BIZCOMMUNITY

Shares rise, Treasury yields fall as US jobless claims surge

By Marc Jones and Koh Gui Qing

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World stocks rose on Thursday, 8 June and Treasury yields edged lower as investors leaned toward bets that the US Federal Reserve is likely to abstain from raising interest rates next week.

Source: Reuters.

This view was bolstered by Thursday's data showing the number of Americans filing new claims for unemployment benefits surged to their highest in over one and a half years.

On Wall Street, the S&P 500 jumped 0.62%, the Dow Jones Industrial Average added 0.5% and the Nasdaq Composite jumped 1.02%.

The pan-European benchmark Stoxx 600 index was flat, while Asian markets struggled overnight. Morgan Stanley Capital International's broadest index of Asia-Pacific shares outside Japan edged up just 0.1%. Still, helped by gains on Wall Street, the MSCI's broadest index of world stocks rose 0.51% to hover under a 13-month high.

"The ultimate question for risk markets is whether the Fed might follow up with a hike of their own next Wednesday or whether they'll finally keep rates on hold after a relentless hiking pace," said Stephen Innes, managing partner at SPI Asset

Management.

Judging by recent comments from the Fed's leadership, Innes said the US central bank has shown its preference for pausing rate hikes right now.

The Treasury market seemed to agree, as yields tumbled on concerns that the spike in new US jobless benefits claims suggested a potential recession could be on the horizon.

The two-year Treasury yield, a barometer for where the market perceives future Fed policy, edged down to 4.5085%, while the yield on benchmark 10-year notes slid to 3.712%.

The spread of the Treasury yield curve based on two- and 10-year notes was at -79.6 basis points. An inverted curve, with shorter-dated debt yielding more than longer-dated debt, is considered a harbinger of a recession.

At the same time, some analysts warned against thinking that rate hikes are over.

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In an almost carbon copy of a surprise rate rise in Australia this week, Canada caught markets off guard on Wednesday, 7 June, by hiking interest rates to a 22-year high of 4.75% due to an overheating economy and stubbornly high inflation.

"The main theme to everything out there is the bond sell-off and the realisation that the pause (in the rate hiking cycles of central banks) doesn't mean the end," said Societe Generale strategist Kit Juckes.

"We are definitely repricing rate expectations higher," he added, explaining that traders were also questioning the long-held view that the Fed would end its rate hike cycle well before the European Central Bank.

The Fed, ECB and Bank of Japan all have interest-rate decisions next week, causing most traders to shy away from any major buying or selling.

Lower Treasury yields weighed on the dollar, which fell 0.69% after hitting a three-month high last week. It has risen more than 2.5% against the world's other top currencies over the last month.

Markets are pricing in a 64% chance of the Fed standing pat next week, compared with 78% just a day earlier, the CME FedWatch tool showed. Traders largely expect a 25 basis point hike in July though.

Trying times

Japan's yen strengthened 0.9% to 138.93 per dollar after revised data showed the economy grew more than initially thought in January-March.

The euro rose 0.78% above $1.07 again, while the Canadian dollar consolidated gains from the Bank of Canada's surprise hike.

"The RBA and Bank of Canada have put the cat among the pigeons a bit," said CMC Markets strategist Michael Hewson. "Rate cuts are being repriced. They are being pushed back from the end of this year into next year."

In commodity markets, oil slipped with both Brent and US crude futures falling over 1.5% to $75.63 and $70.97 per barrel respectively on the day. Traders said a larger-than-expected rise in US gasoline inventories had raised concerns about demand.

Gold prices steadied following a 1% drop in the previous session, with spot gold up 1.3% at $1,964.08 an ounce.

In emerging markets, Turkey's lira inched to another record low. The lira nosedived 7% on Wednesday on signs that Tayyip Erdogan's newly re-elected government is abandoning an 18-month strategy of keeping the currency on a tight leash.