June 6, 2018

HongLeong Bank

Global Markets Research

Daily Market Highlights

Key Takeaways

- **Markets were mixed overnight.** In the US, NASDAQ rose 0.41% to close at an all-time high of 7,637.86 led by strong performance in tech shares but the Dow and S&P 500 meanwhile traded sideways to end little changed as jittery over trade tension remained. Elsewhere, Italian stocks tumbled following a speech by the country's new Prime Minister who called for a radical change in the country. Yields on 10Y Italian government bond surged by 25bps to close at 2.789%. A Bloomberg news story hinting that the ECB will likely to discuss the timeline to end its stimulus program sparked a rally in the euro (it was under pressure initially after the Italian PM speech).

- **RBA held interest rate unchanged, offered no fresh leads and maintained its neutral policy tone. US data remained solid** as the closely watched ISM and Markit Services PMI came in higher to signal a robust growth in the services sector. Eurozone retail sales softened in April adding to signs of slowing growth. Japan household spending disappointed – spending fell for the third consecutive month in April leading to concerns over growth in 2Q18 following a contraction in 1Q18. A stream of services PMIs were released where we noted a slowdown in growth of the Eurozone and Japan services sector while that of China remained unchanged. Hong Kong private sector growth meanwhile deteriorated. At home, Malaysia exports staged a comeback to increase 14.0% YOY in April, slightly below our forecast of 14.8% lifted by low base effect.

- **USD** that initially rallied on firmer US data **ended lower against 7 G10s** while DXY tumbled in late US morning and overturned early gains, closing 0.17% lower at 93.87. **Expect USD to remain bearish**; overnight firmer US data failed to boost further gains, while tonight's lack of major US data is unlikely to invite buying interest. DXY remains on a downward trajectory and likely to test 93.65 again, below which a drop to 92.81 is likely.

- **MYR slipped 0.03% to 3.9730 against USD** after returning into losses in European session and fell against 8 G10s. **Stay bullish on MYR against a soft USD**, further supported by improving risk appetite in the markets. USDMYR remains tilted lower in line with prevailing minor bearish trend. We continue to set sights on USDMYR testing 3.9617 next.

- **SGD advanced 0.14% to 1.3347 against USD** and strengthened against 7 G10s on the back of sustained risk appetite in the markets. **We maintain a bullish SGD view, in line with our expectation for a softer USD.** USDSGD is likely to break below 1.3332 given rising downside momentum. A close below it is expected to trigger a gradual decline to 1.3284.

Overnight Economic Data

Malaysia	↑
US	↑
EU	↓
UK	↑
Japan	↓
China	→
Hong Kong	↓

What's Coming Up Next

Major Data
- US MBA Mortgage Applications, Trade Balance
- Japan Labour Cash Earnings
- Australia 1Q GDP

Major Events
- Nil

Daily Supports – Resistances (spot prices)*

	S2	S1	Indicative	R1	R2	Outlook
EURUSD	1.1689	1.1700	1.1726	1.1748	1.1771	↗
USDJPY	109.67	109.79	109.90	110.00	110.50	↘
GBPUSD	1.3381	1.3405	1.3411	1.3435	1.3455	↗
AUDUSD	0.7614	0.7623	0.7634	0.7642	0.7652	↗
EURGBP	0.8735	0.8740	0.8743	0.8753	0.8763	↘
USDMYR	3.9680	3.9694	3.9715	3.9738	3.9776	↘
EURMYR	4.6472	4.6512	4.6567	4.6620	4.6650	↗
JPYMYR	3.6060	3.6100	3.6133	3.6139	3.6171	↘
GBPMYR	5.3122	5.3195	5.3262	5.3318	5.3385	↗
SGDMYR	2.9745	2.9761	2.9770	2.9783	2.9795	↗
AUDMYR	3.0285	3.0300	3.0313	3.0380	3.0400	↗
NZDMYR	2.7907	2.7921	2.7931	2.7950	2.7990	↗
USDSGD	1.3300	1.3332	1.3342	1.3350	1.3369	↘
EURSGD	1.5609	1.5630	1.5645	1.5658	1.5670	↗
GBPSGD	1.7845	1.7877	1.7891	1.7907	1.7940	↗
AUDSGD	1.0146	1.0166	1.0179	1.0184	1.0200	↗

* 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	1755.1	0.0	-2.3	CRB Index	199.2	0.16	2.7
Dow Jones Ind.	24800.0	-0.1	0.3	WTI oil ($/bbl)	65.5	1.19	8.4
S&P 500	2748.8	0.1	2.8	Brent oil ($/bbl)	75.4	0.10	12.7
FTSE 100	7686.8	-0.7	0.0	Gold (S/oz)	1296.4	0.30	-0.4
Shanghai	3114.2	0.7	-5.8	CPO (RM/tonne)	2407.0	0.31	0.7
Hang Seng	31093.5	0.3	3.9	Copper ($/tonne)	7099.0	1.78	-2.0
STI	3483.2	0.5	2.4	Rubber (sen/kg)	456.5	-1.40	-1.3

Source: Bloomberg

Economic Data				
	For	Actual	Last	Survey
MY Exports YOY	Apr	14.0%	2.2%	6.3%
US ISM Non-Manf. Composite	May	58.6	56.8	57.6
US Markit US Services PMI	May F	56.8	55.7	55.7
EU Markit Services PMI	May F	53.8	54.7	53.9
EU Retail Sales MOM	Apr	0.1%	0.4% (revised)	0.5%
UK Markit/CIPS Services PMI	May	54.0	52.8	53.0
JP Household Spending YoY	Apr	-1.3%	-0.7%	0.8%
JP Nikkei Japan Services PMI	May	51.0	52.5	--
CN Caixin China Services PMI	May	52.9	52.9	52.9
HK Nikkei Hong Kong PMI	May	47.8	49.1	--
AU RBA Cash Rate Target	05 June	1.50%	1.50%	1.5%

Source: Bloomberg

➢ Macroeconomics

- ***US services sector remained robust:*** The closely watched ISM Non-Manufacturing PMI came in higher at 58.6 in May (Apr: 56.8) representing a continuous faster growth in the non-manufacturing sector. Nearly all sub categories of the headline improved –business activities, new orders, employment and prices grew at a faster pace while backlog of orders increased notably, a sign of capacity constraint. Similar with the manufacturing sector as reported earlier, trade outlook was rather clouded as both new exports orders and imports eased. Most of the respondents are upbeat about business conditions and overall economy but concerns over uncertainty surrounding tariffs and trade dispute lingered. Meanwhile, the final reading of the private Markit US Services PMI confirmed growth in the services sector as well – the index rose to 56.8 in May (Apr: 55.7).

- ***Eurozone retail sales softened; services sector eased:*** Retail sales growth moderated to 0.1% MOM in April (Mar: +0.4% revised). This brings the annual growth to an expected 1.7% YOY (Mar: +1.5% revised) driven by faster sales in non-food products (+3.2%) and rebound in textiles, clothing & footwear (+3.4%), computers & books (+2.6%) as well as electrical goods & furniture (+0.5%). The upbeat data suggests that the Eurozone began its second quarter on a solid footing signaling a rebound in growth in 2Q18 after a slower 1Q18. The final reading of Eurozone Services PMI was revised downward from 53.9 to 53.8 in May (Apr: 54.7) as the rate of expansion continued to cool for the fourth consecutive month attributed to slowdown in Germany and France.

- ***UK services sector recovered:*** The Markit/CIPS UK Services PMI rose to 54.0 in May (Apr: 52.8) signaling an upturn across activities in the services sector as firms attributed the growth to catch-up from the snow related disruption in 1Q18 alongside sustained growth of incoming new work. Rising oil prices and wages led to higher cost but firms struggled to past the cost onto consumers amidst subdued demand. The improvement in the services sector adds to evidence of an economic rebound in 2Q18 but looking ahead Brexit related uncertainty will continue to weigh down on business confidence.

- ***RBA hold rates steady, offered no fresh leads, policy tone remained neutral:*** The Reserve Bank of Australia kept its cash rate unchanged at a historic low of 1.50% in its monetary policy meeting yesterday. Key highlights of the statement released by the central bank include the RBA assessment that employment has grown strongly over the past year albeit slowing in recent months and a gradual unemployment rate is expected, however wage growth remained low but appeared to have troughed. Inflation is likely to remain low for some time but a gradual pick-up in inflation is expected as the economy strengthens. Housing credit growth has slowed over the past year while macro prudential policies have been helpful in containing the buildup of risk in household balance sheets but the level of household debt remains high. The low level of interest rates continues to support the economy and inflation is expected to gradually return to its target of 2-3%. We expect RBA to keep interest rates unchanged for the remainder of 2018.

- ***Japan household spending disappointed:*** Household spending contracted for the third consecutive month by 1.3% YOY in April (Mar: -0.7%), knocked down by lower spending in food (-0.8%), transportations (-1.2%), utilities (-5.6%), as well as clothing & footwear (-2.5%). This came as a surprise amidst improved retail sales in the same month and higher wage growth in March which could have spurred a rebound in spending and potentially send the economy back into growth territory following a contraction in the first quarter (1Q18 GDP declined 0.2% QOQ). The core household spending which excludes housing shrank 0.8% YOY (Mar: -0.7%) suggesting a weak underlying demand conditions leading to questions over whether the BOJ can achieve its 2% inflation target.

- ***Japan services sector slowed:*** The Nikkei Japan Services PMI fell to 51.0 in May (Apr: 52.5) signaling a moderation in services sector output growth attributed to softer sales. Output price inflation eased as well despite a greater increase in cost. That said, firms continue to expand its workforce and business confidence remained strong.

- ***China services sector expanded at a modest pace:*** The Caixin China General Services PMI remained unchanged at 52.9 in May (Apr: 52.9) signaling only a modest expansion in the sector despite higher new business placed with Chinese service providers. The private reading was not in line with the official non-manufacturing PMI which indicates faster expansion in the sector in the same month.

- ***Hong Kong private sector growth deteriorated:*** The Nikkei Hong Kong PMI fell to 47.8 in May (Apr: 49.1) due to sharper fall in output and new business signaling the slowing of the private sector economy. Export orders from China fell in May after six consecutive months of growth which weighed on new business and output leasing to a decrease in employment number. Business sentiments remained downbeat with regards to concerns over increased competitions particularly from e-commerce and weaker economic conditions.

- ***Malaysia exports staged a strong pick-up lifted by low base effect:*** Exports growth saw a commendable pick-up to 14.0% YOY in April (Mar: +2.2%), as expected, lifted by the low base effect in the previous corresponding month. Improvement was seen rather broad-based across most major product categories and major export destinations. Imports also snapped a two-month contraction to increase 9.1% YOY in April (Mar: -9.6% YOY) as a result of a rebound in capital goods imports and smaller declines in intermediate and consumption goods imports. MOM, exports fell marginally by 0.3% while imports rose albeit at a much slower pace of 2.0%, narrowing the trade surplus to RM13.07bn in April (Mar: RM14.69bn), still near its highest level in nearly 6.5 years. Looking ahead, we expect exports to continue expand at a moderate pace supported by still firm global demand led by the US and Asia even though the EU, Japan and China has begun to show added signs of slowing growth momentum. Sustained expansion in manufacturing exports is expected to be somewhat cushioned by softness in commodity exports dragged mainly by weaker CPO prices which has fallen by 15-16% YOY in the first five months of the year. However, it is hopeful that the current rally in global crude oil prices could help alleviate the pressure. We are maintaining our full year GDP growth forecast at 5.0% for now, pending greater policy clarity under the new government which could be short term negative for investment following the scale-back of mega projects and as businesses adopt a wait-and-see approach. That said, we believe the setback could be cushioned by potential uplift in consumer spending amid increased sentiments and real purchasing power.

Economic Calendar Release Date						
Date	**Country**	**Events**	**Reporting Period**	**Survey**	**Prior**	**Revised**
07/06	Malaysia	Foreign Reserves	31-May	--	$109.4b	--
06/06	**US**	**MBA Mortgage Applications**	**01 June**	**--**	**-2.9%**	**--**
		Trade Balance	**Apr**	**-$49.0b**	**-$49.0b**	**--**
07/06		Initial Jobless Claims	01 June	221k	221k	--
07/06	Eurozone	GDP SA QOQ	1Q F	0.4%	0.7%	--
07/06	UK	Halifax House Prices MOM	May	1.0%	-3.1%	--
06/06	**Japan**	**Labor Cash Earnings YOY**	**Apr**	**1.3%**	**2.1%**	**2.0%**
07/06		Leading Index CI	Apr P	105.6	104.4	--
		Coincident Index	Apr P	117.8	116.3	--
07/06	China	Foreign Reserves	May	$3,107.00b	$3,124.85b	--
07/06	Hong Kong	Foreign Reserves	May	--	$434.4b	--
07/06	Singapore	Foreign Reserves	May	--	$287.73b	--
07/06		Retail Sales YOY	Apr	--	-1.5%	--
06/06	**Australia**	**GDP SA QOQ**	**1Q**	**0.9%**	**0.4%**	**--**
07/06		AiG Perf of Construction Index	May	--	55.4	--
		Trade Balance	Apr	A$1,000m	A$1,527m	--
		Foreign Reserves	May	--	A$72.8b	--
07/06	New Zealand	QV House Prices YOY	May	--	7.6%	--
06/06-13/06	Vietnam	Domestic Vehicle Sales YOY	May	--	-3.7%	--

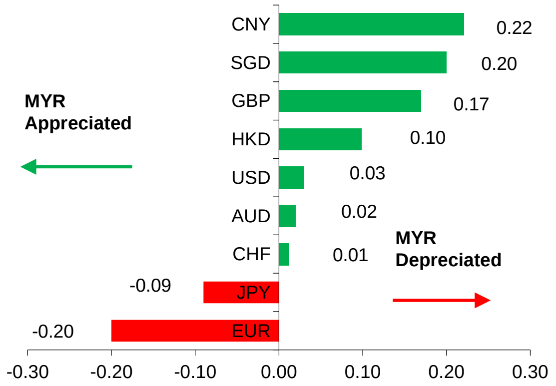
Source: Bloomberg

FX Table

Name	Last Price	DoD %	High	Low	YTD %
EURUSD	1.1718	0.16	1.1732	1.1653	-2.3
USDJPY	109.79	-0.03	110	109.47	-2.5
GBPUSD	1.3393	0.60	1.3409	1.3302	-0.8
AUDUSD	0.7616	-0.42	0.7656	0.7595	-2.4
EURGBP	0.8751	-0.41	0.8789	0.8724	-1.5
USDMYR	3.9730	0.03	3.9765	3.9688	-1.8
EURMYR	4.6494	-0.20	4.6522	4.6399	-3.9
JPYMYR	3.6199	-0.09	3.6202	3.6109	0.6
GBPMYR	5.3137	0.17	5.3160	5.2835	-2.5
SGDMYR	2.9773	0.20	2.9780	2.9709	-1.7
AUDMYR	3.0324	0.02	3.0410	3.0285	-4.2
NZDMYR	2.7962	0.25	2.7995	2.7879	-3.0

Source: Bloomberg

MYR vs Major Counterparts (% DOD)



➢Forex

MYR

- **MYR slipped 0.03% to 3.9730 against USD** after returning into losses in European session and fell against 8 G10s.
- **Stay bullish on MYR against a soft USD**, further supported by improving risk appetite in the markets. USDMYR remains tilted lower in line with prevailing minor bearish trend. We continue to set sights on USDMYR testing 3.9617 next.

USD

- **USD** that initially rallied on firmer US data **ended lower against 7 G10s** while DXY tumbled in late US morning and overturned early gains, closing 0.17% lower at 93.87.
- **Expect USD to remain bearish**; overnight firmer US data failed to boost further gains, while tonight's lack of major US data is unlikely to invite buying interest. DXY remains on a downward trajectory and likely to test 93.65 again, below which a drop to 92.81 is likely. Closing above 93.97 today nullifies current minor bearish trend and could spark a rally to 94.49 in the near-term.

EUR

- **EUR climbed 0.16% to 1.1718 against USD** and advanced against 6 G10s, recovering from moderate losses in European session.
- **Stay bullish on EUR on the back of a soft USD**. EURUSD closing above 1.17 yesterday has likely given upside bias a boost. Expect a test at 1.1748 next and if this is broken, 1.1820 – 1.1855 will be under threat.

GBP

- **GBP** climbed to the top of the G10 list and **jumped 0.6% to 1.3393 against USD**, lifted by another upside surprise in UK data.
- **Expect bullish GBP against a soft USD**, further buoyed by recent upside surprises in UK data that has slightly improved the odds of a BOE rate hike this year. With GBPUSD strongly beating 1.3335, we set sights on further gains going forward. Expect 1.3482 to be tested in the next leg higher, above which GBPUSD will take aim at 1.3572.

JPY

- **JPY** eased against 6 G10s as European majors recovered but **managed to beat USD by 0.03% to close at 109.79**.
- **We now turn bullish on JPY against a soft USD**. While breaking above 109.79 suggests further gains by USDJPY, further upsides now look doubtful after overnight rejection at 110. This area is close to 2 recent rejection levels that we suspect may yet again prevent USDJPY from climbing further, and trigger a decline to circa 108.79.

AUD

- **AUD** tumbled against all G10s and **weakened 0.42% to 0.7616 against USD** even as Australia's data improved, likely weighed down by risk aversion ahead of Australia 1Q GDP today.
- **Maintain a bullish view on AUD against USD**, supported by improving risk appetite; a strong 1Q GDP will greatly boost a bullish case. We set sights on AUDUSD breaking above 0.7660, which would likely to inject more upside strength for the pair to test 0.7718 in the next leg higher.

SGD

- **SGD advanced 0.14% to 1.3347 against USD** and strengthened against 7 G10s on the back of sustained risk appetite in the markets.
- **We maintain a bullish SGD view, in line with our expectation for a softer USD**. USDSGD is likely to break below 1.3332 given rising downside momentum. A close below it is expected to trigger a gradual decline to 1.3284.

Hong Leong Bank Berhad
Fixed Income & Economic Research, Global Markets
Level 8, Hong Leong Tower
6, Jalan Damanlela
Bukit Damansara
50490 Kuala Lumpur
Tel: 603-2081 1221
Fax: 603-2081 8936
Email: HLMarkets@hlbb.hongleong.com.my

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