July 6, 2018

HongLeong Bank

Global Markets Research

Daily Market Highlights

Key Takeaways

- Wall Street ended higher overnight lifted by a rally in the tech sector on improved sentiments even as the US is scheduled to impose a fresh round of tariff on $34bn worth of Chinese imports on Friday**. Better-than-expected ISM services index and FOMC minutes reaffirmed a strong US economy while concerns over trade tensions (in the minutes) did little to sway the markets.** European equity rallied, the euro was supported by strong German data and there were reports claiming that the US was possibly backing away from imposing tariffs on European cars. Yields on US 10Y treasuries fell slightly to 2.83%.

- The US ISM services index came in stronger at 59.1 in June reflecting **continued strengthening of the US services sector** led mainly by faster growth in production and new orders. The ADP jobs report missed expectations with **the private sector adding 177k jobs in June** but figure in May was revised upwards. Initial jobless claims rose to 231k last week bringing the 4-week moving average of 225k. Hong Kong private sector conditions deteriorated in June while Australia construction sector expanded at a much slower pace. **Malaysia exports growth pulled back more than expected** to 3.4% YOY in May while imports also registered slower growth by 0.1% YOY narrowing the trade surplus to RM8.1bn, its lowest in five months.

- **USD fell against 7 G10s** led by losses from risk aversion ahead of FOMC minutes as well as ahead of US trade tariff on China effective today noon. DXY bounced off intraday low post-jobs data but failed to overturn early losses, closing 0.14% lower at 94.39. **We stay slightly bearish on USD** amid risk aversion as markets await the imposition of US trade tariffs on China and potential retaliatory response. Caution that softer US labour market data tonight will trigger further losses. A minor bearish trend has established a firmer footing, suggesting further losses going forward. We continue to set sights on a drop to 94.04 going forward.

- **MYR inched 0.09% firmer to 4.0430 against a softer USD** going into European session but fell against 7 G10s that were also rallying on a soft greenback. **Stay slightly bullish on MYR against USD** that is likely to be weighed down ahead of US data tonight. We maintain that USDMYR appears to be initiating a reversal, which will head lower once 4.0325 is broken. This could trigger losses to circa 4.0146.

- **SGD inched 0.01% firmer to 1.3649 against USD** but ended lower against 6 G10s. **Expect a slightly bullish SGD against a soft USD**. We maintain that USDSGD has initiated a reversal lower. While below 1.3661, there is scope for USDSGD to slide to circa 1.3600 – 1.3620, below which 1.3579 will be targeted.

Overnight Economic Data	
Malaysia	↓
US	→
Japan	→
Hong Kong	↓
Australia	↓

What's Coming Up Next

Major Data
- Malaysia Foreign Reserves
- US Change in Nonfarm Payrolls, Trade Balance, Unemployment Rate, Average Hourly Earnings, Labour Force Participation Rate
- UK Halifax House Prices
- Japan Leading Index CI, Coincident Index

Major Events
- Nil

Daily Supports – Resistances (spot prices)*

	S2	S1	Indicative	R1	R2	Outlook
EURUSD	1.1652	1.1680	1.1694	1.1700	1.1723	↗
USDJPY	110.26	110.37	110.56	110.67	110.97	↘
GBPUSD	1.3171	1.3207	1.3221	1.3234	1.3261	↗
AUDUSD	0.7368	0.7384	0.7395	0.7409	0.7424	↗
EURGBP	0.8829	0.8839	0.8844	0.8850	0.8857	↗
USDMYR	4.0400	4.0420	4.0433	4.0460	4.0480	↘
EURMYR	4.7228	4.7250	4.7285	4.7300	4.7350	↗
JPYMYR	3.6506	3.6536	3.6554	3.6565	3.6616	↘
GBPMYR	5.3400	5.3430	5.3458	5.3473	5.3503	↘
SGDMYR	2.9600	2.9620	2.9629	2.9644	2.9676	→
AUDMYR	2.9878	2.9886	2.9900	2.9941	2.9959	↗
NZDMYR	2.7415	2.7461	2.7490	2.7513	2.7558	↗
USDSGD	1.3620	1.3643	1.3647	1.3658	1.3670	↘
EURSGD	1.5935	1.5958	1.5961	1.5977	1.5990	↗
GBPSGD	1.8013	1.8033	1.8044	1.8062	1.8083	↗
AUDSGD	1.0072	1.0084	1.0092	1.0103	1.0110	↗

* 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	1,690.65	0.13	-5.91	CRB Index	196.21	-0.64	1.21
Dow Jones Ind.	24,356.74	0.75	-1.47	WTI oil ($/bbl)	72.94	-1.62	20.72
S&P 500	2,736.61	0.86	2.36	Brent oil ($/bbl)	77.39	-1.09	15.73
FTSE 100	7,603.22	0.40	-1.10	Gold (S/oz)	1,257.91	0.23	8.10
Shanghai	2,733.88	-0.91	-17.33	CPO (RM/tonne)	2,279.50	-0.35	-4.62
Hang Seng	28,182.09	-0.21	-5.81	Copper ($/tonne)	6,345.00	-0.64	-12.45
STI	3,256.71	0.36	-4.30	Rubber (sen/kg)	417.50	-1.18	-9.73

Source: Bloomberg

Economic Data				
	For	Actual	Last	Survey
MA Trade Balance MYR	May	8.1b	13.0b (revised)	10.5b
MA Exports YOY	May	3.4%	14.0%	6.4%
US ADP Employment Change	Jun	177k	189k (revised)	190k
US Initial Jobless Claims	30-Jun	231k	228k (revised)	225k
US Markit Services PMI	Jun F	56.5	56.8	56.5
US ISM Non-Manf. Composite	Jun	59.1	58.6	58.3
JP Household Spending YOY	May	-3.9%	-1.3%	-1.5%
JP Labour Cash Earnings YOY	May	2.1%	0.6% (revised)	0.9%
HK Nikkei PMI	Jun	47.7	47.8	--
AU AiG Construction Index	Jun	50.6	54.0	--

Source: Bloomberg

➢ Macroeconomics

- ***FOMC June meeting minutes reaffirmed gradual rate hike, highlighted trade policy risk:*** The Fed has recently raised fed funds rate in June, the newly released meeting minutes revealed that the Fed saw gradual rate hikes as being consistent with a healthy US economy with strong labour market conditions and inflation nearing its 2 percent symmetric target in the medium term. The minutes also mentioned that many district contacts expressed concern about trade policy with some indicating that plans for capital spending had been scaled back or postponed as a result of uncertainty. Participants noted that uncertainty and risks associated with trade policy has intensified and were concerned that these could have adverse impact on business sentiments and investment spending. That said, we continue to expect the Fed to hike interest rate for two more times for the remainder of 2018 on strong economic footing underpinned by a solid growth in both services and manufacturing sectors with a continuously tightening labour market as well as strong domestic demand boosted by tax cuts.

- ***US services sector strengthened further:*** The ISM services index came in better than expected at 59.1 in June (May: 58.6) reflecting continued growth in the services sector at a slightly faster pace. The upturn was driven mainly by faster growth in production (June 63.9 vs May 61.3) and new orders (63.2 vs 60.5). Outlook of trade improved as well with new exports order went up by 3 ppts to (60.5 vs 57.5). Meanwhile employment eased (53.6 vs 54.1) as firms continued to report difficulties in filling up positions. Labour shortages coupled with rising oil prices and uncertainties over tariff put pressure on cost. The final reading of the private IHS Markit Services PMI remained at 56.5 in June (May: 56.8), a tad softer than May.

- ***US private sector added fewer jobs than expected:*** Ahead of the NFP reports tonight, the ADP/ Moody's Analytics Job report revealed that American private sector added a less-than-expected 177k jobs in June (May: 189k revised) compared to the surveyed 190k while May figure was revised upward by 11k hence offering some comfort to the big miss in estimates. Initial jobless claims meanwhile rose by 3k to 231k for the week ended 30 June (previous: 228k revised) bringing the four-week moving average to 225k.

- ***Hong Kong private sector conditions deteriorated:*** The Nikkei Hong Kong PMI fell to 47.7 in June (May: 47.8) weighed down by contractions in both output and new orders, with Chinese demand softening for the second consecutive month. Reduced sales allowed firms to work through workloads leading to fall in backlogs and this in turn led to slower hiring. Higher inflation meanwhile was caused by stretched supply chains, global community shortages and higher prices for raw materials. Business sentiments remained negative and maintained its downward trend as firms were concerned over trade tension between the US and China.

- ***Australia construction sector expanded at a markedly slower pace:*** The AiG Performance of Construction Index fell substantially to 50.6 in June (May: 54.0) nearing the 50.0 threshold driven by lower housing activity. Overall construction activity rose at a slower pace with contraction observed in new orders contracted as well as employment, in line with the gradual cool down of the Australian housing markets as authority continued its effort to curb speculative activities.

- ***Japan household spending remained dismal despite higher wage growth:*** Data released this morning shows that household spending contracted for the fourth consecutive months by a substantial 3.9% YOY in May (Apr: -1.3%). Meanwhile, labour cash earnings, a measure of wage growth rose a whopping 2.1% YOY in the same month (Apr: +0.6%), a level last seen in June 2003 driven by bonus payout. Regular wage recorded higher gain as well at 1.5% YOY (Apr: +0.9%) as the labour market tightened further – jobless rate has fallen to an all-time low of 2.2% in the same month while jobs-to-applicant ratio went up. The rise in wage growth in recent months has failed to prop up household spending and instead it has been in a declining mode since February reflecting weak consumer sentiments. We expect wage growth to normalize after this and hence inflation likely to remain subdued while spending could retrace its losses next month onwards, but overall BOJ will retain its ultra-loose monetary policy for some time to come.

- ***Malaysia exports pulled back more than expected in May:*** Exports growth pulled back more than expected to 3.4% YOY in May, normalizing from April's hefty 14.0% YOY increase, which was lifted by a low base effect back then. Most major manufacturing subsectors saw deceleration in growth, and palm oil exports posted sharp decline, offsetting commendable pick-up in energy exports following recent sharp increase in global crude oil prices, which has risen 54% YOY in May. In tandem, imports also registered much slower growth, by a meager 0.1% YOY increase in May (Apr: +9.2% revised), dampened by broad-based declines across all import categories. MOM, the decline in exports quickened to 2.5% while imports rose 3.9%, narrowing the trade surplus to RM8.1bn (Apr: RM13.0bn revised), its lowest in five months. Continued demand from the US and neighbouring Asia is expected to keep demand for Malaysian exports supported. There will however be downside risks emanating from the broadening and deepening of trade tariff issues between the US and its major trading partners that could stifle growth in the US economy which would in return adversely impact the world economy given interconnectivity in the global supply chain. We are maintaining our full year GDP growth forecast at 5.0% for now, pending greater policy clarity domestically as well as evolvement of the US trade protectionism policy that would implicate the external front.

Economic Calendar

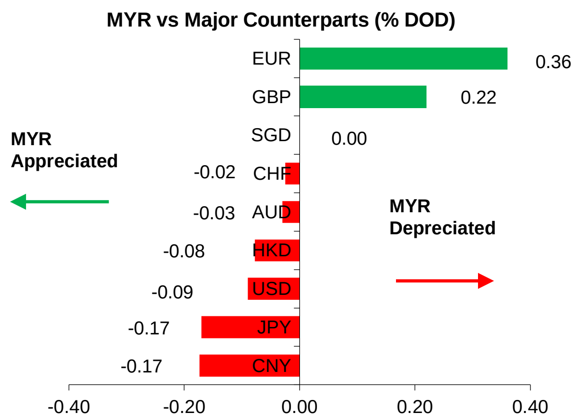
Date	Country	Events	Reporting Period	Survey	Prior	Revised
06/07	**Malaysia**	**Foreign Reserves**	**29-Jun**	**--**	**$107.9b**	**--**
06/07	**US**	**Change in Nonfarm Payrolls**	**Jun**	**195k**	**223k**	**--**
		Trade Balance	**May**	**-$43.7b**	**-$46.2b**	**--**
		Unemployment Rate	**Jun**	**3.8%**	**3.8%**	**--**
		Average Hourly Earnings YOY	**Jun**	**2.8%**	**2.7%**	**--**
		Labor Force Participation Rate	**Jun**	**62.7%**	**62.7%**	**--**
09/07	**Eurozone**	Sentix Investor Confidence	Jul	--	9.3	--
06/07	**UK**	**Halifax House Prices MOM**	**Jun**	**0.2%**	**1.5%**	**--**
06/07	**Japan**	**Leading Index CI**	**May P**	**106.6**	**106.2**	**--**
		Coincident Index	**May P**	**116.1**	**117.5**	**--**
09/07		Trade Balance BOP Basis	May	-¥486.2b	¥573.8b	--
		Eco Watchers Survey Current SA	Jun	47.9	47.1	--
		Eco Watchers Survey Outlook SA	Jun	50.0	49.2	--
08-18/07/18	China	Foreign Direct Investment YOY CNY	Jun	--	7.6%	--
09-13/07/18	Singapore	GDP YOY	2Q A	--	4.4%	--

Source: Bloomberg

FX Table

Name	Last Price	DoD %	High	Low	YTD %
EURUSD	1.1691	0.29	1.172	1.1650	-2.6
USDJPY	110.64	0.14	110.72	110.29	-1.9
GBPUSD	1.3222	-0.06	1.3275	1.3204	-2.1
AUDUSD	0.7387	0.01	0.7408	0.7362	-5.4
EURGBP	0.8840	0.33	0.8858	0.8806	-0.4
USDMYR	4.0430	-0.09	4.0480	4.0422	-0.1
EURMYR	4.7253	0.36	4.7383	4.7136	-2.5
JPYMYR	3.6541	-0.17	3.6682	3.6522	1.6
GBPMYR	5.3524	0.22	5.3609	5.3474	-2.2
SGDMYR	2.9647	0.00	2.9667	2.9585	-2.2
AUDMYR	2.9862	-0.03	2.9892	2.9784	-5.5
NZDMYR	2.7438	0.30	2.7441	2.7315	-4.7

Source: Bloomberg



➢Forex

MYR

- **MYR inched 0.09% firmer to 4.0430 against a softer USD** going into European session but fell against 7 G10s that were also rallying on a soft greenback.
- **Stay slightly bullish on MYR against USD** that is likely to be weighed down ahead of US data tonight. We maintain that USDMYR appears to be initiating a reversal, which will accelerate lower once 4.0325 is broken. This could trigger losses to circa 4.0146.

USD

- **USD fell against 7 G10s** led by losses from risk aversion ahead of FOMC minutes as well as ahead of US trade tariff on China effective today noon. DXY bounced off intraday low post-jobs data but failed to overturn early losses, closing 0.14% lower at 94.39.
- **We stay slightly bearish on USD** amid risk aversion as markets await the imposition of US trade tariffs on China and potential retaliatory response. Caution that softer US labour market data will trigger further losses. A minor bearish trend has established a firmer footing, suggesting further losses going forward. We continue to set sights on a drop to 94.04 going forward.

EUR

- **EUR climbed 0.29% to 1.1691 against USD** and strengthened against 7 G10s, lifted by a sharp rally in Asian afternoon likely due to improved buying interest amid firmer expectations that the ECB will raise interest rates earlier than expressed.
- **EUR is slightly bullish in anticipation of risk aversion in USD**; direction will be strongly reliant on the greenback's response to US data. Minor bullish trend sustains and EURUSD is on track to test 1.1723 next. Beating this exposes a move to 1.1855 going forward.

GBP

- **GBP slipped 0.06% lower to 1.3222** and fell against 8 G10s due to a sharp decline in US morning amid reports that Germany views UK PM May's Brexit customs plan as "unworkable".
- **Continue to expect a slightly bullish GBP against a soft USD** but gains may be limited given downside pressure from renewed concerns over the UK's Brexit development. Minor bullish trend is likely to push GBPUSD higher to circa 1.3261. Beating this exposes a move to 1.3300 – 1.3330 in the next leg higher.

JPY

- **JPY weakened 0.14% to 110.64 against USD** and fell against all G10s amid firmer risk appetite in equities.
- **Stay bullish on JPY against USD** in anticipation of risk aversion in the markets ahead of US data and the wait for signs of development in the on-going trade tensions. We maintain that the recent rejection is likely to take USDJPY lower to circa 110.15. Caution that losing 110.15 exposes a move to 109.79 next.

AUD

- **AUD inched 0.01% higher to 0.7387 against USD** after scaling back early gains amid risk aversion ahead of FOMC minutes. AUD ended lower against 6 G10s.
- **AUD is slightly bullish against a soft USD** but gains may be limited as markets await signs of development in the on-going trade tensions. A minor bullish trend prevails in AUDUSD. There is room for further gains to circa 0.7424, above which 0.7451 will be targeted.

SGD

- **SGD inched 0.01% firmer to 1.3649 against USD** but ended lower against 6 G10s.
- **Expect a slightly bullish SGD against a soft USD**. We maintain that USDSGD has initiated a reversal lower. While below 1.3661, there is scope for USDSGD to slide to circa 1.3600 – 1.3620, below which 1.3579 will be targeted.

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