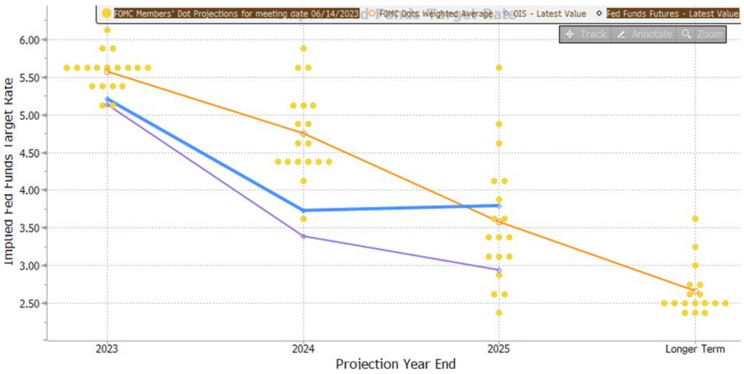
# WEEKLY BULLETIN

June 2023: Issue #2

## Thought of the Week.

From the "hawkish pause" by Fed this week, the market seems to have paid attention to the pause statement rather than the hawkish characteristic. The stock market seems to prove that demand increases with the higher prices, contrary to the traditional economic theories.

The surprising aspect of the decision came with the "dot plot" in which the individual members of the FOMC indicate their expectations for rates further out. The Fed "dot plot" suggests two more 25bps hikes in 2023, pushing the median expectations to a funds rate of 5.6%.




Source: Bloomberg.

I was thinking to title this commentary 'Fed 's rate hike skip makes no sense' since they revised inflation higher, but I realised that the pause is the desired narrative supporting the stock market. Question remains, for how long will this energy booster last? I think the strong market, or more likely the capitulation of bears run is supported by the following:

1. Fed skips one rate hike.
2. Banking crisis is not systemic.
3. Inflation and wages are normalising.
4. AI hype promises solid productivity gains.

and last, but not least: **5. Never fight the tape!**

## Last Week 's Notable Events.

### US Economy/Politics

- May retail sales beat although consumer demand has moderated from the past year – 15th June.
- American consumers' one-year inflation expectations fell by 0.3 percentage point to 4.1% in May – 13th June.
- Yellen told the House Financial Services Committee: Treasury is doing all it can to not disrupt fixed-income markets.

### Europe and UK Economy/Equity

- The Governing Council decided to raise the three key ECB interest rates by 25bps – 15th June.
- Outages of Norwegian natural gas flows are reigniting supply fears and causing a strong price spike – 14th June.
- Google will be hit with an antitrust complaint from the EU – 13th June.

### Asia Pacific Economy/Equity

- Chinese lenders fell after PoC announced a surprise short-term policy interest-rate cut to boost the economy.
- Russia resumed sending oil to North Korea for the first time since 2020 – 15th June.
- Antony Blinken will likely travel to Beijing June 16-19 as the US looks to ease tensions with China.

## Other News and Quotes.

- CPI May 2023 at 4.0% (from 4.9% in April). Fed holds fed funds rate unchanged, the same as BoJ.
- Fed adjust upwards expectations of inflation.

## Weekly Data Monitor.

### Performance

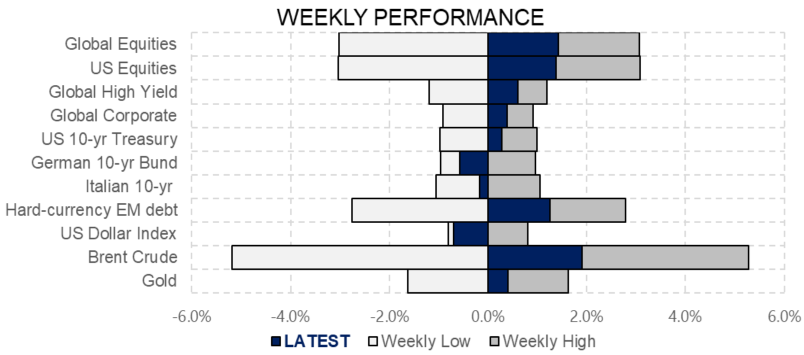
- Strength across the board
- Weaker US$ a biproduct of Fed decision
- Equity market strength

| INDEX | Weekly % | MTD % | YTD % | 1YR % | 3Y % | 5Y % |
|---|---|---|---|---|---|---|
| Global Equity | **2.69** | 6.11 | 14.26 | 19.16 | 36.38 | 44.73 |
| Global Real Estate | **1.39** | 4.18 | 1.73 | -1.42 | 7.53 | 20.40 |
| US Real Estate | **1.89** | 4.94 | 3.23 | 2.20 | 12.63 | 27.80 |
| APAC Real Estate | **0.92** | 4.49 | -2.33 | -4.45 | -11.46 | -20.99 |
| Investment Grade | **0.43** | 1.60 | 5.30 | 7.83 | 7.56 | 17.19 |
| High Yield Bonds | **0.33** | 0.50 | 1.94 | -0.11 | -13.63 | -4.59 |
| Global HF Real Estate | **0.21** | 0.70 | 0.57 | 0.32 | 8.49 | 7.98 |
| Global HY ETF | **2.32** | 2.79 | 9.47 | 8.04 | 28.23 | 21.13 |
| ASIA Real Estate ETF | **2.36** | 1.71 | -2.73 | -13.59 | -8.88 | -0.90 |
| USD Index | **-1.33** | -2.04 | -1.28 | -1.38 | 5.40 | 7.82 |

### Weekly chart:

- Global and US equities moved higher.
- Brent crude higher, after a brief dip.
- Gold and European Bonds keep levels.

Note: The chart shows normalised weekly highs and lows for the Indicator, BLUE being the LATEST.

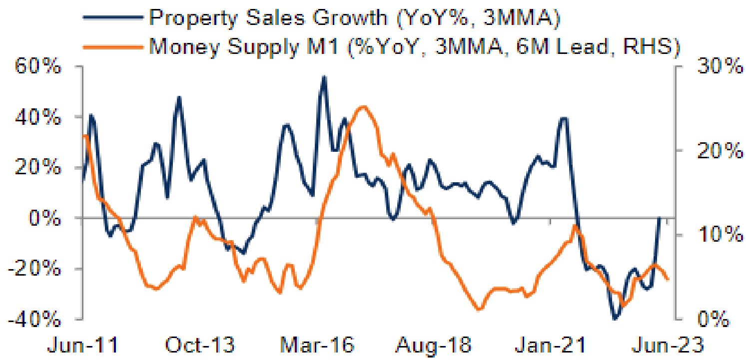



## Chart of the Week.

With the recent actions by PBoC, we are prompted to continue the analysis started two weeks ago, pertaining to the needed recovery expectations in China.

The People's Bank of China reduced the rate on its one-year loans on Thursday after cutting the 7-day REPO rate by 10 basis points to 1.9%, earlier in the week.

What macro data could surprise positively in 2H23?




Source: State Street Global Markets, Bloomberg.

It all boils down to manufacturing and property related indicators, given the stable recovery in domestic consumption. On the property front, there are signs of price stabilization across major tier-1 and tier-2 cities. Property sales are also no longer falling after declining for more than two years, while pressure is mounting for China to announce broad stimulus measures to boost confidence as opposed to city-specific strategies (see the Chart of the Week).

A core issue is that PBoC seem to have limited solutions to support growth, while avoiding flushing the market with excess liquidity. Adding to the continuing concerns over local government debt, this triggered weakness in the current monetary cycle relative to previous surges. One of the core issues that did not bode well with international markets was the lack of fiscal response year-to-date, which is the much-needed confidence boost for expectations to turnaround and for flows to remain sustainable in the medium-term.

The latest actions by PBoC, especially implementing the first rate cut in 10 months, did exactly this – boost confidence and signal their awareness and willingness to support the economy. Furthermore, there are material voices supporting a cut of the loan prime rate, during the meeting scheduled for the 20th of June.