October 13, 2017

Hong Leong Bank

# Global Markets Research

# Daily Market Highlights

## Key Takeaways

- **The string of economic releases overnight was positive**. US data continues to see the lingering effects of hurricanes with PPI ticking higher as a result of disruption to supply of goods and services while initial jobless claims continued to normalize from storm-related surge. **Fed Powell said "monetary policy normalization has been and should continue to be gradual**, as long as the US economy evolves roughly as expected" but he cautioned against risks of a highly-indebted corporate sector in emerging economies as global interest rate rises.

- **MAS maintained its neutral policy stance** of a zero percent appreciation in the currency by keeping its SGDNEER band unchanged as expected, amid better growth prospects tracking improvement in exports along with global recovery. **Advance estimate of 3Q GDP surprised significantly on the upside, printing a 4.6% YOY growth** (2Q: +2.9%), its best in 3.5 years. The sharp pick-up in manufacturing and continuous growth in services were the main drivers, offsetting continuous decline in construction. QOQ, growth accelerated to 6.3% in 3Q, from +2.4% in 2Q. Retail sales also picked up more than expected to increase 3.5% YOY in August, its fastest pace since Mar-16, offering signs domestic consumption is gaining speed.

- **Back in Malaysia, IPI picked up further to increase at its fastest pace since Mar-15, by 6.8% YOY in August,** underpinned by continuous expansion in all the three main sectors. Slower growth in manufacturing and electricity output offset an improvement in mining production. Sustained increases in IPI added to signs production will remain firm as the world economy continues to improve. **Taking cue from the still favourable economic indicators thus far, we are confident that our full year real GDP growth projection of 5.4% for 2017 is on track.**

- **USD ended mixed against the G10s** while the Dollar Index rebounded from intraday low to close a meekly 0.05% higher at 93.06 on retreats in European majors. **USD remains bearish in our view**, exposed to further losses in the absence of positive catalysts to renew buying interest. Yesterday's rebound is likely a technical pullback from extended losses. While we do not rule out a climb to 93.38, we maintain a bearish view going forward given that technical signals remain bearish and suggest a potential decline to 92.63 in the coming week.

- **MYR slipped 0.03% to 4.2238 against USD** after declining sharply in European session to overturn early gains while sliding against 7 G10s. **Expect a softer MYR against USD** today amid risk aversion going into the weekend. Another close above 4.2200 yesterday has raised doubts over the downward direction of USDMYR. We are neutral on this pair technically, with direction expected to be determined if USDMYR can hold below 4.2200.

- **SGD** closed mixed against the G10s but **advanced against 0.14% to 1.3524 against a soft USD**. Despite MAS staying pat on a neutral policy, **we keep a slight bullish view on SGD against a soft USD**, further supported by firmer equities. Bearish signs have increased and we maintain that USDSGD is under threat of further losses. Caution that closing below 1.3523 will accelerate the downsides that could see USDSGD testing 1.3447 in the next leg lower.

### Overnight Economic Data

| | |
|---|---|
| Malaysia | ↑ |
| US | ↑ |
| EU | ↑ |
| Japan | ↓ |
| Australia | ↓ |
| Singapore | ↑ |

## What's Coming Up Next

**Major Data**
- US CPI, retail sales, Uni Michigan consumer sentiments
- China exports

**Major Events**
- Fed speaks – Rosengren, Evans, Kaplan
- ECB Coeure speaks

### Daily Supports – Resistances (spot prices)*

| | S2 | S1 | Indicative | R1 | R2 | Outlook |
|---|---|---|---|---|---|---|
| **EURUSD** | 1.1800 | 1.1823 | 1.1836 | 1.1844 | 1.1859 | ↗ |
| **USDJPY** | 111.86 | 111.98 | 112.18 | 112.37 | 112.59 | ↘ |
| **GBPUSD** | 1.3216 | 1.3251 | 1.3264 | 1.3291 | 1.3311 | ↗ |
| **AUDUSD** | 0.7804 | 0.7821 | 0.7829 | 0.7848 | 0.7865 | ↗ |
| **EURGBP** | 0.8878 | 0.8906 | 0.8925 | 0.8939 | 0.8960 | ↘ |
| **USDMYR** | 4.2075 | 4.2100 | 4.2180 | 4.2200 | 4.2225 | ↗ |
| **EURMYR** | 4.9865 | 4.9900 | 4.9939 | 4.9975 | 5.0000 | ↗ |
| **JPYMYR** | 3.7473 | 3.7549 | 3.7600 | 3.7626 | 3.7704 | ↗ |
| **GBPMYR** | 5.5831 | 5.5918 | 5.5947 | 5.6011 | 5.6094 | ↗ |
| **SGDMYR** | 3.1100 | 3.1136 | 3.1147 | 3.1179 | 3.1237 | ↗ |
| **AUDMYR** | 3.2929 | 3.3000 | 3.3025 | 3.3027 | 3.3067 | ↗ |
| **NZDMYR** | 3.0000 | 3.0060 | 3.0064 | 3.0132 | 3.0195 | ↗ |
| **USDSGD** | 1.3500 | 1.3519 | 1.3542 | 1.3557 | 1.3560 | ↘ |
| **EURSGD** | 1.6006 | 1.6021 | 1.6024 | 1.6029 | 1.6040 | ↗ |
| **GBPSGD** | 1.7939 | 1.7950 | 1.7960 | 1.7982 | 1.8000 | ↗ |
| **AUDSGD** | 1.0569 | 1.0588 | 1.0599 | 1.0603 | 1.0623 | ↗ |

*at time of writing

↗ = above 0.1% gain; ↘ = above 0.1% loss; → = less than 0.1% gain / loss

| | Last Price | DoD % | YTD % |
|---|---|---|---|
| KLCI | 1754.0 | -0.2 | 6.8 |
| Dow Jones Ind. | 22841.0 | -0.1 | 15.6 |
| S&P 500 | 2550.9 | -0.2 | 13.9 |
| FTSE 100 | 7556.2 | 0.3 | 5.8 |
| Shanghai | 3386.1 | -0.1 | 9.1 |
| Hang Seng | 28459.0 | 0.2 | 29.4 |
| STI | 3303.1 | 0.7 | 14.7 |

| Name | Last Price | DoD % | YTD % |
|---|---|---|---|
| CRB Index | 183.3 | -0.12 | -4.8 |
| WTI oil ($/bbl) | 50.6 | -1.36 | -5.8 |
| Brent oil ($/bbl) | 56.3 | -1.21 | -1.0 |
| Gold (S/oz) | 1293.7 | 0.20 | 8.1 |
| CPO (RM/tonne) | 2692.0 | -1.07 | -15.8 |
| Copper ($/tonne) | 6887.0 | 1.28 | 24.4 |
| Rubber (sen/kg) | 486.5 | -1.62 | -24.6 |

*Source: Bloomberg*

6.8%

## Economic Data

| | For | Actual | Last | Survey |
|---|---|---|---|---|
| MY IPI | Aug | 6.8% | 6.1% | 5.8% |
| US PPI MOM | Sept | 0.4% | 0.2% | 0.4% |
| US initial jobless claims | Oct 7 | 243k | 258k | 250k |
| EU industrial production | Aug | 1.4% | 0.3% | 0.6% |
| JP tertiary industry index | Aug | -0.2% | 0.1% | 0.1% |
| AU home loans | Aug | 1.0% | 2.8% | 0.5% |
| SG retail sales | Aug | 3.5% | 1.7% | 2.4% |
| SG GDP | 3Q A | 4.6% | 2.9% | 3.8% |
| NZ Biz NZ PMI manufacturing | Sept | 57.5 | 57.9 | -- |

*Source: Bloomberg*

## ➢ Macroeconomics

- US data turned out on a more positive tone but discounting storm-related impact, there was little to cheer about in our view. The increase in PPI picked up to 0.4% MOM as expected in September while core prices ex food and energy ticked up more than expected to 0.4% MOM, boosted by storm-related shortages in food and services. Initial jobless claims fell more than expected by 15k to 243k for the week ended 7-Oct, and so is continuing claims, as the numbers continued to normalize from post-hurricanes spikes. Fed Powell said "monetary policy normalization has been and should continue to be gradual, as long as the US economy evolves roughly as expected" but he cautioned against risks of a highly-indebted corporate sector in emerging economies as global interest rate rises.

- EU industrial production surprised on the upside, increasing 1.4% MOM in August and previous month's gain was upwardly revised to 0.3%. The best gain in nine months was spurred by a turnaround in energy output and quicker gains in intermediate and capital goods, suggesting continuous growth in exports and investment ahead.

- Japan data bucked recent trend as tertiary industry index staged a surprised turn and fell 0.2% MOM in August, pointing to weakness in the services sector. Sectors that contributed to the decline include finance and insurance, retail trade, information and communication, and utilities.

- Down under, home loans grew at a slower pace of 1.0% MOM in August but still bested estimates for a 0.5% increase. The increase was broad-based from construction to new homes and refinancing, underscoring a still intact housing market. By state, loans climbed higher in the major states of New South Wales and Victoria but fell in Queensland.

- New Zealand PMI manufacturing index moderated slightly by 0.4ppts to 57.5 in September but remained elevated nonetheless, dampened by declines in production and employment while other components including new orders ticked higher, signaling growth in the manufacturing sector remains forthcoming.

- Singapore data came in upbeat. Retail sales picked up more than expected to increase 3.5% YOY in August, its fastest pace since Mar-16, led by higher sales at departmental stores and supermarkets, gasoline sales, and auto vehicles. Ex-auto, sales were robust with quicker gain of 3.7% YOY, offering signs domestic consumption is gaining speed. This morning, advance estimate of 3Q GDP in Singapore surprised significantly on the upside, printing a 4.6% YOY growth (2Q: +2.9%), its best in 3.5 years. The sharp pick-up in manufacturing (+15.5% vs +8.2%) and services (+2.6% vs +2.5%) were the main drivers, offsetting continuous decline in construction (-6.3% vs -6.8%). QOQ, growth accelerated to 6.3% in 3Q, from +2.4% in 2Q. As a result of better growth prospects tracking improvement in exports along with global recovery, MAS maintained its neutral policy stance of a zero percent appreciation in the currency by keeping its SGDNEER band unchanged as expected.

- At the local front, IPI picked up further to increase at its fastest pace since Mar-15, by 6.8% YOY in August, underpinned by continuous expansion in all the three main sectors. Slower growth in manufacturing and electricity output offset an improvement in mining production. Sustained increases in IPI added to signs production will remain firm as the world economy continues to improve. Firming production growth as a result of extended gains in both domestic- and export-oriented sectors bodes well with growth prospects in 3Q. Taking cue from the still favourable economic indicators thus far, we are confident that our full year real GDP growth projection of 5.4% for 2017 is on track.

| Economic Calendar Release Date | | | | | | |
|---|---|---|---|---|---|---|
| **Country** | **Date** | **Event** | **Reporting Period** | **Survey** | **Prior** | **Revised** |
| US | 10/13 | CPI YOY | Sept | 2.3% | 1.9% | -- |
| | | Retail sales MOM | Sept | 1.7% | -0.2% | -- |
| | | Uni Michigan consumer sentiments | Oct P | 95.0 | 95.1 | -- |
| | 10/16 | Empire manufacturing | Oct | 20.4 | 24.4 | -- |
| EU | 10/16 | Trade balance | Aug | -- | €18.6b | -- |
| UK | 10/16 | Rightmove house prices | Oct | -- | 1.1% | -- |
| Japan | 10/16 | Industrial production MOM | Aug F | -- | 2.1% | -- |
| China | 10/13 | Exports YOY | Sept | 10.0% | 5.5% | 5.6% |
| | 10/16 | CPI YOY | Sept | 1.6% | 1.8% | -- |
| | | PPI YOY | Sept | 6.3% | 6.3% | -- |
| New Zealand | 10/16 | Performance services index | Sept | -- | 57.3 | -- |

*Source: Bloomberg*

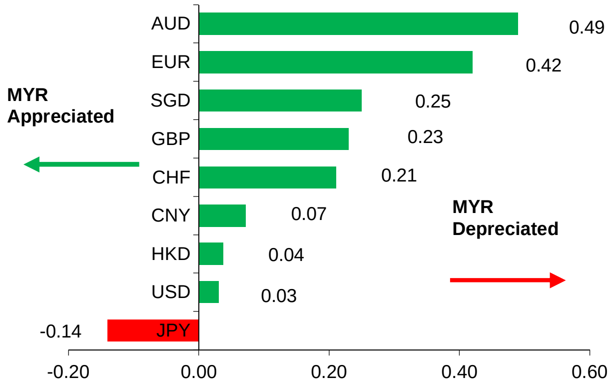
# ➢Forex

**FX Table**

| Name | Last Price | DoD % | High | Low | YTD % |
|---|---|---|---|---|---|
| EURUSD | 1.1830 | -0.24 | 1.188 | 1.1827 | 12.6 |
| USDJPY | 112.28 | -0.20 | 112.52 | 112.13 | -4.0 |
| GBPUSD | 1.3262 | 0.29 | 1.3291 | 1.3122 | 7.5 |
| AUDUSD | 0.7820 | 0.41 | 0.7836 | 0.7787 | 8.6 |
| EURGBP | 0.8919 | -0.55 | 0.9033 | 0.8915 | 4.5 |
| | | | | | |
| USDMYR | 4.2238 | 0.03 | 4.2238 | 4.2118 | -5.8 |
| EURMYR | 5.0062 | 0.42 | 5.0133 | 4.9956 | 6.0 |
| JPYMYR | 3.7573 | -0.14 | 3.7587 | 3.7452 | -1.9 |
| GBPMYR | 5.5828 | 0.23 | 5.5958 | 5.5754 | 1.3 |
| SGDMYR | 3.1181 | 0.25 | 3.1184 | 3.1109 | 0.5 |
| AUDMYR | 3.3023 | 0.49 | 3.3037 | 3.2852 | 1.9 |
| NZDMYR | 3.0062 | 0.73 | 3.0068 | 2.9877 | -3.6 |

*Source: Bloomberg*

**MYR vs Major Counterparts (% DOD)**




### MYR

- **MYR slipped 0.03% to 4.2238 against USD** after declining sharply in European session to overturn early gains while sliding against 7 G10s.
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### USD

- **USD ended mixed against the G10s** while the Dollar Index rebounded from intraday low to close a meekly 0.05% higher at 93.06 on retreats in European majors.
- **USD remains bearish in our view**, exposed to further losses in the absence of positive catalysts to renew buying interest. Yesterday's rebound is likely a technical pullback from extended losses. While we do not rule out a climb to 93.38, we maintain a bearish view going forward given that technical signals remain bearish and suggest a potential decline to 92.63 in the coming week.

### EUR

- **EUR fell 0.24% to 1.1830 against USD** and retreated against 7 G10s amid softer sentiment in the European markets.
- **We hold a slight bullish view on EUR in anticipation of USD staying soft**, with scope for further upsides on firmer Eurozone sentiment. Holding above 1.1823 as well as firmer bullish bias still point EURUSD upwards, with potential to test 1.1907 – 1.1917 in the next leg higher.

### GBP

- **GBP climbed 0.29% to 1.3262 against USD** and beat 7 G10s, rebounding from early declines after it was reported that the UK may be offered a 2-year transition period for Brexit implementation.
- **GBP is bullish against USD**, supported by firmer buying interest on expectations of a longer transition period for Brexit implementation. GBPUSD continues to hold above 1.3200 and this is giving space for a climb to circa 1.3338 – 1.3361. We caution that the direction thereafter will depend on whether this range is broken.

### JPY

- **JPY** closed higher against 5 G10s and **advanced 0.2% to 112.28 against USD**, supported by refuge demand amid softer sentiment in European markets.
- **JPY remains bullish against USD** on continued softness in the greenback. Bearish bias picked up, tilting USDJPY further downward. We set sights on USDJPY sliding to 111.86 in the next leg lower.

### AUD

- **AUD** was lifted by firmer commodities to beat 9 G10s and **strengthen 0.41% to 0.7820 against USD**.
- **Stay bullish on AUD against USD**, further supported by extended gains in metals. AUDUSD closed above 0.7804 yesterday and has affirmed the pair's challenge at 0.7863 – 0.7884 next. Bearish bias continues to diminish and we reckon that breaking above 0.7848 will expose a move to 0.7900.

### SGD

- **SGD** closed mixed against the G10s but **advanced against 0.14% to 1.3524 against a soft USD**.
- Despite MAS staying pat on a neutral policy, **we keep a slight bullish view on SGD against a soft USD**, further supported by firmer equities. Bearish signs have increased and we maintain that USDSGD is under threat of further losses. Caution that closing below 1.3523 will accelerate the downsides that could see USDSGD testing 1.3447 in the next leg lower.

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