August 17, 2017

HongLeong Bank

Global Markets Research

Daily Market Highlights

Key Takeaways

- **Overnight focus was all on the FOMC minutes until President Trump's announcement on dissolving his two business advisory councils** following the third resignation of CEOs which is seen as a potential derail to his reform plans.

- **FOMC minutes revealed that decision to keep rates unchanged at the July meeting was unanimous,** as expected. **Policy makers were however divided on the timing to announce balance sheet reduction**, with some intended to announce it at the last meeting while some preferred to wait. While **the minutes continued to reiterate concerns over the below target inflation,** we believe this **will only push back the case for further rate hike this year but tapering plans are still intact, with an announcement expected at the upcoming September FOMC meeting.** Housing market data turned in on the soft side, adding to signs of a softening US housing market.

- On the contrary, **data flow was more upbeat in Europe. Eurozone 2Q GDP sustained a 0.6% QOQ growth but YOY basis, growth staged a surprised pick-up to 2.2% YOY**, thanks to continued growth in Germany, and a pick-up in Spain. While growth outlook is improving, below target inflation will continue to keep a lid on ECB policy moves in the near term. **In the UK, job reports were positive** bolstering hopes of improvement in the labour market that would eventually help support consumer spending in the UK.

- **USD fell against 9 G10s** while the Dollar Index closed 0.33% lower at 93.54, slumping on the back of reduced expectations of a near-term rate hike after FOMC minutes revealed members' acknowledgment of low inflation and after President Trump disbanded two advisory councils. **Stay slightly bullish on USD** on the back of bullish potential in US data that could spark a rally. The Dollar Index sustains a bullish bias despite overnight decline and remains well-supported while above 93.06. We set sights on a break above 93.85 in the next couple of days

- **MYR eased 0.07% to 4.2985 against USD** but managed to advance against 5 G10s that were on the retreat in early Asian session. **We now turn bullish on MYR against a soft USD** and on the back of firmer market risk appetite. USDMYR expectedly closed above 4.2977, a reversion level that very quickly rejected the pair to lower levels. After the rejection, expect USDMYR to stay subdued though do not rule out a rebound closer to 4.2950.

- **SGD** retreated against 6 G10s that rallied on firmer commodities but managed to **advance 0.32% to 1.3625 against a weak USD**. **SGD remains bearish against USD** on the back of bullish potential in US data supporting the greenback. Despite overnight decline, USDSGD remains well-supported by 1.3600, above which the pair still carries a mild bullish bias. We continue to set sights on another test at 1.3681.

Overnight Economic Data

US	↓
Eurozone	→
UK	↑
Japan	↑
Singapore	→

What's Coming Up Next

Major Data

- US initial jobless claims, Philly Fed biz outlook, industrial production, leading index
- EU CPI, trade balance
- UK retail sales
- HK unemployment rate
- Australia unemployment rate

Major Events

- ECB meeting minutes

Daily Supports – Resistances (spot prices)*

	S2	S1	Indicative	R1	R2	Outlook
EURUSD	1.1728	1.1760	1.1767	1.1788	1.1800	↘
USDJPY	109.40	109.79	109.87	110.10	110.46	↗
GBPUSD	1.2848	1.2864	1.2887	1.2903	1.2928	↘
AUDUSD	0.7900	0.7928	0.7935	0.7949	0.7975	↘
EURGBP	0.9100	0.9118	0.9133	0.9143	0.9155	↘
USDMYR	4.2861	4.2896	4.2920	4.2924	4.2945	↘
EURMYR	5.0393	5.0465	5.0541	5.0588	5.0668	↗
JPYMYR	3.9000	3.9046	3.9074	3.9116	3.9200	↗
GBPMYR	5.5300	5.5321	5.5336	5.5412	5.5531	↘
SGDMYR	3.1481	3.1500	3.1504	3.1528	3.1558	↗
AUDMYR	3.3924	3.3962	3.4067	3.4102	3.4127	↗
NZDMYR	3.1259	3.1342	3.1389	3.1435	3.1503	↗
USDSGD	1.3600	1.3611	1.3631	1.3665	1.3681	↗
EURSGD	1.6006	1.6028	1.6040	1.6055	1.6087	↘
GBPSGD	1.7533	1.7550	1.7563	1.7575	1.7600	↘
AUDSGD	1.0761	1.0790	1.0806	1.0835	1.0880	↘

*at time of writing

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

	Last Price	DoD %	YTD %	Name	Last Price	DoD %	YTD %
KLCI	1773.8	0.1	8.0	CRB Index	175.4	-0.54	-8.9
Dow Jones Ind.	22024.9	0.1	11.4	WTI oil ($/bbl)	46.8	-1.62	-12.9
S&P 500	2468.1	0.1	10.2	Brent oil ($/bbl)	50.4	0.18	-16.1
FTSE 100	7433.0	0.7	4.1	Gold (S/oz)	1283.3	0.90	8.1
Shanghai	3246.5	-0.1	4.6	CPO (RM/tonne)	2624.5	-0.66	-18.0
Hang Seng	27409.1	0.9	24.6	Copper ($/tonne)	6532.0	2.40	18.0
STI	3279.0	-0.5	13.8	Rubber (sen/kg)	553.0	-0.18	-14.3

Source: Bloomberg

Economic Data

	For	Actual	Last	Survey
US MBA mortgage applications	Aug 11	0.1%	3.0%	--
US housing starts MOM	Jul	-4.8%	7.4%	0.4%
US building permits MOM	Jul	-4.1%	9.2%	-2.0%
EU GDP QOQ	2Q P	0.6%	0.6%	0.6%
UK jobless claims change	Jul	-4.2k	3.5k	--
UK ILO unemployment rate	Jun	4.4%	4.5%	4.5%
UK employment change	Jun	125k	175k	97k
JP trade balance	Jul	¥418.8b	¥439.8b	¥327.1b
SG NODX	Jul	8.5%	8.8%	9.1%

Source: Bloomberg

➢ Macroeconomics

- Fed officials engaged in a debate about inflation while keeping the option open for a September announcement on the timing of balance-sheet reductions, according to minutes from July FOMC meeting. The minutes showed a majority of Federal Open Market Committee participants sticking with a forecast that inflation would gradually rise to their 2 percent target over the medium term. However, "many" saw some "likelihood that inflation might remain below 2 percent for longer than they currently expected," according to the minutes. "Several indicated that the risks to the inflation outlook could be tilted to the downside," the minutes said. We maintain that prospects for September announcement for plans on Fed balance sheet tapering remains on the cards.

- Meanwhile data flow disappointed in the US. Housing starts unexpectedly declined by 4.8% MOM to 1.115m units in July, back to the lower levels of March and April. Adding to concerns was the bigger than expected fall in forward looking building permits, that fell 4.1% MOM during the month which added to signs the housing market is softening. MBA mortgage applications also weakened to just a 0.1% WOW gain, dragged by decline in new purchases and smaller increase in loans for refinancing.

- On the contrary, Eurozone 2Q GDP sustained a 0.6% QOQ growth but YOY basis, growth staged a surprised pick-up to 2.2% YOY, thanks to continued growth in Germany, and a pick-up in Spain. While growth outlook is improving, below target inflation will continue to keep a lid on ECB policy moves in the near term.

- In the UK, job reports were positive bolstering hopes of improvement in the labour market that would eventually help support consumer spending in the UK. ILO jobless rate fell 0.1ppt to 4.4% while the labour market added 125k jobs in June, more than expected. Jobless claims also declined 4.2k in July and wage growth picked up to print a 2.1% YOY increase.

- Japan trade surplus narrowed less than expected to ¥418.8bn in July, as exports rose 2.8% MOM while imports fell 1.2% MOM. Exports to China, US and the Asian regions continued to take the lead stemming from improving global demand.

- Down south in neighbouring Singapore, NODX continued to expand albeit at a slightly softer pace of 8.5% YOY in July, but this was somewhat neutralized by the upwardly revised gain of 8.8% YOY in June (previous: +8.2% YOY). Electronics exports that grew at a quicker pace of 16.3% YOY driven by broad-based growth across all sub-categories was the key growth engine. However, steeper decline in pharmaceuticals (-53.6% vs -34.2% YOY) exerted a drag on exports of non-electronics exports, which saw its gain halving to 5.2% from 10.1% YOY a month ago.

Economic Calendar Release Date

Country	Date	Event	Reporting Period	Survey	Prior	Revised
Malaysia	8/18	GDP YOY	2Q	5.4%	5.6%	--
US	8/17	Initial jobless claims	Aug 12	240k	244k	
		Philly Fed biz outlook	Aug	18.0	19.5	
		Industrial production MOM	Jul	0.3%	0.4%	--
		Leading index	Jul	0.3%	0.6%	
	8/18	Uni Michigan consumer sentiments	Aug P	94.0	93.4	--
Eurozone	8/17	CPI YOY	Jul	1.3%	1.3%	1.3%
		Trade balance SA	Jun	€20.3bn	€19.7bn	--
		ECB minutes				
	8/18	Construction output MOM	Jun	--	-0.7%	--
UK	8/17	Retail Sales ex-auto fuel YOY	Jul	1.2%	3.0%	
China	8/17-8/18	FDI YOY	Jul	--	2.3%	
Hong Kong	8/17	Unemployment rate	Jul	3.2%	3.1%	--
Australia	8/17	Employment change	Jul	20.0k	14.0k	--
		Unemployment rate	Jul	5.6%	5.6%	--

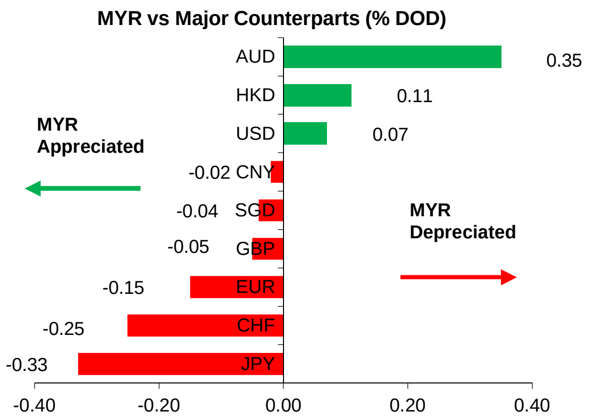
Source: Bloomberg

➢Forex

FX Table

Name	Last Price	DoD %	High	Low	YTD %
EURUSD	1.1767	0.27	1.1779	1.1682	11.9
USDJPY	110.19	-0.43	110.95	110.03	-5.9
GBPUSD	1.2891	0.17	1.2903	1.2842	4.4
AUDUSD	0.7925	1.33	0.7934	0.7817	10.0
EURGBP	0.9128	0.10	0.9143	0.9083	7.0
USDMYR	4.2985	0.07	4.2990	4.2957	-4.3
EURMYR	5.0393	-0.15	5.0516	5.0252	6.9
JPYMYR	3.8765	-0.33	3.8853	3.8728	1.8
GBPMYR	5.5380	-0.05	5.5450	5.5188	0.3
SGDMYR	3.1435	-0.04	3.1452	3.1400	1.5
AUDMYR	3.3810	0.35	3.3812	3.3606	5.1
NZDMYR	3.1136	-0.47	3.1168	3.1042	0.6

Source: Bloomberg



MYR

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- **We now turn bullish on MYR against a soft USD** and on the back of firmer market risk appetite. USDMYR expectedly closed above 4.2977, a reversion level that very quickly rejected the pair to lower levels. After the rejection, expect USDMYR to stay subdued though do not rule out a rebound closer to 4.2950.

USD

- **USD fell against 9 G10s** while the Dollar Index closed 0.33% lower at 93.54, slumping on the back of reduced expectations of a near-term rate hike after FOMC minutes revealed members' acknowledgment of low inflation and President Trump disbanded two advisory councils.
- **Stay slightly bullish on USD** on the back of bullish potential in US data that could spark a rally. The Dollar Index sustains a bullish bias despite overnight decline and remains well-supported while above 93.06. We set sights on a break above 93.85 in the next couple of days.

EUR

- **EUR climbed 0.27% to 1.1767 against a weak USD** but nonetheless retreated against 6 G10s.
- **EUR is expected to be defensive against USD**, ahead of Eurozone data and ECB meeting minutes; downside surprises will push EUR sharply lower. Signs of weakness continue to prevail despite overnight rebound, thus we continue to set sights on a drop to 1.1683 in the next leg lower. Losing this exposes a move to below 1.1586.

GBP

- **GBP rose 0.17% to 1.2891 against a weak USD** but retreated against 7 G10s as markets turned risk-on.
- **Continue to expect a soft GBP against USD** in anticipation of disappointment in UK data. GBPUSD is now at a fragile position; losing 1.2864, and worse still 1.2848, will likely trigger a deeper drop to 1.2749. Holding above at least 1.2864 gives some room to climb to 1.2928.

JPY

- **JPY strengthened 0.43% to 110.19 against a weak USD** but was mixed against the G10s.
- **We maintain a bearish view on JPY against USD** as refuge demand retreats further. A mild bullish bias has emerged in USDJPY and we therefore expect a climb above 110.67 soon, above which it would target to break 110.98.

AUD

- **AUD surged 1.33% to 0.7925 against a weak USD** and rallied to beat all G10s, lifted by firmer risk appetite in the markets and stronger commodities.
- **Keep a bearish outlook on AUD against likelihood of a rebound in USD**, as well as bearish potential in Australia data. Overnight surge to bypass 0.7900 has rejuvenated AUDUSD. While above this, the pair is technically inclined to gains but current upside strength is fragile and could easily fall apart. A close above 0.7928 will solidify a passage to 0.8000.

SGD

- **SGD** retreated against 6 G10s that rallied on firmer commodities but managed to **advance 0.32% to 1.3625 against a weak USD**.
- **SGD remains bearish against USD** on the back of bullish potential in US data supporting the greenback. Despite overnight decline, USDSGD remains well-supported by 1.3600, above which the pair still carries a mild bullish bias. We continue to set sights on another test at 1.3681.

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