May 2, 2018

HongLeong Bank

Global Markets Research

Daily Market Highlights

Key Takeaways

- **Overnight data added to signs of softening growth traction even going into 2Q. Official manufacturing readings from the US, UK, China and Australia all signaled slower expansion** in manufacturing activities in April largely as a result of slower increases in new orders, production and employment. ISM manufacturing in the US tapered off for the 2nd straight month to 57.3 while PMI manufacturing index in the UK pulled back to a 17-month low at 53.9 in April. Meanwhile, the official PMI manufacturing in China moderated slightly by 0.1ppt to 51.4 in the same month. Japan was the only exception with Nikkei PMI manufacturing showing an uptick to 53.8 in April.

- On monetary policy, **RBA expectedly kept the cash rate target unchanged at 1.50% yesterday and maintained its neutral policy stance, reaffirming our view for extended pause by the RBA this year.** RBA Governor Lowe reiterated the central bank's stance, stating that prices are "likely to remain low for some time" in view of slow growth in labour costs but expects "a gradual pick-up in inflation" as the economy continues to gather speed. The governor emphasized the slow pace of improvement when he commented that RBA's "central scenario is for a gradual pick-up in wages growth, a gradual lift in inflation, and a gradual reduction in the unemployment rate".

- **USD advanced unchallenged** yesterday, beating all G10s while the DXY jumped 0.66% to 92.44 as markets set sights on a potentially more hawkish-toned FOMC tonight. **Expect a slightly bearish USD** as we anticipate some retracement of recent rally, on top of risk aversion ahead of US data and FOMC policy decision. We opine that DXY minor uptrend has ended. Direction going forward will depend on whether a close above 92.64 is achieved; success leads to a potential test at 93.00 – 93.52 in the coming weeks, failure triggers a drop to 91.70.

- **MYR eased 0.1% to 3.9235 against USD** on Mon, while sliding against 5 G10s as buying interest remained subdued heading into Labour Day holiday. **Expect a slightly bearish MYR against USD**, weighed down by subdued risk appetite in the markets ahead FOMC policy decision tonight. Upside bias sustains and now USDMYR is expected to test 3.9409 going forward. A break here exposes a move to 3.9525, otherwise, a drop to 3.9220 is likely.

- **SGD** ended mixed against the G10s but **weakened 0.58% to 1.3336 against a firm USD**. **Expect a slightly bearish SGD against USD**, weighed down by risk aversion in the markets ahead of FOMC policy decision. A rally through 1.3300 has increased USDSGD's bullish bias. We now set sights on a test at 1.3385 next.

Overnight Economic Data

US	↓
UK	↓
Japan	↑
Australia	→
New Zealand	→

What's Coming Up Next

Major Data
- US MBA mortgage applications, ADP employment change
- EU Markit manufacturing PMI, unemployment rate, 1Q GDP, PPI and CPI estimate
- UK Markit / CIPS construction PMI
- Japan Nikkei PMI services
- China Caixin PMI manufacturing
- Singapore PMI

Major Events
- FOMC rate decision

Daily Supports – Resistances (spot prices)*

	S2	S1	Indicative	R1	R2	Outlook
EURUSD	1.1950	1.1982	1.1993	1.2000	1.2020	↗
USDJPY	109.24	109.54	109.72	109.78	110.00	↘
GBPUSD	1.3588	1.3600	1.3613	1.3620	1.3650	↘
AUDUSD	0.7450	0.7463	0.7482	0.7500	0.7530	↘
EURGBP	0.8785	0.8797	0.8813	0.8818	0.8830	↗
USDMYR	3.9200	3.9235	3.9290	3.9308	3.9355	↗
EURMYR	4.7050	4.7100	4.7122	4.7164	4.7200	↘
JPYMYR	3.5715	3.5767	3.5795	3.5831	3.5900	↘
GBPMYR	5.3385	5.3400	5.3461	5.3592	5.3680	↘
SGDMYR	2.9423	2.9449	2.9456	2.9496	2.9542	↘
AUDMYR	2.9300	2.9336	2.9395	2.9450	2.9480	↘
NZDMYR	2.7450	2.7471	2.7509	2.7530	2.7550	↘
USDSGD	1.3300	1.3320	1.3335	1.3347	1.3385	↗
EURSGD	1.5980	1.5988	1.5997	1.6000	1.6020	↗
GBPSGD	1.8128	1.8140	1.8150	1.8168	1.8200	↘
AUDSGD	0.9958	0.9971	0.9980	1.0000	1.0029	↘

* 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*	1870.4	0.4	4.1	CRB Index	201.3	-0.36	3.8
Dow Jones Ind.	24099.1	-0.3	-2.5	WTI oil ($/bbl)	67.3	-1.93	11.3
S&P 500	2654.8	0.3	-0.7	Brent oil ($/bbl)	73.1	-2.70	9.4
FTSE 100*	7520.4	0.1	-2.2	Gold (S/oz)	1303.9	-0.90	0.2
Shanghai**	3082.2	0.2	-6.8	CPO (RM/tonne)	2380.0	-0.31	-0.4
Hang Seng*	30808.5	1.7	3.0	Copper ($/tonne)	6745.0	-0.91	-6.9
STI*	3613.9	1.0	6.2	Rubber (sen/kg)	458.0	0.66	-1.0

Source: Bloomberg

** last closed on 30 Apr 2018; ** last closed on 27 Apr 2018*

Economic Data

	For	Actual	Last	Survey
US Markit Manufacturing PMI	Apr F	56.5	55.6	56.5
US Construction Spending MOM	Mar	-1.7%	1.0% (revised)	0.5%
US ISM Manufacturing	Apr	57.3	59.3	58.5
UK Mortgage Approvals	Mar	62.9k	63.8k (revised)	63.0k
UK Markit PMI Manufacturing	Apr	53.9	54.9 (revised)	54.8
JP Nikkei Japan PMI Mfg	Apr F	53.8	53.1	--
AU AiG Manufacturing Index	Apr	58.3	63.1	--
AU CBA PMI Mfg	Apr	55.5	54.3	--
RBA Cash Rate Target	1 May	1.50%	1.50%	1.50%
NZ Building Permits MOM	Mar	14.7%	6.4% (revised)	--
NZ QV House Prices YOY	Apr	7.6%	7.3%	--
NZ Unemployment Rate	1Q	4.4%	4.5%	--
NZ Employment Change QOQ	1Q	0.6%	0.4% (revised)	--

Source: Bloomberg

➢ Macroeconomics

- US manufacturing sector continues to grow at a decent pace albeit at contrasting speed. The Markit PMI increased to 56.5 in April, affirming the recent estimates, from 55.6 in March. The strongest growth in 3.5-years was attributed to the improved pace of production and new orders, though employment growth tapered off. The ISM measure, however, fell for the 2nd straight month to 57.3 in April from 59.3 a month ago, weighed down by slightly softer growth in new orders, production as well as employment. Separately, construction spending decreased 1.7% MOM in Mar after rising 1.0% in Feb.

- UK data remained soft. Mortgage approvals slipped to 62.9k in Mar, sliding from 63.8k in Feb and missing the expected figure of 63.0k, suggesting that housing market is likely to cool. Meanwhile, manufacturing sector in the UK grew the slowest in 17 months, with the PMI falling to 53.9 in Apr from 54.9 (downwardly revised from 55.1). The sector saw slower growth in production, new orders and employment. As noted in recent weeks, slowdown in UK's economic activity has emerged and could extend, putting downward pressure on expectations for BOE to stay hawkish.

- The manufacturing sector of Japan grew at a quicker pace than expected as Apr's initial PMI reading of 53.3 was upwardly revised to 53.8. The uptick was led by quicker expansion in production in tandem with increased new orders, lifting hiring along the way. However, growth softened input and output costs, which could continue to put a lid on the drive towards the nation's inflation target.

- The RBA expectedly kept the cash rate target unchanged at 1.50% yesterday as prevailing conditions did not warrant any change in policy. RBA Governor Lowe reiterated the central bank's stance, stating that prices are "likely to remain low for some time" in view of slow growth in labour costs but expects "a gradual pick-up in inflation" as the economy continues to gather speed. The governor emphasized the slow pace of improvement when he commented that RBA's "central scenario is for a gradual pick-up in wages growth, a gradual lift in inflation, and a gradual reduction in the unemployment rate".

- Prior to RBA's decision, reports on Australian manufacturing growth were released; expansion remains robust but at varying pace. The AiG gauge eased to 58.3 in Apr, likely part of the normalization in conditions that brought the index to a record high of 63.1 in Mar. AiG report indicated slightly softer growth in sales, production, new orders and employment though all remained at decent levels. Commonwealth Bank's manufacturing index climbed to 55.5 in Apr from 54.3 in the previous month. The quicker pace of growth was attributable to stronger production, new orders and employment.

- New Zealand had some releases this morning and they turned out mixed. The unemployment rate dipped to 4.4% from 4.5% in 4Q2017, but that was due to a lower participation rate that fell from 70.9% to 70.8%. Change in employment slowed, growing 3.1% YOY in 1Q after rising 3.7% in the preceding quarter. The upside was that average hourly wages picked up on a quarterly basis, rising 1.1% QOQ from 0.8% in 4Q. Demand in the housing sector appears to be supporting the rise in residential prices, which climbed 7.6% YOY in Apr from 7.3% in Mar. Building permits surged 14.7% MOM in Mar, up from 6.4% increase in Feb and likely a sign that demand remains firm.

Economic Calendar Release Date						
Country	**Date**	**Event**	**Reporting Period**	**Survey**	**Prior**	**Revised**
US	2/5	MBA Mortgage Applications	27 Apr	--	-0.2%	--
		ADP Employment Change	Apr	198k	241k	--
	3/5	FOMC Rate Decision	2 May	1-50%-1.75%	1-50%-1.75%	--
		Initial Jobless Claims	28 Apr	224k	209k	--
		Trade Balance	Mar	-$50.0b	-$57.6b	--
		Markit US Services PMI	Apr F	54.5	54.4	--
		ISM Non-Manufacturing Composite	Apr	58.1	58.8	
		Durable Goods Orders	Mar F	--	2.6%	--
		Factory Orders	Mar	1.4%	1.2%	--
EU	2/5	Markit Eurozone Manufacturing PMI	Apr F	56.0	56.0	--
		Unemployment Rate	Mar	8.5%	8.5%	--
		GDP SA QOQ	1Q A	0.4%	0.6%	--
		PPI YOY	Mar	2.1%	1.6%	--
		CPI Estimate YOY	Apr	1.3%	1.4%	--
UK	2/5	Markit/CIPS UK Construction PMI	Apr	50.5	47.0	--
	3/5	Markit/CIPS UK Services PMI	Apr	53.5	51.7	--
Japan	2/5	Nikkei Japan PMI Services	Apr	--	50.9	--
China	2/5	Caixin China PMI Mfg	Apr	50.9	51.0	--
Hong Kong	3/5	Retail Sales Value YOY	Mar	11.0%	29.8%	--
Singapore	2/5	Purchasing Managers Index	Apr	52.8	53.0	--
Australia	3/5	AiG Perf of Services Index	Apr	--	56.9	--
		Trade Balance	Mar	A$883m	A$825m	--
		Building Approvals MOM	Mar	1.0%	-6.2%	--
Vietnam	2/5	Nikkei Vietnam PMI Mfg	Apr	--	51.6	--

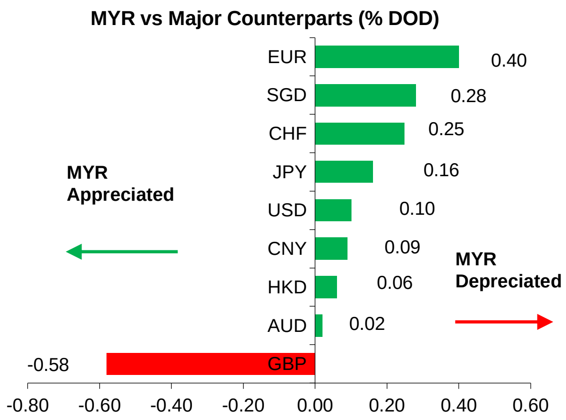
Source: Bloomberg

FX Table

Name	Last Price	DoD %	High	Low	YTD %
EURUSD	1.2078	-0.70	1.2084	1.1982	-0.1
USDJPY	109.34	0.48	109.89	109.24	-2.5
GBPUSD	1.3763	-1.08	1.3773	1.3588	0.7
AUDUSD	0.7530	-0.53	0.7547	0.7473	-4.1
EURGBP	0.8775	0.36	0.8823	0.8761	-0.8
USDMYR	3.9235	0.10	3.9235	3.9142	-3.0
EURMYR	4.7547	0.40	4.7597	4.7444	-1.9
JPYMYR	3.5883	0.16	3.5951	3.5877	-0.2
GBPMYR	5.3847	-0.58	5.4060	5.3843	-1.4
SGDMYR	2.9597	0.28	2.9629	2.9574	-2.3
AUDMYR	2.9582	0.02	2.9707	2.9580	-6.4
NZDMYR	2.7653	0.13	2.7769	2.7653	-4.0

Source: Bloomberg

** MYR pairs last closed on 30 Apr 2018*



➢Forex

MYR

- **MYR eased 0.1% to 3.9235 against USD** on Monday, while sliding against 5 G10s as buying interest remained subdued heading into Labour Day holiday.
- **Expect a slightly bearish MYR against USD**, weighed down by subdued risk appetite in the markets ahead FOMC policy decision tonight. Upside bias sustains and now USDMYR is expected to test 3.9409 going forward. A break here exposes a move to 3.9525, otherwise, a drop to 3.9220 is likely.

USD

- **USD advanced unchallenged** yesterday, beating all G10s while the DXY jumped 0.66% to 92.44 as markets set sights on a potentially more hawkish-toned FOMC tonight.
- **Expect a slightly bearish USD** as we anticipate some retracement of recent rally, on top of risk aversion ahead of US data and FOMC policy decision. We opine that DXY minor uptrend has ended. Direction going forward will depend on whether a close above 92.64 is achieved; success leads to a potential test at 93.00 – 93.52 in the coming weeks, failure triggers a drop to 91.70.

EUR

- **EUR tumbled 0.70% to 1.2078 against a rallying USD** and fell against 5 G10s, weighed down by the absence of positive catalysts.
- **EUR is bullish in our view against USD**, supported by return in buying interest as European markets re-open; stronger than expected Eurozone data will further support upsides. We eye a potential technical rebound after recent sharp decline. Gains will likely be limited by 1.2055, otherwise a more sustained rebound will form.

GBP

- **GBP plunged 1.08% to 1.3763 against USD** and fell against 8 G10s as underperforming UK data continues to cut bets of a near-term BOE rate hike.
- **GBP remains bearish against USD**, weigh down by receding bets on a near-term BOE rate hike; another set of weak UK data will push GBP lower. GBPUSD remains inclined to the downsides though losses are likely limited to 1.3550. We suspect that an extended stay below 1.3782 will culminate into a rebound above it in the coming weeks.

JPY

- **JPY** was supported by weakness in European majors to beat 7 G10s but **weakened 0.48% to 109.34 against a firmer USD**.
- **We are now slightly bullish on JPY against USD**, supported by refuge demand as risk aversion builds approaching FOMC decision. Upside momentum continues to diminish and likely to limit USDJPY's gains going forward. While gains cannot be ruled out, we continue to caution risk of rejection while above 109.78 and approaching 110.00.

AUD

- **AUD tumbled 0.53% to 0.7530 against a firmer USD** but managed to beat 6 G10s amid weakness in European majors.
- **Expect a slightly bearish AUD against USD**, weighed down by risk aversion in the markets ahead of FOMC policy decision. Losing 0.7500 is a bearish sign and we expect AUDUSD to linger below this level for some time. A test at 0.7463 is next and breaking below it exposes a move to 0.7400.

SGD

- **SGD** ended mixed against the G10s but **weakened 0.58% to 1.3336 against a firm USD**.
- **Expect a slightly bearish SGD against USD**, weighed down by risk aversion in the markets ahead of FOMC policy decision. A rally through 1.3300 has increased USDSGD's bullish bias. We now set sights on a test at 1.3385 next.

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