Alpha Capital Group

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ALPHA
MONTHLY REVIEW

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July 2023 - Highlights

1. US inflation continues to fall as strong Q2 GDP growth spurs stocks
2. ECB hikes rates by 0.25% again as it suggests a pause in September
3. German manufacturing slows as France suffers more civil unrest
4. China's GDP growth disappoints as housing sector worries resurface
5. Japan adopts flexible yield curve control and crude oil rallies

July 2023 MoM Market Snapshot

DOW JONES	35,559	+ 3.3%
FTSE 100	7,699	+ 2.2%
HANG SENG	20,078	+ 6.1%
WTI OIL	81.81	+ 15.8%
GOLD	2,009	+ 4.2%
EUR / USD	1.099	+ 0.7%
US 10YR T-NOTE	3.959	+ 0.11

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FEATURES

US Markets Review

DOW JONES	35,559	+ 3.3%
S&P 500	4,588	+ 3.1%
NASDAQ	14,346	+ 4.1%

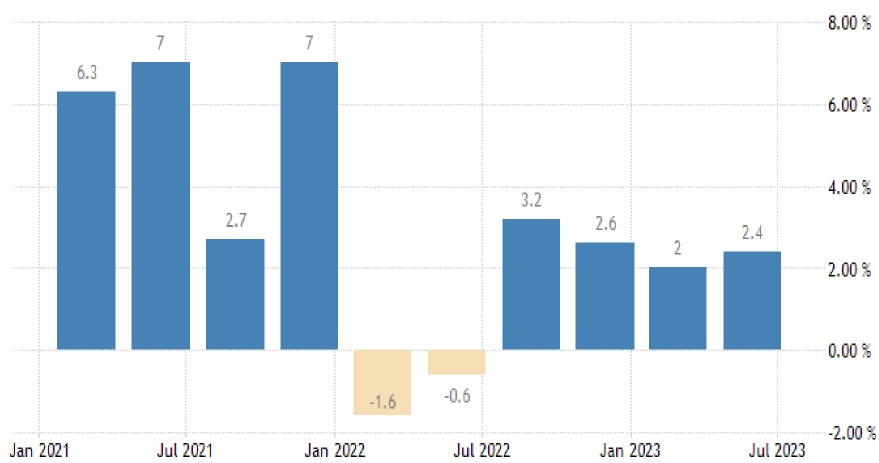
MoM Jul 23

US markets extended its recent bullish run this month, with the Dow Jones Index posting 13 consecutive days of gains, the longest stretch since 1987. US Q2 GDP grew 2.4%, and was not only higher than the 2% in Q1, but also significantly higher than the 1.8% expected, dampening the "hard landing" forecasts of some investors. In addition, inflation in the US continued to fall in line with recent trends, with June's inflation coming in at only 3%, well below May's 4.1% and market expectations of 3.1%. On the other hand, the Fed received support of all members to raise interest rates by 0.25% again to 5.25 ~ 5.50%, also in line with the market expectations. The Dow Jones index rose 3.3 to close at 35,559; the S&P 500 index rose 3.1% to close at 4,588; and the NASDAQ index rose 4.1% to close at 14,346.

The US job market continued to surprise positively with non-farm payrolls increasing by 209,000 in June, slightly above market expectations, and the overall labour force rising further to a record high of 166.9 million. The unemployment rate also fell to 3.6%, down from 3.7% in the previous month, suggesting that the US population continues to return to the job market. However, with the unemployment rate still at a historically low level, overall consumption levels should remain buoyant in the short term, which may also put some upward pressure on inflation.

A brief technical recesssion in 2022 notwithstanding, US GDP growth has remained steady

US Quarterly GDP Growth Rate Q1 2021 - Q2 2023



Also noteworthy are Fed Chairman Jerome Powell's comments this month, which differed substantially to his previous conservative tendencies. Powell said that the US economy remains strong and noted for the first time since the start of the interest rate hike regime that he no longer expects the US to suffer a recession in the near term. Powell also hinted that if inflation continues its steady downward trend, the Fed will likely begin to pause rate hikes before inflation reaches 2% on an annual basis, as former Fed Chairman Ben Bernanke also made a high-profile prediction this month that the Fed's interest rate hike agenda has come to an end.

On the other hand, many US companies announced their Q2 earnings results before the end of the month, with JPMorgan Chase, Citigroup and other banking giants reporting revenues and earnings higher than market expectations. As for the technology sector, apart from Microsoft, which announced that it would lower its revenue forecast for Q3 of this year, sparking a brief decline, other tech giants such as Google and Meta also reported strong Q2 financial results, which helped drive the NASDAQ index to five consecutive months of gains.

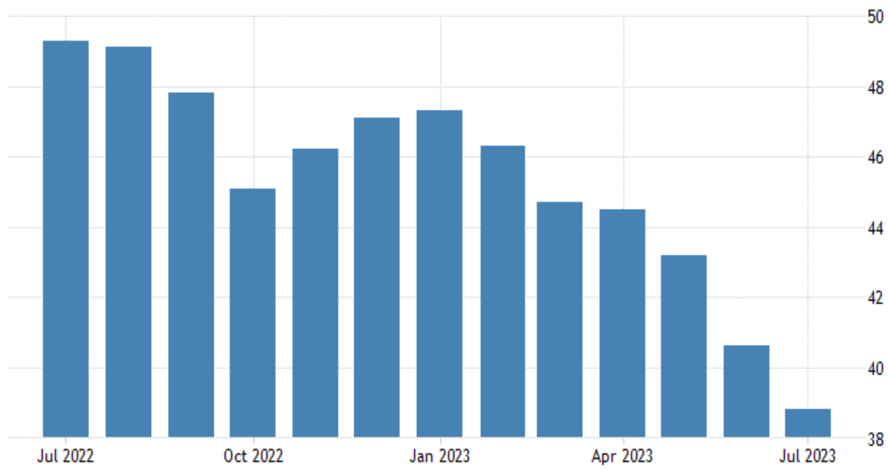
European Markets Review

FTSE 100	7,699	+ 2.2%
DAX	16,446	+ 1.9%
CAC 40	7,497	+ 0.1%
STOXX 600	471	+ 2.2%

MoM Jul 23

Germany's manufacturing slowdown persists as it records its 6th consecutive monthly decline

Germany Manufacturing PMR July 2022 - July 2023



The ECB raised rates again by 0.25% at the end of this month, as widely expected by the market, but also surprisingly lowered the minimum deposit reserve rate to 0%. In addition, ECB chief Christine Lagarde swayed from her usual conservative stance, by raising the possibility of suspending interest rate hikes in September, spurring a rally in European stocks. Although Lagarde insisted that the chances of economic deterioration in the Eurozone are relatively high, the downward trend in inflation remains apparent. The Eurozone's inflation rate of 5.5% in June was also lower than the 6.1% recorded in May, in line with expectations, as investors begin to consider the end of the road for rate hikes in Europe. The STOXX 600 index rose 2.2% this month to close at 471.

The UK continues to suffer the highest level of inflation amongst the G7 group of countries. Although inflation fell to 7.9% in June, down from 8.7% in May, core inflation fell by a relatively small amount to 6.9%, slightly lower than May's 7.2%, with service inflation, such as rent prices, remaining stubbornly high. UK Prime Minister Rishi Sunak declared this month that inflation has been more persistent than originally expected, and reiterated his support to continue to raise interest rates, just as US-based JP Morgan predicted that UK interest rates could have to rise to 7% in order to effectively combat inflation. The FTSE 100 index rose 2.2% to end the month at 7,699.

The continued deterioration of the German manufacturing sector was evident in the economic data released this month as manufacturing PMI fell to 38.8 in July from 40.6 in June, the lowest level since May 2020, recording the third consecutive month of decline. In addition, Germany's ZEW economic sentiment index fell to a new low in July, falling from -8.5 in June to -14.7, below market expectations of -10 as it records the third consecutive month in negative territory. The DAX, however, ignored the negative economic data and hit a record high mid-month, closing at 16,446, up 1.9%.

France faced more riots earlier this month as the shooting of an French African teenager by police in Paris sparked renewed unrest nationwide, with more than 4,000 people detained by month end. Although the protests have subsided, the unrest is estimated to have caused more than €1.1bn of damage to the economy. However, France's economic data released this month continued its positive trend, with GDP growth of 0.5% in Q2 beating expectations of 0.1%, highlighting the country's outperformance amongst Europe's major economies, with the CAC 40 index rising 0.1% to end the month at 7,497.

Asian Pacific Markets Review

HANG SENG	20,078	+ 6.1%
SSE	3,291	+ 2.8%
TAIEX	17,145	+ 1.4%
NIKKEI	33,172	- 0.1%

MoM Jul 23

Speculation of a slowing Chinese economy intensified again this month as China's Q2 GDP rose by 6.3% on the back of a low base period, higher than Q1's 4.5% but well below the 7.4% expected. In addition, China's official manufacturing PMI for June was 49.0, slightly higher than May's 48.8, signalling continued contraction. Moreoever, inflation rose by 0% in June, lower than the expected 0.2%, giving rise to whispers that China is on the verge of a deflationary spiral. In addition, the youth unemployment rate rose to 21.3% from 20.8% in the previous month, again marking record high. Markets are still looking for a stronger stimulus from the government, but the PBoC did not cut rates this month, after having already done so in June. The Shanghai Composite Index closed at 3,291, up 2.8%.

The Hong Kong government announced this month that total retail sales for May grew by 18.4%, a slight decline from April, but a clear reflection of the overall growth in consumer spending driven by the return of tourists, and the second phase of the $2,000 e-vouchers that the government began to distribute this month should continue spur growth in consumption. However, Hong Kong's trade performance is still lacking, as total exports fell 15.6% in May, whilst YTD exports dropped 16.3%. On the other hand, after China's Wanda Group announced a funding gap in its overseas debt, Hong Kong-listed mainland property developer leader Country Garden was also affected, as the company's bonds cascaded, sparking a sell off in its stock as alarm bells concerning mainland China's property market sounded once again, despite the Chinese government pledging at the end of the month to provide more support and announce adjustments to its property policy. The Hang Seng Index rose above 20,000 points again this month, up 6.1% to close at 20,078.

Japan formally implemented a chip export ban this month, including 23 types of high-end semiconductor manufacturing equipment in the scope of export control, aimed at restricting China's development in the semiconductor market. In addition, with slowing global demand hitting exports, the Japanese government decided to cut its GDP growth forecast for this year from 1.5% to 1.3%, and expects growth for the whole of next year to reach 1.2%, lower than the previous projection of 1.5%. On the inflation front, Japan's inflation for June was 3.3%, slightly higher than the 3.2% recorded in May, but lower than the market's forecast of 3.5%, as the country's headline inflation still remains relatively low compared to other developed countries. The Nikkei was down 0.1% for the month, closing at 33,172.

China's inflation has slowed to a crawl in recent times, sparking rumours of imminent deflation

China Inflation Rate Aug 2022 - Jun 2023

Commodities and Forex Review

GOLD	2,009	+ 4.2%
SILVER	24.97	+ 8.5%
WTI OIL	81.81	+ 15.8%
EUR / USD	1.099	+ 0.7%
USD / JPY	142.27	- 1.4%

MoM Jul 23

In the foreign exchange market, expectations for a pause in rate hikes at the Fed's next meeting has grown since the rate hike this month, causing the US dollar to fall with the DXY index falling below the 100 mark at one point. As developed economies such as Canada and the Eurozone continued to raise rates, the movement of funds away from the US dollar to other currencies that still have room for rate hikes is starting to become clearer. However, the US' strong Q2 GDP data allowed the US dollar to rebound as the short-term outlook for the economy remains favourable, while the risk of recession in the Eurozone remains relatively higher, strengthening the attractiveness of the US dollar as the market begins to predict a "soft landing" for the US. Despite this, the supposed end in sight for the Fed's rate hike agenda remains as the dollar recorded a decline this month, with the DXY index falling 1% to close at 101.86.

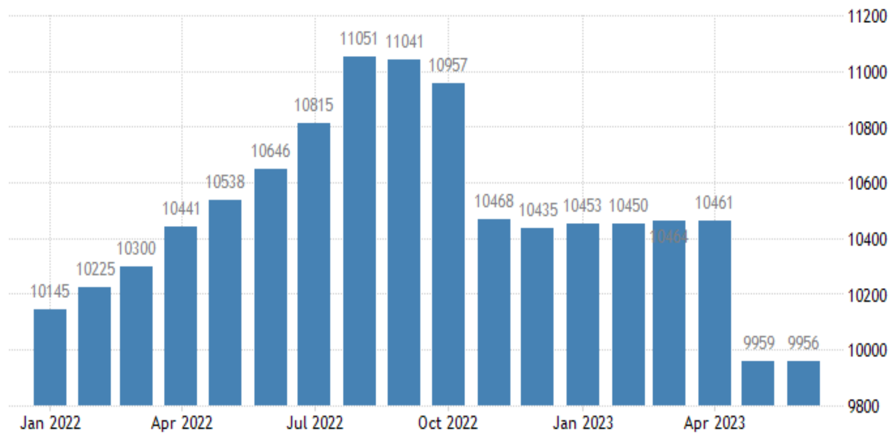
The Japanese Yen was also a key concern for the foreign exchange market this month. The BoJ took the initiative to adjust its interest rate control policy this month by adopting a flexible control model, and at the same time purchased a large amount of 10-year bonds, proving that it has actually relaxed its interest rate control ceiling above the original 0.5%, pushing the Yen up. Although Japan's inflation is still low compared to other developed nations, the market is still doubtful whether the BOJ can avoid raising rates altogether. USD/JPY ended the month at 142.27, down 1.4% .

In the crude oil market, the three major international energy agencies' (EIA/IEA/OPEC) outlook report this month once again raised this year's global daily crude oil demand forecast, from last month's average of 2.11 million barrels per day to 2.13 million barrels per day, hitting a new record high since the beginning of the year, as the main driver of demand comes from non-OECD countries, with China and India leading the way. This coupled with Saudi Arabia's continued production cuts and Russia continuing to reduce its crude exports, the crude oil market has shifted to relative tightness in the short term, leading to a marked increase in crude oil prices this month, as WTI oil rose by a staggering 15.8% to end the month at 81.81.

Recent movement in gold prices also sparked interest as markets projected that the Fed's suspension of rate hikes would push the US dollar lower, as capital redirected to gold, allowing gold prices to experience its biggest monthly gain in four months. However, with global risk aversion diminishing and inflation continuing to trend downward, it remains to be seen whether gold can sustain long-term growth. Gold rose 4.2% to end the month at 2,009, the highest since May.

Saudi Arabia's oil production cuts since late last year has helped to sustain oil prices

Saudi Arabia Monthly Crude Oil Production Jan 2022 - - Jun 2023



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