ALPHA
MONTHLY REVIEW

Unit 807, Capital Centre
151 Gloucester Road, Hong Kong

Tel: +852 2539 9088
Fax: +852 2880 0005
Email: alpha.cs@alphacapital-group.com

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May 2023 - Highlights

1. US debt ceiling drama unfolds, resolution bill passes to avoid default
2. ECB surprises with QT acceleration as Eurozone inflation rebounds
3. Germany enters recession as GDP declines for 2 consecutive quarters
4. Japan's upbeat economic data leads the Nikkei to touch 30 year highs
5. USD rises on rising bond yields as WTI oil continues to drag

May 2023 MoM Market Snapshot

DOW JONES	32,908	- 3.5%
FTSE 100	7,446	- 5.4%
HANG SENG	18,234	- 8.3%
WTI OIL	68.09	- 11.0%
GOLD	1,982	- 0.9%
EUR / USD	1.068	- 4.0%
US 10YR T-NOTE	3.647	+ 0.22

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FEATURES

US Markets Review

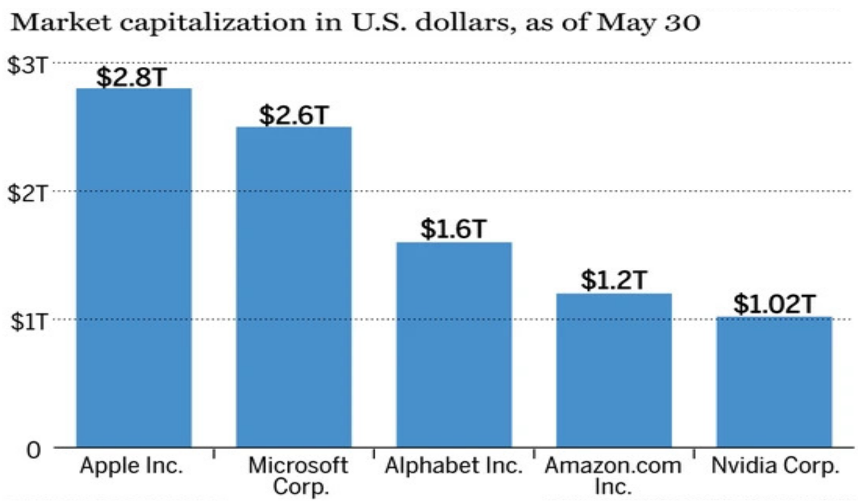
DOW JONES	32,908	- 3.5%
S&P 500	4,179	+ 0.2%
NASDAQ	12,932	+ 5.8%

MoM May 23

As widely expected, the Fed raised interest rates by 0.25% again earlier this month, reiterating that no rate cut is likely before the end of the year, briefly driving a sharp turn in US bond yields. Inflation for April came in at 4.9%, down just 0.1% from March, but also came below expectations of 5%, recording the ninth consecutive month of decline, and the first time in almost two years that inflation fell below 5%. Core inflation remained firm at 5.5% however, again dampening the chances of a pause in rate hikes in the short term. The Dow Jones index fell 3.5% to close at 32,908, while the S&P500 index rose 0.2% to close at 4,179 and the NASDAQ index rose 5.8% to close at 12,935.

On the job market, non-farm payrolls rose by 253,000 in April, again ahead of market expectations of a 165,000 gain, while the unemployment rate fell again from 3.5% to a multi-decade low of 3.4%. In addition, average hourly earnings rose by a higher than expected 4.4%, as the rate of growth has fallen to its lowest in almost two years, returning to its long-term average. Although those receiving unemployment benefits rose to the highest level since October 2021, the labour market remains largely solid, largely unaffected by rate hikes.

NVidia's market capibreached US $1 trillion this month, becoming the 5th US company to do so



The focus of the month was inevitably on the issue of the debt ceiling. The US government faced a stalemate in the debt ceiling negotiations at the start of the month, with US treasurer Yellen issuing a high-profile warning that a default on US debt would lead to a collapse in financial markets and global capital flight. Yellen's comments raised investors' concerns about the market, dampening risk appetite and adding to downside pressure on equities. However, at the end of the month, US president Joe Biden and those in the House of Representatives finally reached an agreement to pass the debt ceiling bill to the Senate for a resolution, essentially indicating that the debt ceiling issue has been successfully resolved and that the US has once again avoided default, as market tensions evaporated.

It is also important to mention that US chip giant NVidia (NASDAQ: NVDA)'s stunning Q2 earnings report at the end of the month sent its share price soaring by approximately 25% in a single day, becoming the trigger for a massive rally for global chipmaker's around month end. As ChatGPT leads the global craze for artificial intelligence, the technology sector rebounded significantly, sending the NASDAQ index to a 13-month high at the end of the month, as NVidia's market capitalisation briefly surpassed US$1 trillion, making it the fifth company in the US stock market now worth over US$1 trillion.

European Markets Review

FTSE 100	7,446	- 5.4%
DAX	15,664	- 1.6%
CAC 40	7,098	- 5.2%
STOXX 600	451	- 3.2%

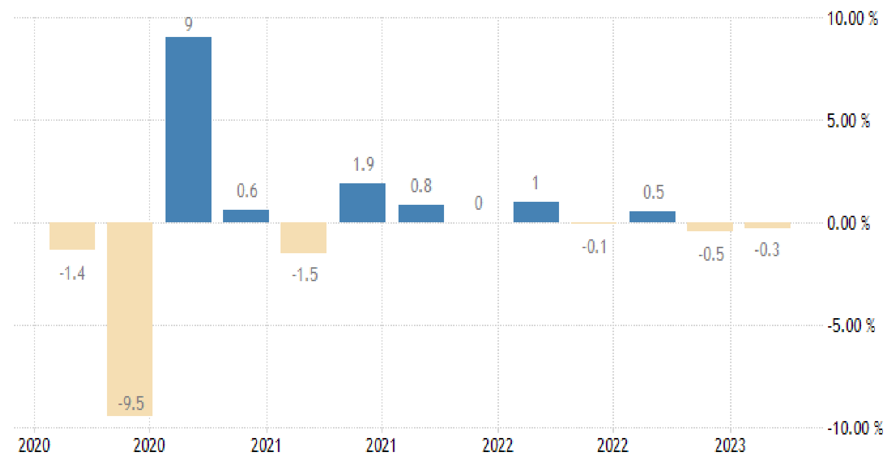
MoM May 23

Along with the US Fed, the ECB raised interest rates by 0.25% earlier this month, before surprisingly announcing that it would increase the size of its tapering operations after July to an average of €25-30 billion per month, about double the average tapering of €15 billion between March and June this year. In addition, ECB president Lagarde made it clear that the central bank would not suspend rate hikes anytime soon, as officials mentioned that rates above 4% could be needed to effectively combat inflation over the long run. On the other hand, Eurozone inflation rose slightly to 7% in April, up from 6.9% in March, driving market forecasts that the ECB's pause in rate hikes will likely lag well behind the US Fed. The STOXX600 index posted a 3.2% loss for the month, closing at 451.

The Bank of England decided to raise interest rates by another 0.25% at its meeting this month, the twelfth consecutive month of rate hikes. Although the UK inflation rate fell sharply to 8.7% in April, officials continued to emphasize the risks to the economy from prolonged high inflation, prompting the market to forecast one or two further rate rises. However, the central bank raised its growth forecasts significantly for both this year and next, raising its GDP forecast for 2023 to 0.25% from -0.5% and for 2024 to 0.75% from -0.25%, predicting the UK to withstand falling into a recession. The FTSE 100 index fell 5.4% to end the month at 7,446.

Germany offically fell into a recession this month as it suffers 2 quarters of negative GDP growth

Germany Quarterly GDP Growth Rate Q1 2020 - Q1 2023



Germany's GDP contracted by 0.3% in Q1, recording the second consecutive quarter of contraction, as the country officially fell into recession. The IMF's growth forecast for Germany also remained subdued this month, projecting that GDP growth will remain close to zero for the year and that stubborn core inflation will continue to drag down economic performance into next year. On the other hand, the ZEW economic sentiment index fell for the third consecutive month in May, unexpectedly plunging from 4.1 in April to -10.7, the first time this year that it has fallen below zero. Despite this, the DAX reached a record high mid-month before retreating to end the month at 15,664, down 1.6%.

The French government announced that the unemployment rate for Q1 came in at 7.1%, the lowest rate ever recorded in its history, exlcuding the Covid period, as the country's ecoomy continues its strong post-pandemic recovery. French president Macron also declared this month that he will focus on cutting taxes for the middle class, but whether any laws would be passed as recent protests persist remains to be seen. The CAC 40 index fell 5.2% to end the month at 7,098.

Asian Pacific Markets Review

HANG SENG	18,234	- 8.3%
SSE	3,204	- 3.6%
TAIEX	16,578	+ 6.4%
NIKKEI	30,887	+ 7.0%

MoM May 23

China's recent economic data continued to rise this month albeit at a slower than expected pace. Total retail sales grew by 21% compared to the expected 18.4%, the most notable of which was a significant 43.8% increase in food and beverage consumption and a particularly strong 38% increase in car sales. However, the Chinese government has not been able to reverse the sharp rise in youth unemployment in recent years, recording its highest rate on record at 20.4% in April, well above the 13% level recorded for most of the period before Covid. On the other hand, the People's Bank of China kept interest rates unchanged for the ninth consecutive month and reiterated that monetary policy would focus on the expansion of domestic demand with prudency, leaving the market to speculate that a rate cut is unlikely in the near term. The Shanghai Composite Index fell 3.6% to close at 3,204.

The Hong Kong government released its Q1 economic report this month, highlighting that tourism and domestic demand are on a strong recovery trend, driving GDP growth of 2.7% in Q1, largely in line with the government's expectations and showing a clear rebound from the -4.1% contraction recorded in Q4 of last year. The government also reiterated its forecast of 3.5-5.5% GDP growth for the whole of 2023 and projected that inflation should remain in the range of 2.5-2.9% for the year, a clear contrast to the high inflation rates in Western countries. Moreover, the seasonally adjusted unemployment rate came in at 3% in February-April, down another 0.1% from the 3.1% recorded in January-March, the twelfth consecutive month of decline, However, the Hang Seng Index was dragged by weaker-than-expected economic data from China this month, falling 8.3% to close at 18,234.

The Japanese economy continued its recent upward trend, with the manufacturing and services PMIs posting 50.8 and 56.3 respectively in May, up from 49.5 and 55.4 in the previous month, and the services index hitting a record high. Total retail sales also rose by 7.2% in April, reflecting the return of overseas visitors, which boosted both external and domestic demand. In addition, while China announced sanctions against US semiconductor company Micron, the company announced that it would invest US$3.6 billion in research and development for high-end chips at its Japanese plants, leaving Japan to benefit from the stand-off between the two countries. However, Japan's recent core inflation trend has raised alarm bells, recording 4.1% in April, the highest level since the early 1980s. The Nikkei index reached its highest point since 1990 this month, surging 7% for the month to close at 30,887 .

The Nikkei index continued its recent bullish run as it returned its highest point since 1990

Commodities and Forex Review

GOLD	1,982	- 0.9%
SILVER	23.58	- 6.9%
WTI OIL	68.09	- 11.1%
EUR / USD	1.068	- 4.0%
USD / JPY	139.34	+ 2.5%

MoM May 23

The ongoing bipartisan stalemate in the US related to the debt ceiling crisis this month raised the risk of a US default, and at one point economic uncertainty drove the VIX volatility index up 8% to above the 20 level in a single day. While US equities remained strong on the back of positive momentum from the technology sector, volatility in the US bond market reflected a defensive stance by capital. In addition, the minutes of the Fed meeting showed that many officials were already divided on whether to keep raising interest rates, but with the job market remaining hot and core inflation remaining high, market projections were that the Fed would likely keep interest rates high for longer. The 10-year US bond yield climbed from 3.42% at the start of the month to 3.81% at month-end, leading a rebound in the US dollar as the DXY index ended the month at 104.3, up 2.6% for May.

Also noteworthy is the movement of both the Japanese yen and the Euro, as both have fallen significantly this month. At its meeting, the Bank of Japan again announced that it would keep the benchmark interest rate and the control margin for yield management unchanged, but at the same time declared that it would conduct a comprehensive review of monetary policy in the next year and a half, leading the Yen to strengthen briefly at the beginning of the month. However, by month end, the strength of the US dollar, driven by the rise in bond yields as mentioned above, drove the Yen's to relative decline by a larger margin, withthe USD/JPY ending the month at 139.34, up 2.5% and at its highest point in almost six months. On the other hand, the Euro also fell on the back of persistently high core inflation in the Eurozone which has so far proved stubborn and the unfavourable news on Germany's official fall into a technical recession after recording two consecutive quarters of GDP decline, impacting confidence in the Euro as the EUR/USD ending the month at 1.068, down 4%.

In the crude oil market, the three major international energy agencies (EIA/IEA/OPEC) raised their global crude oil consumption forecasts again in their outlook reports this month, with the overall average estimate raised to 2.03 million barrels per day from the original estimate of 1.92 million barrels. The growth in crude oil demand is mainly contributed by non-OECD countries, with China expected to contribute more than half of the total sum, reflecting the continued recovery in energy consumption since the country opened up its markets after abandoning its Zero Covid policies.The IEA also noted that China's monthly crude oil demand has reached a record high of 16 million barrels per day as WTI oil plunged by 11.1% to end the month at 68.09.

After a turbulent 2022, WTI oil prices have been relatively subdued so far in 2023

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Research Department
research@alphacapital-group.com