September 21, 2017

Hong Leong Bank

Global Markets Research

Daily Market Highlights

Key Takeaways

- **FOMC kept rates unchanged at 1.00-1.25% and announced that the Fed will begin trimming its balance sheet size in October as expected,** starting with $10bn monthly reduction comprising $6bn UST and $4bn MBS. **The key takeaway from the meeting indeed lies in the Fed hawkish guidance leaving the door open for one more rate hike this year,** which sent the greenback rallying. The Fed dot plot now projects the median rates to be higher at 1.375% by year end and to hit 2.125% by 2018, implying one more 25bps hike before the year ends and three more rate hikes in 2018 (unchanged from previous prediction). Futures implied probability of a December rate hike has now increased to 64%, from 53% prior to the policy announcement.

- **The Fed guided that labour market has continued to strengthen and that economic activity has been rising moderately even though overall inflation is still running below the Fed 2% target.** The Fed judged that the near term risks to the economic outlook remains roughly balanced, which is unchanged from the July statement, and further commented that hurricanes-related disruption will unlikely materially change the growth outlook, and hence the monetary policy outlook over the medium term. **Following the more hawkish Fed rhetoric, we now think there is a higher probability of another 25bps rate hike in December.**

- **USD rebounded to beat 7 G10s** while the Dollar Index surged after FOMC decision to unwind its balance sheet and signal more hikes going forward, closing 0.78% higher at 92.50. **USD remains bullish in our view**, with hawkish signal from the Fed likely to spur buying interest for another couple of days more. We maintain that the Dollar Index is on track to close above 92.52 by end week. After recent surge, we caution potential retracement but as long as the Dollar Index holds above 92.05, overall upside strength is intact and could test 93.074 going forward.

- **MYR was 0.1% firmer at 4.1875 against a retreating USD** going into European trade but slipped against 6 G10s on risk aversion ahead of FOMC announcement. **MYR is still slightly bearish against a resurgent USD**. We reckon that a close above 4.2000 today will mark the onset of a rebound that could potentially test 4.2260 in the coming weeks. Losses, if any, will be protected by 4.1800.

- **SGD** advanced against 7 G10s on rebounding equities post-FOMC but **weakened 0.1% to 1.3486 against a firmer USD**. **SGD sustains a bearish bias against a resurgent USD**. Bullish bias has increased, further tilting USDSGD to the upside. We maintain the view of a potential climb higher above 1.3548 – 1.3550. Meanwhile, losses will be sheltered by 1.3471.

Overnight Economic Data

US	↓
UK	↑
Australia	↓
New Zealand	↑

What's Coming Up Next

Major Data

- US initial jobless claims, leading index
- EU consumer confidence, economic bulletin
- UK public finance
- Japan all industry activity index, dept store sales, supermarket sales
- Hong Kong CPI

Major Events

- BOJ policy meeting

Daily Supports – Resistances (spot prices)*

	S2	S1	Indicative	R1	R2	Outlook
EURUSD	1.1800	1.1839	1.1873	1.1887	1.1900	↘
USDJPY	112.00	112.47	112.59	112.80	113.00	↗
GBPUSD	1.3406	1.3449	1.3489	1.3500	1.3520	↘
AUDUSD	0.7980	0.8000	0.8014	0.8029	0.8050	↘
EURGBP	0.8778	0.8800	0.8803	0.8820	0.8843	↘
USDMYR	4.1900	4.1919	4.1970	4.2000	4.2048	↗
EURMYR	4.9720	4.9800	4.9852	4.9902	4.9980	↘
JPYMYR	3.7200	3.7220	3.7300	3.7350	3.7400	↘
GBPMYR	5.6486	5.6600	5.6632	5.6688	5.6720	↘
SGDMYR	3.1001	3.1050	3.1070	3.1074	3.1130	↘
AUDMYR	3.3464	3.3506	3.3628	3.3698	3.3772	↘
NZDMYR	3.0641	3.0704	3.0768	3.0842	3.0935	↘
USDSGD	1.3471	1.3500	1.3508	1.3519	1.3539	↗
EURSGD	1.6000	1.6014	1.6039	1.6066	1.6107	↘
GBPSGD	1.8180	1.8200	1.8222	1.8250	1.8270	↘
AUDSGD	1.0800	1.0813	1.0824	1.0839	1.0857	↗

*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	1773.6	-0.2	8.0	CRB Index	184.6	1.13	-4.1
Dow Jones Ind.	22412.6	0.2	13.4	WTI oil ($/bbl)	50.4	1.88	-6.2
S&P 500	2508.2	0.1	12.0	Brent oil ($/bbl)	56.3	2.09	-6.9
FTSE 100	7272.0	0.0	1.8	Gold (S/oz)	1301.2	-0.80	8.1
Shanghai	3366.0	0.3	8.5	CPO (RM/tonne)	2820.0	-1.17	-11.8
Hang Seng	28127.8	0.3	27.9	Copper ($/tonne)	6526.0	-0.20	17.9
STI	3218.1	-0.2	11.7	Rubber (sen/kg)	522.5	-0.57	-19.0

Source: Bloomberg

Economic Data				
	For	Actual	Last	Survey
US Fed funds rate	Sept	1.00-1.25%	1.00-1.25%	1.00-1.25%
US MBA mortgage applications	Sept 15	-9.7%	9.9%	--
US existing home sales MOM	Aug	-1.7%	-1.3%	0.2%
UK retail sales MOM	Aug	1.0%	0.6%	0.2%
AU Westpac leading index	Aug	-0.08%	0.09%	--
NZ GDP SA QOQ	2Q	0.8%	0.6%	0.8%

Source: Bloomberg

➢ Macroeconomics

- FOMC kept rates unchanged at 1.00-1.25% and announced that the Fed will begin trimming its balance sheet size in October as expected, starting with $10bn monthly reduction comprising $6bn UST and $4bn MBS.

- The key takeaway from the meeting indeed lies in the Fed hawkish guidance leaving the door open for one more rate hike this year, which sent the greenback rallying. The Fed dot plot now projects the median rates to be higher at 1.375% by year end and to hit 2.125% by 2018, implying one more 25bps hike before the year ends and three more rate hikes in 2018 (unchanged from previous prediction). Futures implied probability of a December rate hike has now increased to 64%, from 53% prior to the policy announcement.

- The Fed guided that labour market has continued to strengthen and that economic activity has been rising moderately even though overall inflation is still running below the Fed 2% target. Real GDP growth forecast for this year has been revised 0.2ppt higher to 2.4% but kept unchanged at 2.1% for 2018. Unemployment rate was maintained at 4.3% for 2017 but revised lower by 0.1ppt to 4.1% for 2018. PCE inflation stood unchanged at 1.6% for 2017 and was tweaked lower by 0.1ppt to 1.9% for 2018. All longer run median projections were unchanged from June's.

- The Fed judged that the near term risks to the economic outlook remains roughly balanced, which is unchanged from the July statement, and further commented that hurricanes-related disruption will unlikely materially change the growth, and hence the monetary policy outlook over the medium term. Following the more hawkish Fed rhetoric, we now think there is a higher probability of another 25bps rate hike in December.

- Overnight US data however disappointed. Existing home sales unexpectedly fell for the 3rd straight month by 1.7% MOM in August, marking its longest losing streak since Jan-14. Even though the decline was partly storm-related, it nonetheless added to concerns of a slowing housing market tracking recent housing indicators, likely to be augmented by higher borrowing costs as the Fed continues its normalization plan. Weekly mortgage applications also reversed course and fell 9.7% in the week ended 15-Sept, as a results for declines in both refinancing and new purchases.

- UK retail sales staged a surprised pick-up, increasing 1.0% MOM in August and July's gain was revised higher to 0.6% MOM. This biggest increase since Apr-17 was predominantly driven by higher sales in non-food stores while food sales decelerated. This, coupled with the faster growth in sales ex-auto fuel, signal consumer spending could be on the mend, further spurring expectations improving growth outlook could prompt BOE to unwind monetary stimulus.

- Westpac leading index fell again, by 0.08% MOM in Australia and the 6-month annualized growth rate remained negative for the 3rd consecutive month, spelling risk of softening growth in the next 6-9 months ahead, which shall keep the RBA on hold.

- The New Zealand economy gathered pace in 2Q, growing 0.8% QOQ as expected while 1Q's growth was revised a notch higher to 0.6%. Goods producing industries and services continued to lead expansion, offsetting slightly slower activities in the primary industries. YOY, growth was flat at 2.5%, and shall see RBNZ keeping its policy rate unchanged.

Economic Calendar Release Date						
Country	**Date**	**Event**	**Reporting Period**	**Survey**	**Prior**	**Revised**
Malaysia	9/21	Foreign reserves	Sept 15	--	$100.5b	--
US	9/21	Initial jobless claims	Sept 16	300k	284k	--
		Leading index	Aug	0.2%	0.3%	--
	9/22	PMI manufacturing	Sept P	53.0	52.8	--
		PMI services	Sept P	55.7	56.0	--
EU	9/21	ECB economic bulletin		--	--	--
		Consumer confidence	Sept A	-1.5	-1.5	--
	9/22	PMI manufacturing	Sept P	57.2	57.4	--
		PMI services	Sept P	54.8	54.7	--
UK	9/21	PSNCR	Aug	--	-3.9b	--
Japan	9/21	All industry activity index MOM	Jul	-0.1%	0.4%	--
		Nationwide dept store sales	Aug	--	-1.4%	--
		Supermarket sales YOY	Aug	--	0.0%	--
		BOJ policy balance	Sept 21	--	-0.1%	--
Hong Kong	9/21	CPI YOY	Aug	1.9%	2.0%	--

Source: Bloomberg

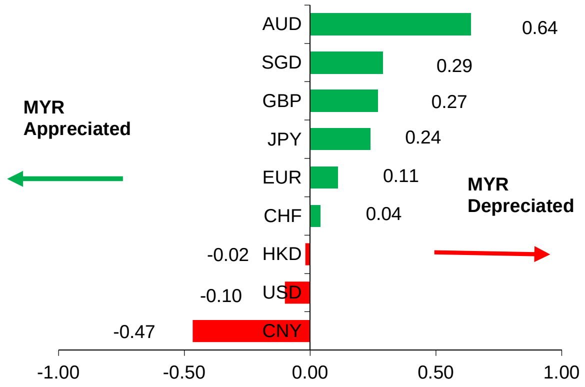
➢Forex

FX Table

Name	Last Price	DoD %	High	Low	YTD %
EURUSD	1.1892	-0.85	1.2033	1.1862	12.9
USDJPY	112.22	0.56	112.53	111.12	-3.8
GBPUSD	1.3495	-0.06	1.3657	1.3453	9.3
AUDUSD	0.8031	0.26	0.8102	0.7986	11.2
EURGBP	0.8813	-0.76	0.8888	0.8799	3.1
USDMYR	4.1875	-0.10	4.1940	4.1875	-6.5
EURMYR	5.0308	0.11	5.0397	5.0233	5.5
JPYMYR	3.7634	0.24	3.7656	3.7529	-2.7
GBPMYR	5.6748	0.27	5.6988	5.6596	2.6
SGDMYR	3.1163	0.29	3.1181	3.1091	0.2
AUDMYR	3.3731	0.64	3.3742	3.3526	3.8
NZDMYR	3.0840	0.85	3.0919	3.0640	-1.3

Source: Bloomberg

MYR vs Major Counterparts (% DOD)



MYR

- **MYR was 0.1% firmer at 4.1875 against a retreating USD** going into European trade but slipped against 6 G10s on risk aversion ahead of FOMC announcement.
- **MYR is still slightly bearish against a resurgent USD**. We reckon that a close above 4.2000 today will mark the onset of a rebound that could potentially test 4.2260 in the coming weeks. Losses, if any, will be protected by 4.1800.

USD

- **USD rebounded to beat 7 G10s** while the Dollar Index surged after FOMC decision to unwind its balance sheet and signal more hikes going forward, closing 0.78% higher at 92.50.
- **USD remains bullish in our view**, with hawkish signal from the Fed likely to spur buying interest for another couple of days more. We maintain that the Dollar Index is on track to close above 92.52 by end week. After recent surge, we caution potential retracement but as long as the Dollar Index holds above 92.05, overall upside strength is intact and could test 93.074 going forward.

EUR

- **EUR slumped 0.85% to 1.1892 against USD** after plunging post-FOMC decision, and fell against 7 G10s.
- **Expect a bearish EUR against a rallying USD**. Bearish bias prevails in EURUSD and therefore remains inclined towards the downside. Closing below 1.1887 is likely to set off a longer-term decline that could test 1.1733 soon.

GBP

- **GBP** was supported by refuge demand amid declines in European majors and firmer UK retail sales data to beat 7 G10s but **dipped 0.06% to 1.3495 against a resurgent USD**.
- **GBP is slightly bearish against USD**; expect risk aversion to prevail ahead of UK PM May's speech on Brexit this Friday. Technical signs still point to further retracements in GBPUSD. Losing 1.3449 will set off a decline to 1.3320.

JPY

- **JPY tumbled 0.56% to 112.22 against a strong USD** but managed to close higher against 5 G10s that were European majors.
- **Stay bearish on JPY against a resurgent USD** and in the absence of refuge demand. USDJPY is now threatening 112.80 – 113.00, above which the pair will target 113.97 – 114.49. However, current signs point to USDJPY inability to sustain a prolonged closing above 113.97.

AUD

- **AUD climbed 0.26% to 0.8031 against USD** and advanced against 8 G10s on the back of firmer risk appetite.
- **We keep a bearish view on AUD against a resurgent USD**. We maintain that AUDUSD's recent recapturing of 0.7980 to be unsustainable and likely to soon dip below that reversion level. With bearish bias picking up, we still set sights on a drop below 0.7958 soon, below which 0.7900 will be challenged.

SGD

- **SGD** advanced against 7 G10s on rebounding equities post-FOMC but **weakened 0.1% to 1.3486 against a firmer USD**.
- **SGD sustains a bearish bias against a resurgent USD**. Bullish bias has increased, further tilting USDSGD to the upside. We maintain the view of a potential climb higher above 1.3548 – 1.3550. Meanwhile, losses will be sheltered by 1.3471.

Hong Leong Bank Berhad
Fixed Income & Economic Research, Global Markets
Level 6, Wisma Hong Leong
18, Jalan Perak
50450 Kuala Lumpur
Tel: 603-2773 0469
Fax: 603-2164 9305
Email: HLMarkets@hlbb.hongleong.com.my