

ALPHA

MONTHLY REVIEW

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06/23

June 2023 - Highlights

1. Fed keeps rates unchanged as falling inflation spurs market rally
2. UK records economic growth as central bank hikes rates 0.5%
3. China's recovery stagnates as central bank lowers rates 0.1%
4. Japan's Nikkei continues bullish run, reaching 30 year highs
5. China's rate drop dampens RMB as the Yen's down trend persists

Jun 2023 MoM Market Snapshot

DOW JONES	34,407	+ 4.6%
FTSE 100	7,531	+ 1.1%
HANG SENG	18,916	+ 3.7%
WTI OIL	70.64	+ 3.7%
GOLD	1,929	- 2.7%
EUR / USD	1.091	+ 2.2%
US 10YR T-NOTE	3.84	+ 0.19



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US Markets Review

DOW JONES	34,407	+ 4.6%
S&P 500	4,450	+ 6.5%
NASDAQ	13,787	+ 6.6%

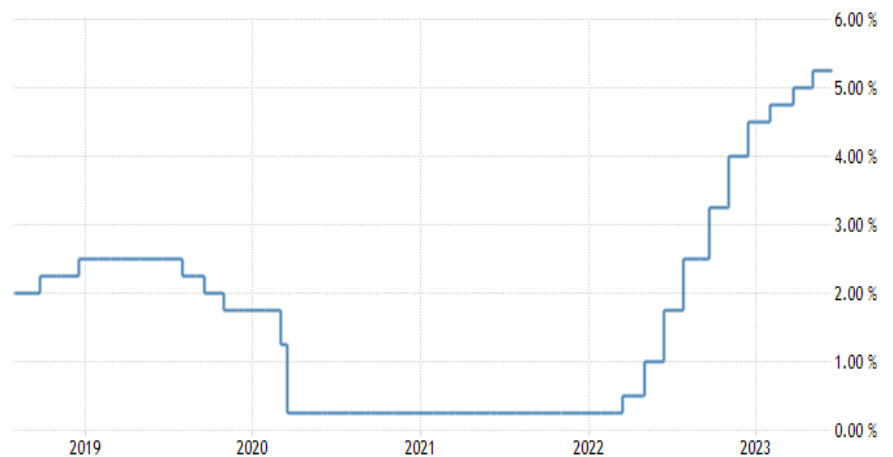
MoM Jun 23

The Fed reached unanimous agreement to keep interest rates unchanged this month, the first pause in rate hikes since it hikes began in early 2022, as it sought to give officials more time to assess market data. However, Fed Chairman Jerome Powell unexpectedly announced that almost all members were in favour of further rate rises this year, suggesting two more rate hikes in the second half of the year, thoroughly undermining some investors' predictions that rates had peaked. US inflation registered 4% in May, down sharply from 4.9% in April and better than the 4.1% expected by the market. In addition, core inflation registered 5.3%, a further moderation from April's 5.5%, also broadly in line with market expectations. The Dow Jones index rose 4.6% to close at 34,407, the S&P500 index rose 6.5% to close at 4,450 and the NASDAQ index rose 6.6% to close at 13,787.

US employment data released this month shocked the market once again as non-farm payrolls rose by an unexpected 339,000 in May, the highest since January, far exceeding expectations of 195,000 and revising the April figure to 294,000. However, the unemployment rate unexpectedly rebounded to 3.7%, slightly higher

The Fed began a long road of rate hikes in early 2022, but decided to pause this month

US Federal Reserve Funds Rate Jun 2019 - Jun 2023



than the 3.4% recorded in April. Nevertheless, the labour force also expanded to a record high of 166.8 million, as long-term job supply and demand constraints continue to ease.

In addition, the US government's revised GDP figures show that Q1 GDP rose by 2%, up 0.7% from the original figure and significantly higher than the 1.4% expected by the market. By month end, Powell noted that recent positive economic data had reduced the likelihood of a recession in the US, but stressed that he would not rule out the possibility of two consecutive interest rate hikes in the second half of the year, nor would he consider changing the current pace of tapering. Powell also said that it was

too early for some investors to discuss or predict future interest rate cuts, and suggested that a return to easing should not be considered until inflation returns to the Fed's target range.

Moreover, US diplomat Blinken visited China this month and met with his Chinese counterpart Qin Gang before meeting with Chinese President Xi Jinping, raising hopes of easing tensions between the long-standing political stalemate in US-China relations. Despite talks ranging from Taiwan to trade, stark political differences remain as no constructive consensus seemed to have been reached, other than the suggestion that both countries would maintain constructive dialogue in the future.

European Markets Review

FTSE 100	7,531	+ 1.1%
DAX	16,147	+ 3.1%
CAC 40	7,491	+ 5.5%
STOXX 600	461	+ 2.2%

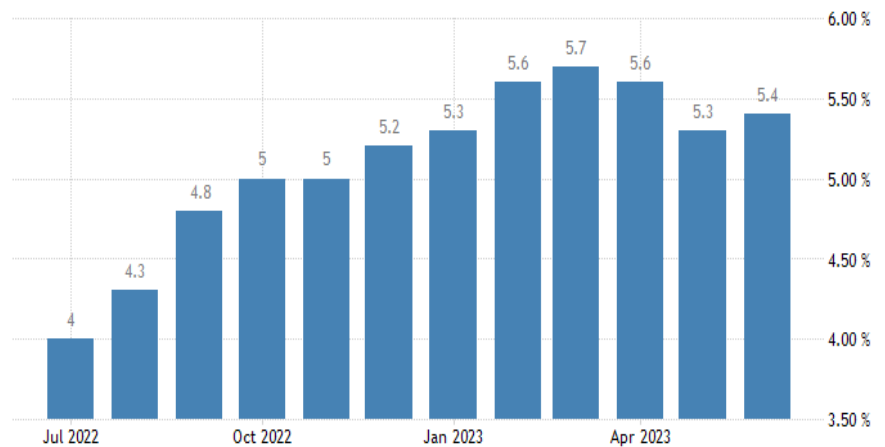
MoM Jun 23

The ECB raised interest rates again this month by 0.25% as expected, as it simultaneously elevated its core inflation forecast significantly from 4.6% to 5.1%. Although the Eurozone's inflation rate for May came in at 6.1%, down significantly from 6.9% in April, and core inflation fell from 5.6% in April to 5.3% this month, ECB President Christine Lagarde maintained her usual conservative stance, stating that core inflation is still well above the 2% target and that restrictive monetary policy will continue, driving market projections that the ECB will raise rates again in July. The STOXX600 index rose 2.2% this month to close at 461.

The UK government announced that average wage growth in the three months from February to April rose to 7.2%, up from 6.8% in the January to March quarter, and above the 6.9% expected by the market, recording a historic high. In addition, UK GDP grew by 0.5% in April, up from 0.3% in March, and by 0.2% on a monthly basis, well above the -0.3% growth seen in March. The UK continues to suffer one of the highest rates of inflation across the developed world, coming in at 8.7% in May, the same level as April, but rising by 0.7% on a monthly basis, above the 0.5% previously forecast. This positive

Core inflation in the Eurozone has not shown a clear downfall trajectory in recent months

Eurozone Core Inflation Jul 2022 - Jun 2023



economic data and high inflation drove the central bank to surprise with a 0.5% hike this month, as the market braces for more rate increases in the near term. The FTSE 100 index rose 1.1% this month to close at 7,531.

After Germany officially fell into a technical recession last month, German economic minister Habeck issued a relatively positive forecast this month, noting that the technical recession is only a short-term phenomenon and predicting GDP growth of 0.4% for the year as a whole, with growth ranging from 1.6-1.9% for next year. Inflation in Germany also declined significantly this month, coming in at 6.1% in May, well below the 7.2% recorded in April and below market

expectations of 6.4%. The DAX index rose by 3.1% to end the month at 16,147.

The French government released its latest economic outlook this month, forecasting GDP growth of 0.6% for the year as a whole, well below the 2.5% forecast back in 2022 and below the 1% forecast made by French president Macron at the start of the year. Meanwhile, as rumours continue to circulate that individual international credit rating agencies will lower France's current 'AA' rating to 'AA-', relatively smaller agencies have already downgraded France's credit rating in recent times as political turmoil persists in the country. The CAC40 index ended the month at 7,491, up 5.5%.

Asian Pacific Markets Review

HANG SENG	18,916	+ 3.7%
SSE	3,202	- 0.1%
TAIEX	16,915	+ 2.0%
NIKKEI	33,189	+ 7.5%

MoM Jun 23

China's economic data continued its recent weakening trend, with the rate of increase falling short of market expectations. Although manufacturing PMI, export orders and production indexes all recorded growth in May, they all declined on a monthly basis, indicating a lack of continuity in economic momentum. On the other hand, the property market, which has been under pressure for the past year, continued to trend lackluster, with total investment in property development falling by 7.2% from January to May this year, down another 1% from the previous month, including a 6.4% drop in residential investment. In addition, the youth unemployment rate hit a new high of 20.8% in May, after topping 20% for the first time last month, with around six million young people in the country unemployed. In the face of sluggish economic recovery, the People's Bank of China announced this month that it would cut interest rates by 0.1% on the SLF, MLF and LPR benchmark lending rates, and would conduct a RMB2 billion reverse repo operation to lower the effective lending rates for local enterprises and residents to stimulate credit demand. The Shanghai Composite Index (SSE), fell 0.1% this month, to close at 3,202.

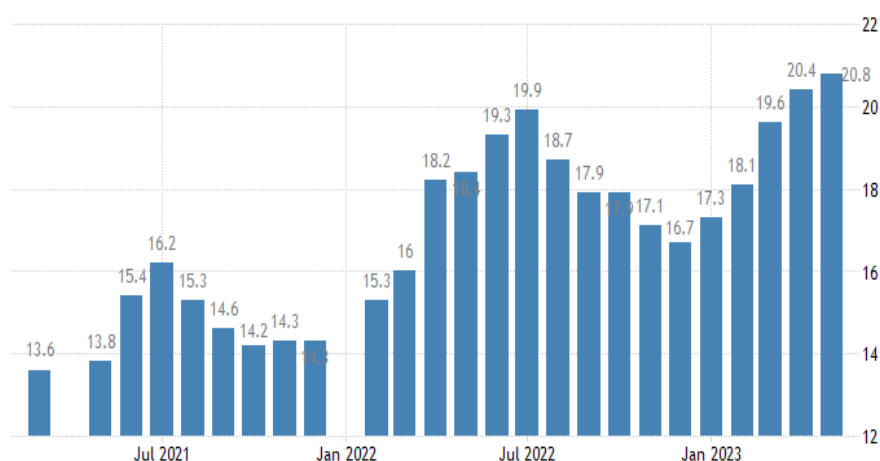
After a marked rebound in Q1, economic activity in Hong Kong has slowed recently, as local PMI readings lacked continuity after a strong upturn earlier in the year, declining for two consecutive months in April and May. Although external export orders were slightly lower in May than in April, new orders from Mainland China recorded the largest annual increase in nearly 13 years, suggesting that cross-border trade between Hong Kong and China has largely returned to normal after the pandemic, which is conducive to Hong Kong's continued economic recovery. The Hang Seng index ended the month at 18,916, up 3.7%.

The Bank of Japan kept interest rates and its yield curve control mechanisms unchanged this month,

in line with market expectations, as central bank chief Kazuo Ueta said that a premature rate hike might pose greater risk than delayed tightening of monetary policy, again dampening some investors' forecasts that Japan would likely follow other countries in raising interest rates. On the other hand, inflation has slowed significantly in recent times, with annual inflation dipping to 3.2% in May after hitting a four-decade high of 4.3% in January. Japan's economy remains solid, with data continuing to trend positively as unemployment remains in the low 2.5-2.6% range. The continued positive economic data has spurred the influx of foreign capital into the country as the Nikkei index rose to its highest level in more than 30 years, closing at 33,189, up 7.5% for the month.

China continues to suffer high youth unemployment, as it reaches historic highs this month

China Youth Unemployment Rate Mar 2021 - May 2023



Commodities and Forex Review

GOLD	1,929	- 2.7%
SILVER	23.02	- 2.4%
WTI OIL	70.64	+ 3.7%
EUR / USD	1.091	+ 2.2%
USD / JPY	144.32	+ 3.6%

MoM Jun 23

The Forex market experienced relatively high volatility this month, with the individual movements of different currencies being the focus of attention, including, of course, the US dollar. After its recent bullish trend, momentum in the the US dollar was dampened by the Fed's decision to suspend rate hikes this month, against the backdrop of other developed countries such as Canada and Australia returning to the path of rate hikes after pausing briefly, thereby lowering the performance of the US dollar on a relative level. Although the Fed revealed that it would most likely raise interest rates twice before the end of the year and hinted that it would not return to easing in the near term, it was not enough to reverse the USD's decline this month, driving the DXY index down 1.4% to close at 102.91 for the month.

Despite the relative weakness of the US dollar this month, its performance against the Chinese RMB remained positive. In the face of a slowing economic recovery, the People's Bank of China cut interest rates for the first time in almost 10 months to stimulate economic activity, directly dampening the performance of the offshore RMB. The market remains conservative on the outlook of China's economy, with

individual top US banks including Goldman Sachs and JP Morgan downgrading their forecasts for China's growth this month, and with US diplomat John Blinken's visit to China failing to bring clarity to the long-running US-China political stalemate, the USD/RMB dropped 1.9% to 7.25 this month, back to levels last seen in November last year.

The Japanese Yen also fell sharply this month as the gap between the Bank of Japan's long-standing commitment to ultra-loose monetary policy and the restrictive monetary policy stance of the European and US central banks widens further. Although inflation in Japan remains relatively low, the Yen's downward trend became more pronounced this month against the

backdrop of continued interest rate hikes in developed countries as the USD/JPY rose 3.6% for the month to close at 144.32.

In the commodity markets, OPEC+ announced this month that it would extend its production cut agreement to 2024 and unexpectedly lowered its full-year production target for 2024 by an estimated 1.4 million barrels per day. On the other hand, Saudi Arabia surprised the market by announcing that it would implement a unilateral production cut of 1 million barrels per day for at least one month starting in July, sending crude production in the country to below 9 million barrels, a record low since mid-2021. WTI crude oil rose by 1.7% for the month to end June at 70.64.

As China lowers interest rates this month, the USD/RMB returned to its November 2022 highs



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