike Wilson, the last of the biggest bear on Wall Street threw in the towel and turned bullish boosting his price target for the S&P 500 from 4,500 to 5,400 a 20% hike! JP Morgan's Kolanovic another bear, held firm in his gloomy outlook on equities. It is becoming evidently clear that the G10 monetary easing cycle is broadening, following the recent moves by the SNB and the Swedish Riksbank with analysts now expecting the ECB, the BOE and the Bank of Canada to follow suit in June. The pace of easing is likely to be gradual as wages are still growing faster than implied by central bank targets. Minutes from the last FOMC meeting unsurprisingly showed officials aligned with one another on their desires to keep interest rates elevated. Fed officials said that policy was "well positioned" and even noted that some were willing to tighten further if needed. Fed's Waller said he needs to

see "several more" months of good inflation figures to begin interest rate cuts. That's cutting it fine before November's elections. This coming shortened week will see the PCE Deflator release on Friday where Bloomberg is expecting both the MoM and YoY core to come in unchanged at 0.3% and 2.7% respectively. We will also have personal income & spending to contend with. Crypto-linked stocks traded higher on Friday after the Securities and Exchange Commission paved the way for spot-Ether exchange traded funds. Ether trades at \$3,800 and BTC at \$69,000.

We favour utilities as a support to the AI frenzy as power and energy (electricity in particular) demand is expected to escalate. Duke Energy and American Electric Power remain our top picks for the sector.

EUROPE

European equity markets finished lower on Friday with Utilities, Healthcare and Real Estate the worst performers while Insurance, Media and Auto parts outperformed.

In the Euro Area, activity is still picking up at different speeds across sectors and countries with the ***May PMIs showed a positive picture overall in the Euro Area, employment remaining solid and price pressures abating. But, reading deeper into the PMIs together with other soft data, the pace at which the activity is picking up is uneven across countries.*** PMIs rebounded in manufacturing in Germany, France and the euro area with a pretty sharp increase in new orders sub-components. In the service sector, the euro area headline indicator was flat, with Germany posting a further sequential improvement while France moved back in contraction.

The EC flash consumer confidence index improved slightly in May, up to -14.3 from -14.7 in April. Despite continuous incremental improvements since the beginning of the year, the index remained well below both its long-term average and pre-Ukraine war levels.

The final print of Germany's real GDP for Q1 24 confirmed positive growth (0.2%q/q) but the details were less encouraging. The rebound was driven by exports (+1.1%q/q) growing faster than imports (+0.6%q/q), this being the 3rd consecutive quarter with foreign demand posting a sizeable contribution to growth.

Faced with elevated dynamics and activity accelerated faster than expected, we think the Governing Council will move more gradually this year. We continue to expect 25bp of cuts at each meeting (June, September, December).

This week, in addition to the euro area and countries May inflation prints, the ECB consumer's survey expectations on Tuesday, European Commission confidence survey in May releasing on Thursday and France and Italy's final Q1 GDP releasing on Friday will be most important data to follow. Friday we will also have the S&P's review of the French sovereign rating but likely to keep the rating and outlook unchanged as S&P might adopt a wait-and-see approach amidst the unfavorable fiscal developments in France.

In the UK, hotter than expected inflation in April was driven by the service sector which came in at 5.9% y/y, down from 6.0% y/y in

March, well above BoE's expectations of 5.5%. The stronger inflation data likely to have the BoE reassess views on most likely timing on rate cuts. April retail sales fell sharply (-2.3% m/m), with declines across all the sub-categories. This was likely weighed down by heavy rainfall (155% of average rainfall in that month). The UK flash composite PMI fell to 52.8 in May, down 1.3pt from April, making the acceleration in April look like an exception in an otherwise broadly flat trend since the start of the year.

In a surprise announcement, last week PM Sunak announced 4 July as the date for general election which was different from the widely expectation that it will be held in autumn. Parliament will be officially dissolved on Thursday and BoE officials have cancelled all public appearances from now till the election. This increases the conviction that the Bank will not be able to start cutting rates in June.

This week, with a public holiday in the UK today (Spring Bank Holiday), no major data releases, and the BoE on an election-based communications blackout, this week's focus will be almost exclusively on what the main parties are saying on policy.

## ASIA

**Asian equities closed mixed as tech stocks advanced but China markets corrected further. Hang Seng index corrected by 4.83% while the CSI China index was lower by 2.08%.**

China left benchmark lending rates unchanged at a monthly fixing on Monday, in line with market expectations.

The Japanese currency was last at 157.03 per dollar. Japan's core inflation slowed for a second straight month in April due to milder food inflation while staying comfortably above the central bank's 2% target, government data showed on Friday. Bank of Japan Governor Kazuo Ueda said on Thursday the economy was on track for a moderate recovery, suggesting a slump in first-quarter gross domestic product alone would not keep the central bank from raising interest rates in coming months.

South Korea central bank kept its benchmark 7D repo rate steady at 3.5% for 11th consecutive meeting Thursday, as widely expected. Raised FY24 GDP growth forecast to 2.5% from 2.1% on back of robust exports, kept headline inflation estimate unchanged at 2.6% versus its FY 2.0% target. South Korean exports rose 18% y/y in first 20 days of May with semiconductor shipments strengthening another 45.5%. South Korean consumer confidence turned negative for first time this year amid consumer concern over elevated interest rates.

Philippine peso dropped past 58 level against dollar, near record low reached in 2022 and prompted BSP to say it will intervene in the market to curb volatility. Thailand's 1Q24 real GDP rose 1.5%ooya, posting a significant positive surprise. Thailand finance minister says country needs more stimulus to help economy meet its potential after Q1 growth came below expectations.

Kazakhstan and Singapore have agreed to cooperate in six areas – economic integration, security, enterprise standards, intellectual



property (IP) rights protection, higher education and legal dispute resolution. The memorandums of understanding (MOUs) sealing the agreements were signed by officials representing the two countries on May 23, as part of Kazakh President Kassym-Jomart Tokayev's two-day state visit to Singapore. Bilateral trade in goods grew 46.3 per cent year on year to \$603.1 million in 2023, while bilateral trade in services grew 172.9 per cent year on year to \$67.4 million in 2022. Singapore's direct investments in Kazakhstan stood at \$960 million in 2022, while Kazakhstan's direct investments in Singapore topped \$1.3 billion.

## GeoPolitics

**United States – G7 – Ukraine:** G7 allies are considering a U.S. proposal to distribute \$50 billion to Ukraine as early as this summer, potentially before a possible return of Donald Trump to the White House.

**Israel – United States – ICC:** *The International Criminal Court's prosecutor has requested arrest warrants for Israeli Prime Minister Benjamin Netanyahu, his defense chief, and three Hamas leaders over alleged war crimes. This marks the first ICC indictment against a Western leader.*

U.S. President Joe Biden defended Israel, rejecting claims of genocide by Israeli forces against Hamas militants in Gaza and emphasizing the U.S.'s strong support for Israel's security.

**The U.S. and Saudi Arabia:** The United States and Saudi Arabia are close to a final agreement on a bilateral defence pact. U.S. and Saudi negotiators are seeking to complete work on a bilateral accord expected to call for formal U.S. guarantees to defend the kingdom as well as Saudi access to more advanced U.S. weaponry, in return for halting Chinese arms purchases and restricting Beijing's investment in the country.

**China – United States – EU:** China's Ministry of Commerce announced an anti-dumping investigation into thermoplastics imports from the EU, U.S., Taiwan, and Japan, following U.S. tariff hikes on Chinese imports. *China may increase tariffs on imported cars with large engines up to 25%, as trade tensions with the EU and U.S. continue to escalate.*

**China - Taiwan:** China's military started its second day of war games around Taiwan on Friday (May 24), with drills to test their ability to "seize power" and control key areas, exercises it has said were launched to punish Taiwan's President Lai Ching-te. The two days of drills in the Taiwan Strait and around groups of Taiwan-controlled islands near the Chinese coast started just three days after Lai took office.



## Rates and Credits

Last week in the US was a pretty quiet one in term of Macro economic data. The May Manufacturing & Services PMI's both printed above expectations and also higher than previous Month. Manufacturing printed at 50.9 & Services at 54.8.

Last Friday, April durable goods orders advances by 0.70% beating expectations at -0.80%. The May University of Michigan sentiment index printed higher than expected at 69.1 Vs 67.7 expected. Current conditions & expectations both beat consensus. This still marks a sharp drop from the YTD average for sentiment, with signs that the pickup in realized inflation is weighing on growth expectations and willingness to make large purchases. The long-term forward inflation came out at 3.00% Vs 3.10% expected.

US Treasury rates rebounded last week with the 2years yield gained 13bps, 5years up 10bps, 10years up 5bps & the 30years was up by 2bps. US IG credit spreads were unchanged last week and US HY credit spreads only widened by 3bps. US IG lost 15bps last week, US HY lost 30bps & leverage loans were almost flat.

This week main economic data will be the May Conference Board Consumer Confidence index as well as the April Personal Income & Personal Spending. The April Core PCE is expected to progress by 2.70% YoY and 0.30% MoM. The Mai ISM Manufacturing will also be released. The US will be close today (Memorial Day).

## FX

***DXY USD Index rose 0.27% to 104.72 driven by strong US macro data.***

S&P Global Manufacturing and Services data surprised to the upside and the Composite PMI increased to 54.4 in May (C: 51.2; P: 51.3), the highest level in over two years and the largest monthly increase since February 2023. The data reflected **strong US business activity growth, which signals another solid GDP gain in 2Q24, as the improvement was led by the service sector.** Underlying data show inflationary pressure, which translate to a higher for longer policy rate. **Minutes from the May FOMC meeting contain hawkish undertones as "various participants note a willingness to tighten policy further if necessary,** which supports the US dollar.

**EURUSD** fell 0.20% to 1.0847, driven by USD strength. Eurozone preliminary Composite PMI rose to 52.3 in May (C: 52.0; P: 51.7). Services remained at 53.3 (C: 53.6, P:53.3) and Manufacturing rose to 47.4 (C: 46.1; P: 45.7). ECB Governing Council Member Villeroy says the ECB remains "confident in the disinflationary process," adding they should not over-interpret the data.

**GBPUSD** rose 0.28% to 1.2737, driven by upside surprise in UK services inflation. UK headline Inflation rose 2.3% y/y in April (C: 2.1%, P: 3.2%) and core Inflation rose 3.9% y/y in April (C: 3.6%, P: 4.2%). Market now price the first full BoE rate cut by November, compared to August rate cut a week ago. This was despite UK preliminary composite and services missing estimates. In addition, UK Prime Minister Sunak called for a snap election set for July 4, which added to the volatility in the UK.

**USDJPY** rose 0.86% to 156.99, driven by USD strength and rise in US Treasury yields. Japan CPI nationwide y/y came in at 2.5% (C: 2.4%, P: 2.7%), while core CPI (ex-food) came in in-line at 2.2% (P: 2.6%). Core-Core CPI (ex food and energy) came in in-line as well at 2.4% (P: 2.9%). Immediate resistance level at 157/157.5. Immediate support level at 156.5/156.

## Oil & Commodities

**Oil future** fell last week, with WTI (-2.92%) and Brent (-2.21%) to 77.72 and 82.12 respectively, driven by higher for longer rates narrative. Crude is still higher this year in part due to OPEC+ output cuts, but futures have eased since mid-April. OPEC+ will hold next month's meeting to discuss oil production online rather than in person on June 2. They are widely expected to prolong current supply curbs, in an effort to stave off a surplus and shore up crude prices. Immediate support level on WTI at 75 and Brent at 80.

**Gold** fell 3.37% to 2333.83, as higher for longer rate narrative dominated the flow. Market is now pricing only one full rate cut in December 2024. Immediate resistance level at 2380/2400, while immediate support level at 2320/2300.

## Economic News This Week

- **Monday** – CH Industrial Profits
- **Tuesday** – AU Retail Sales, EU CPI Expect., US Cons. Confid./ Dallas Fed Mfg Act.
- **Wednesday** – NZ ANZ Biz Confid., AU CPI, EU M3 Money Supply, US MBA Mortg. App./ Richmond Fed Mfg
- **Thursday** – NZ Building Permits, AU Building App., SZ GDP, EU Cons./Svc/Indust./Econ. Confid. / Unemploy. Rate, US GDP/ Core PCE/ Initial Jobless Claims/ Wholesale Inv./ Pending Home Sales
- **Friday** – JP Jobless Rate/ Tokyo CPI/ Indust. Pdn/ Retail Sales, CH PMI, UK Mortg. App., EU CPI, CA GDP, US Personal Income/ Personal Spending/ PCE Deflator/ MNI Chicago PMI



# Key Market Moves

24 May, 2024

Name	WTD	MTD	YTD	Last px
MSCI ACWI Index	-0.43%	4.62%	8.88%	791.57
S&P 500 Index	0.03%	5.34%	11.21%	5,304.72
Dow Jones Industrial Average	-2.33%	3.32%	3.66%	39,069.59
NASDAQ Composite Index	1.41%	8.07%	12.72%	16,920.79
EURO STOXX 50 Price EUR	-0.57%	2.32%	11.37%	5,035.41
STOXX Europe 600 Price Index EUR	-0.45%	3.11%	8.68%	520.57
Nikkei 225	-0.36%	0.63%	15.49%	38,646.11
Tokyo Stock Exchange Tokyo Price Index TOPIX	-0.11%	-0.02%	15.90%	2,742.54
MSCI AC Asia Pacific Index	-1.36%	2.95%	5.90%	179.39
MSCI AC Asia Pacific Excluding Japan Index	-1.53%	4.21%	6.21%	561.74
MSCI Emerging Markets Index	-1.53%	3.54%	5.79%	1,082.98
Shanghai Shenzhen CSI 300 Index	-2.08%	-0.08%	4.97%	3,601.48
Hang Seng Index	-4.83%	4.76%	9.16%	18,608.94
India NSE Nifty 50 Index	2.02%	1.56%	5.64%	22,957.10
Taiwan Stock Exchange Index	1.44%	5.73%	20.27%	21,565.34
Korea KOSPI Index	-1.36%	-0.17%	1.22%	2,687.60
Singapore Straits Times Index STI	0.09%	0.72%	2.35%	3,316.56
Thailand SET Index	-1.32%	-0.25%	-3.63%	1,364.48
Jakarta Stock Exchange Composite Index	-1.30%	-0.16%	-0.69%	7,222.38
Philippines Stock Exchange PSEI Index	0.02%	-1.20%	2.63%	6,619.89
Vietnam Ho Chi Minh Stock Index / VN-Index	-0.88%	4.33%	11.68%	1,261.93

Source: Bloomberg

Name	WTD	MTD	YTD	Last px
US Generic Govt 10 Year Yield	0.01	(0.05)	0.15	4.47
Euro Generic Govt Bond 10 Year	0.03	(0.00)	0.28	2.58
Japan Generic Govt 10Y Yield	0.06	0.14	0.64	1.01
MARKIT CDX.NA.HY.32 06/24	0.41%	-8.12%	-7.87%	328.30
MARKIT CDX.NA.IG.32 06/24	0.87%	-8.55%	-13.18%	49.23
MARKIT CDX.EM.31 06/24	3.81%	-8.14%	-2.47%	163.34
EUR-USD X-RATE	-0.20%	1.70%	-1.74%	1.08
GBP-USD X-RATE	0.28%	1.96%	0.05%	1.27
CHF-USD X-RATE	-0.61%	0.51%	-8.02%	1.09
USD-JPY X-RATE	0.86%	-0.51%	11.31%	156.99
USD-CNY X-RATE	0.27%	0.04%	2.02%	7.24
USD-HKD X-RATE	0.15%	-0.13%	0.02%	7.81
USD-INR X-RATE	-0.29%	-0.41%	-0.14%	83.10
NYMEX Light Sweet Crude Oil	-2.92%	-5.14%	8.47%	77.72
ICE Brent Crude Oil Future	-2.21%	-6.53%	6.59%	82.12
VIX Index	-0.50%	-23.77%	-4.18%	11.93
Gold Spot	-3.37%	2.08%	13.13%	2,333.83
Silver Spot	-3.91%	15.09%	27.18%	30.26
Palladium Spot	-4.30%	1.30%	-11.98%	968.44
Bitcoin/USD	4.07%	15.00%	61.97%	68,849.43
Etherum/USD	21.37%	25.98%	63.52%	3,732.08

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

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