Global Markets Updates

US benchmark yield curve inversion is the largest in nearly 22 years as recession concerns rise

US Treasury 2-Year/10-Year Yield Spread, YTD, as at 13th July

US Treasury 2 & 10-Year Yields, YTD, as at 13th July

- ✓ **The inversion on the US 2-year and 10-year yield curve accelerated on Wednesday to as much as 24.4bps, the most inverted in nearly 22 years. Yield curve inversions are widely seen as precursors to recessions**.

- ✓ **US' inflation jumped 9.1% YoY in June (May: 8.6%), the largest increase in more than four decades**. On a monthly basis, the rise in headline CPI was 1.3%. Core CPI, which excludes volatile food and energy prices, rose to 5.9% YoY (May: 6.0%).

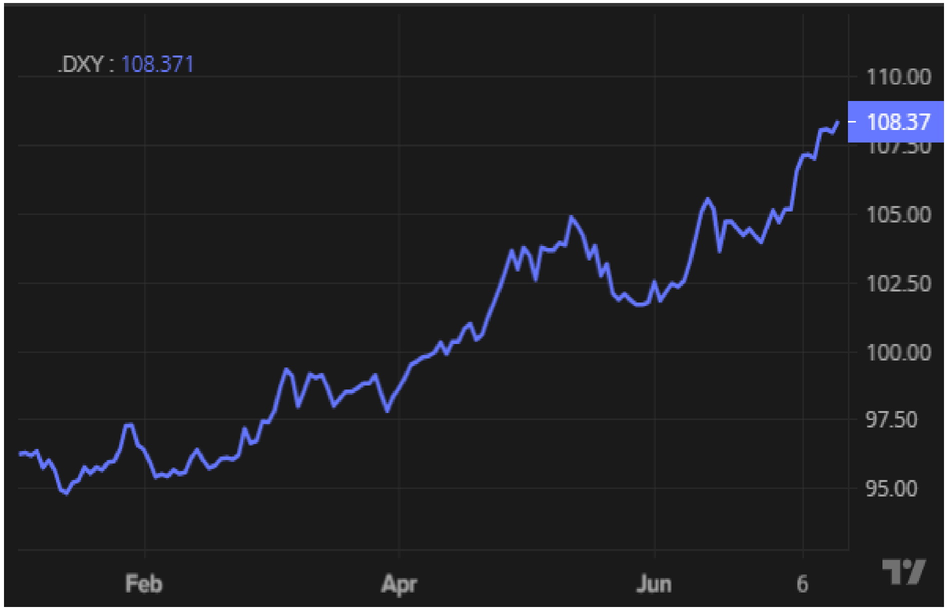
- ✓ **US fed funds futures on Wednesday priced in 54% probability of a 100bps hike at the Fed meeting later this month** vs. 0.2% probability before the CPI data. **The futures market has factored in a fed funds rate of 3.65% by end-2022** after the CPI data vs. 3.41% just before.

- ✓ The US Treasury 2-year yields, which reflect interest rate expectations, surged to a four-week high of 3.215% on intraday trade, meanwhile the US 10-year Treasury yields were last down 5.2bps at 2.904%.

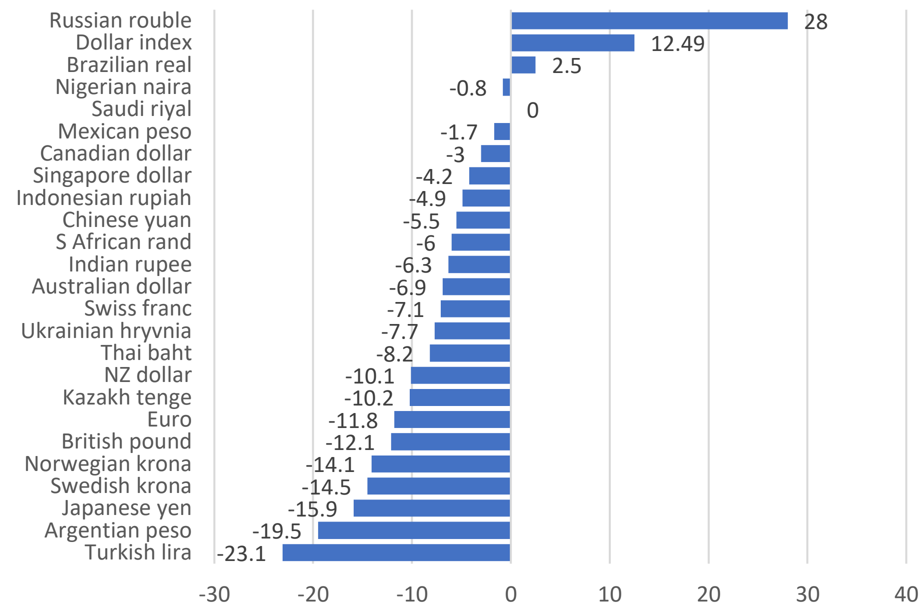
Source: Reuters, VC

The dollar index has gained 12.5% YTD on interest rate hikes expectations and safe-haven flows

DXY (Dollar) Index, YTD, as at 13th July



Global FX Performance YTD, as at 13th July



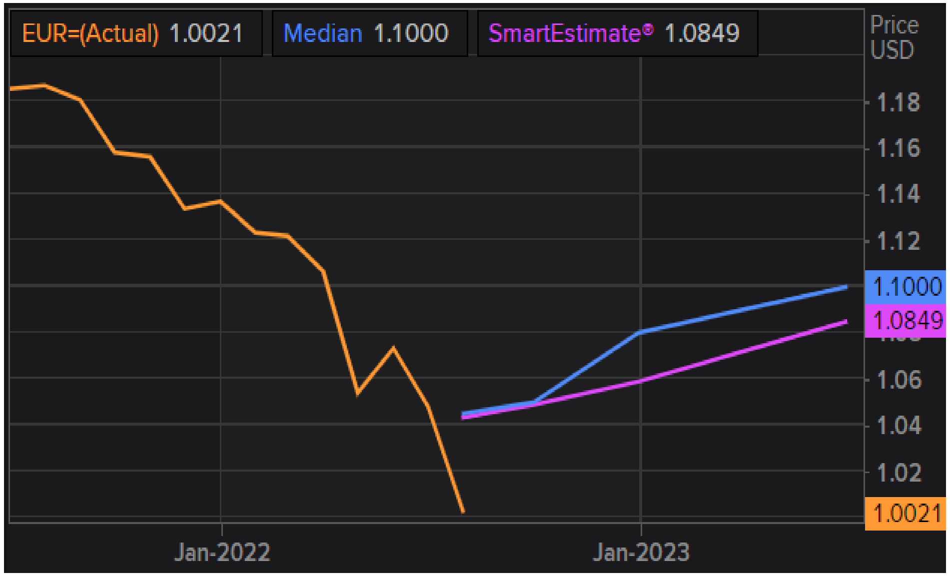
- ✓ The USD resumes its upward trend on Thursday, driven by both expectations for faster US Fed Reserve policy tightening and safe-haven flows amidst growing fears of a recession.
- ✓ The greenback charted new 24-year highs above 128 yen and edged back toward parity with the euro, after briefly breaching the level overnight.
- ✓ The Canadian dollar, Singapore dollar and the Philippine peso surged against the USD after their respective monetary authorities surprised by tightening policy in off-cycle moves.
- ✓ **The dollar index has gained 12.5% YTD** amidst rising US interest rates.

Source: Reuters

Europe and US monetary policies divergence drives euro-dollar parity, high energy prices further drag on the euro

EUR/USD Exchange Rate, YTD, as at 13th July

EUR/USD Exchange Rate Forecasts, as at 13th July



- ✓ The euro is down ~12% against the dollar this year, even if the trade-weighted currency has only dropped 3.3% YTD. According to the ECB, a 1% depreciation of EUR/USD exchange rate raises inflation by 0.1% over 1 year and by up to 0.25% over 3 years.
- ✓ The ECB and the US Fed Reserve are moving at vastly different speeds on monetary tightening. The ECB is expected to raise its key rate for the first time in July, with any further move clouded by recession risks. The markets now see just 135bps of tightening from the ECB in 2022 vs. the US' 150bps rate hikes in 1H22, making USD assets more attractive compared to euro assets.
- ✓ The euro zone's huge energy dependence, primarily on Russian gas, also makes the economy more vulnerable to the fallout of the war in Ukraine, a natural drag on the currency.
- ✓ The euro zone's energy bill has pushed up import costs, leaving it with a rare current account deficit. Such outflows also weaken the currency over time.

Source: Reuters

Global central banks tighten monetary polices to fight resurgent inflation

- ✓ On 13th July, the Bank of Canada surprised markets with a 100bps interest rate hike, the biggest rise in more than 2 decades, in a bid to curb inflation. The markets expected a 75bps rate hike earlier. This puts the key rate at 2.5%, the highest level since 2008. Canada's CPI stood at 7.7% YoY in May, almost 4 times the central bank's 2% target and the highest level since 1983.

- ✓ On 14th July, Singapore's central bank tightened its monetary policy in an off-cycle move, cited the action would slow inflation. The Singapore dollar jumped broadly after the news and was last up almost 0.7% to $1.3963 per dollar, with markets expect further tightening in October. The tightening was the Monetary of Authority of Singapore's fourth in the past nine months.

- ✓ On 14th July, the Philippine central bank raised its key rate by 75bps in a surprise off-cycle move to 3.25%, and signaled its readiness to take further policy action to contain broadening inflationary pressures. The move came ahead of the central bank's regular meeting scheduled for August, and follows two back-to-back rate hikes of 25bps each in May and June.

- ✓ On 30th June, Sweden's central bank raised its key interest rate by 50bps to 0.75%, added that the policy rate will be raised gradually going forward and that it will be somewhat below 2% at the start of 2023.

- ✓ On 16th June, Swiss National Bank surprised markets with a 50bps key rate hike to -0.25%, the first time in 15 years, and stated that it was ready to hike further.

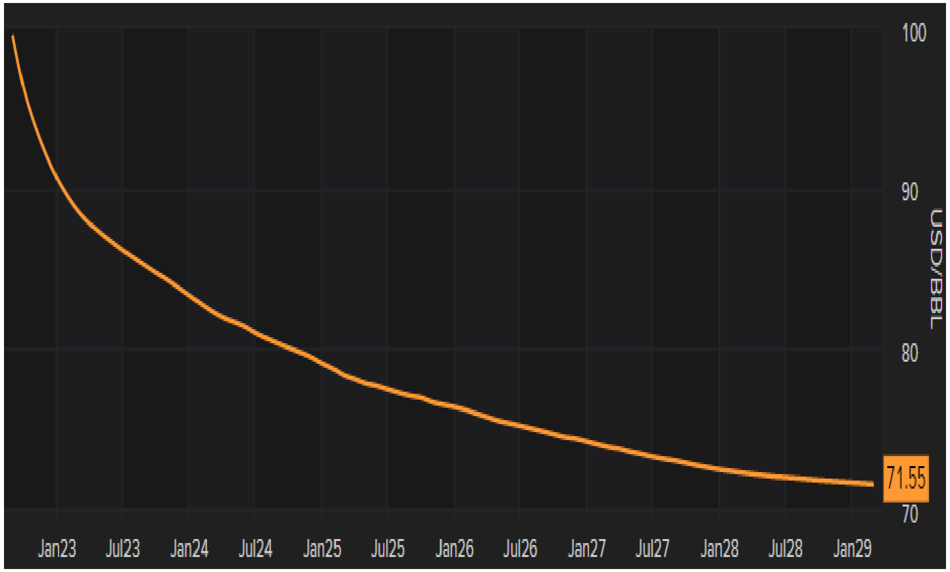
- ✓ On 23rd June, Norway's Norges Bank raised its policy rate by 50bps to 1.25%, its largest single rate hike since 2002. The central bank later announced that a further rate hike to 1.5% is likely in August. June's rate hike exceeded its own forecast in March of an increase to 1.0%.

Source: Central banks, Reuters

Oil prices rise ahead of potential large US rate hike

Brent Oil Price, YTD, as at 14th July

Brent Forward Curve, as at 14th July

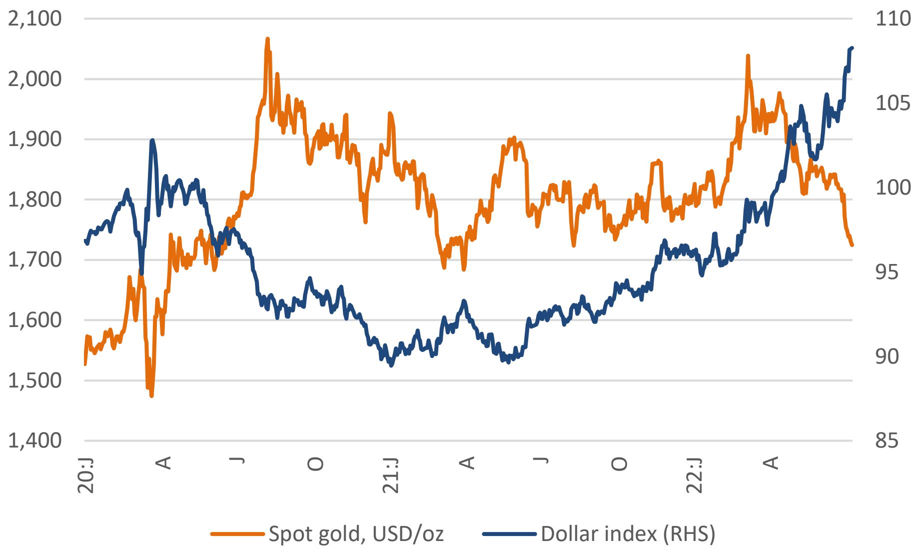


- ✓ Oil prices rose on Thursday, with Brent breaking above $100pb, as investors weighed tight supplies against the prospect of a large US rate hike that would stem inflation and curb crude demand.
- ✓ Brent crude futures for September climbed 68 cents, or 0.7%, to $100.25pb by 0400 GMT after settling below $100 for the second straight session on Wednesday. US West Texas Intermediate crude for August delivery was at $96.85pb, up 55 cents, or 0.6%, after rising 46 cents in the previous session.
- ✓ Oil prices have tumbled in the past two weeks on recession concerns despite a drop in crude and refined products exports from Russia amidst Western sanctions and supply disruption in Libya.
- ✓ Oil prices are currently driven by market sentiment, there is no significant change in oil supply fundamentals, and the markets expect Brent to hold around $100-level.

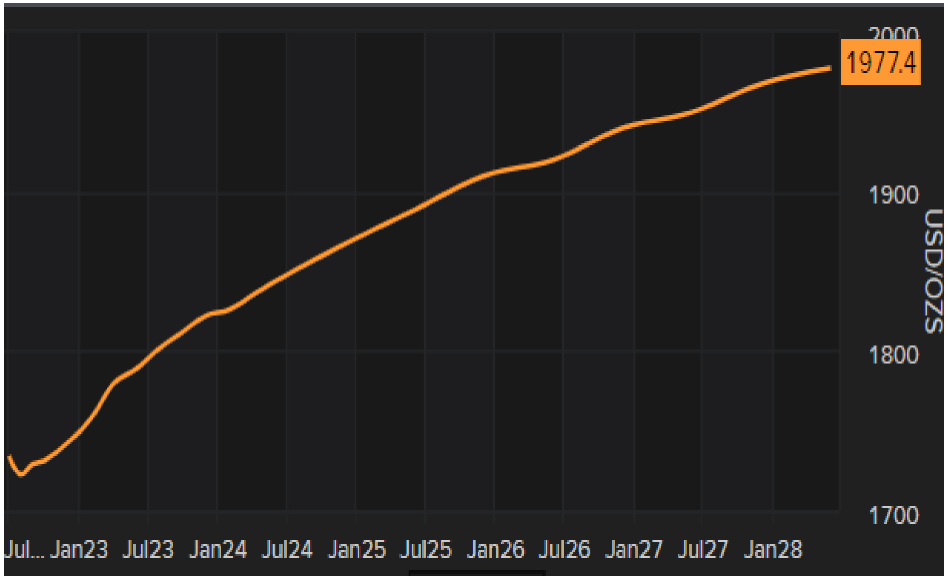
Source: Reuters

Gold faces selling pressures as higher interest rates hurt the non-interest bearing bullion

Spot Gold vs. USD Index, as at 13th July



Gold Price Forward Curve, as at 13th July

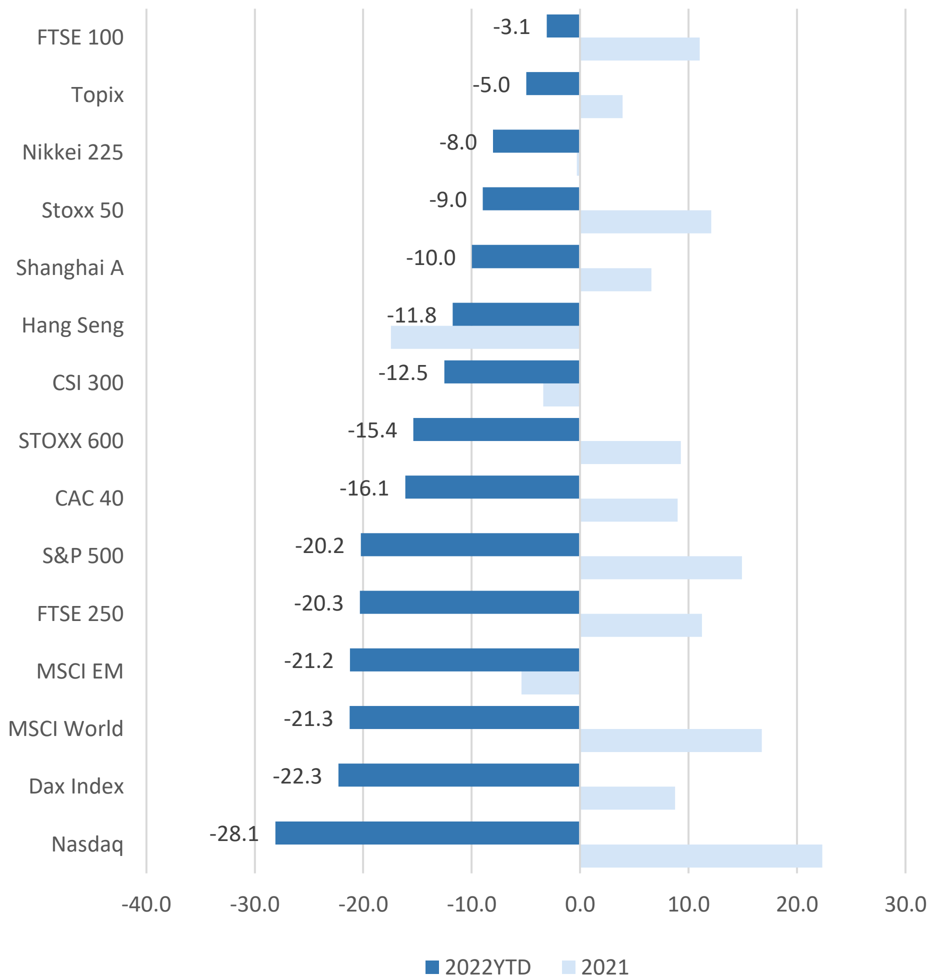


- ✓ Gold prices slipped on Thursday, with the bullion's outlook hurt by fears the US Fed Reserve could go for a more aggressive interest rate hike this month to fight sky-rocketing inflation.
- ✓ Spot gold fell 0.2% to $1,731.19 per ounce by 0312 GMT. US gold futures dropped 0.5% to $1,727.30. Spot gold may retest a resistance at $1,739 in the near-term. Spot gold fell 4.5% YTD.
- ✓ Although gold is seen as an inflation hedge, higher US interest rates and yields hurt the appeal of bullion (it is a non-interest bearing asset).

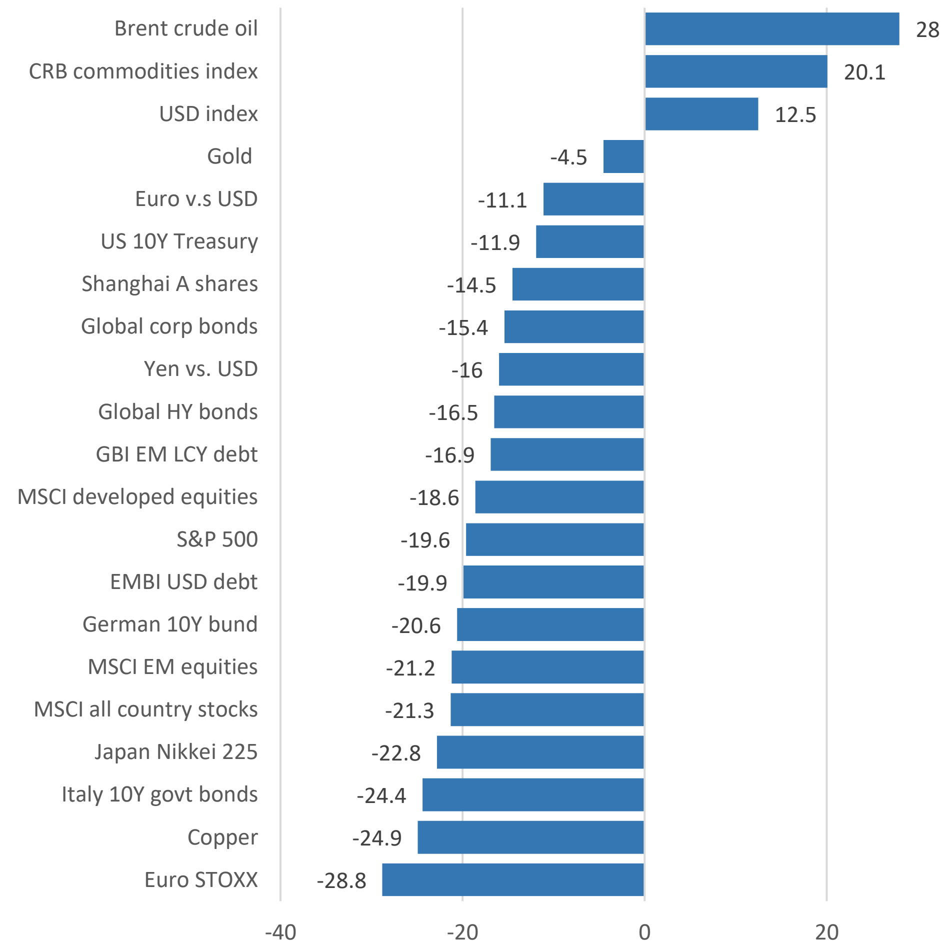
Source: Reuters, LBMA PM spot gold database, VC

Equities wallow as US inflation data boosts recession fears

Global Equities Performance, YTD % change, as at 14th July



Global Assets Performance, YTD % Change, as at 14th July



Source: Reuters, VC

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