September 6, 2018

HongLeong Bank

Global Markets Research
Daily Market Highlights

Key Takeaways

- US equity ended the day on a mixed note as uncertainty over trade talk between US and Canada as well as US decision to impose tariffs on $200b Chinese goods continued. President Trump then announced prior to the closing bell that the talk with Canada is resuming. WTI closed 1.65% lower at $68.72/barrel after API reported less-than-expected draw in US crude inventories. Yield on 10Y US treasuries was virtually flat at 2.90% ahead of NFP. The Bank of Canada left interest rate unchanged at 1.5%. At home, BNM held OPR steady at 3.25% and maintained its neutral policy tone.

- **Overnight data flow was aplenty and mixed. US July trade deficit widened to a 5-month high** of $50.1b due to slower exports (-1.0% MOM) while imports rose at a faster pace (+0.9% MOM). Australia 2Q GDP topped estimate to clock in at 0.9% QOQ. Eurozone final Markit Services PMI was unrevised at 54.4 while retail sales growth softened to 1.1% YOY. Services sector in the UK and Japan also experienced faster expansion with their individual Markit PMI went up to 54.3 and 51.5 respectively. Contrary to the official data, China services sector meanwhile posted only modest expansion according to Markit as the Caixin PMI fell to 51.5. Elsewhere, Hong Kong private sector conditions continued to deteriorate while Singapore private sector experienced slower growth. Malaysia recorded a surprised pick-up in exports by 9.4% YOY in July.

- **USD weakened against 8 G10s** while the DXY tumbled in US morning to erase early gains and closed 0.27% lower at 95.18. **USD is bearish in our view** at this juncture as demand fades amid improving risk appetite in the markets and ahead of important US data. As cautioned yesterday, DXY tested and was rejected by 95.54 – 95.65 range. DXY is now tilted to the downside with scope to slide to circa 94.84 and needs to recapture above 95.14 today to stay on track for a return to 96.25.

- **MYR weakened 0.22% to 4.1475 against USD** and slipped against 9 G10s on the back of extended pressure on emerging majors. **We are neutral on MYR against USD**, with room for slight losses as trade concerns remains unabated. USDMYR remains tilted to the upside and is poised to test 4.1450 – 4.1480 next. Still, USDMYR appears stretched, thus we caution on rising risk of rejection approaching 4.1500 – 4.1555.

- **SGD** ended lower against 8 G10s as risk appetite in the FX space improved but **closed 0.04% firmer at 1.3757 against USD**. **SGD remains bearish against USD** on technical reasons. Prevalence of minor bullish trend continues to suggest that USDSGD is likely to trend higher going forward. USDSGD is poised to beat 1.3783 in the coming days.

Overnight Economic Data

Malaysia	↑
US	↓
Eurozone	→
UK	↑
Japan	↑
China	↓
Hong Kong	↑
Singapore	↓
Australia	↓

What's Coming Up Next

Major Data
- Malaysia Foreign Reserves
- US ADP Employment, Initial Jobless Claims, Markit & ISM Services, Factory Orders, Durable Goods Orders
- Australia Trade Balance

Major Events
- Nil

Daily Supports – Resistances (spot prices)*

	S2	S1	Indicative	R1	R2	Outlook
EURUSD	1.1618	1.1632	1.1649	1.1662	1.1680	↗
GBPUSD	1.2900	1.2915	1.2920	1.2942	1.2960	↗
USDJPY	111.13	111.26	111.35	111.47	111.66	↗
AUDUSD	0.7176	0.7190	0.7200	0.7215	0.7235	↗
EURGBP	0.8988	0.9000	0.9012	0.9018	0.9030	↗
USDMYR	4.1400	4.1420	4.1440	4.1452	4.1477	→
EURMYR	4.8130	4.8206	4.8252	4.8300	4.8320	↗
JPYMYR	3.7200	3.7211	3.7234	3.7250	3.7298	→
GBPMYR	5.3400	5.3474	5.3549	5.3560	5.3590	↗
SGDMYR	3.0070	3.0100	3.0133	3.0150	3.0180	↗
AUDMYR	2.9768	2.9800	2.9820	2.9858	2.9890	↗
NZDMYR	2.7315	2.7350	2.7368	2.7380	2.7400	↗
USDSGD	1.3711	1.3733	1.3747	1.3762	1.3783	↗
EURSGD	1.5970	1.6000	1.6012	1.6022	1.6050	↗
GBPSGD	1.7723	1.7750	1.7765	1.7786	1.7800	↗
AUDSGD	0.9870	0.9890	0.9894	0.9915	0.9932	↗

*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	1,795.50	-0.95	0.07	CRB Index	191.01	-0.58	-1.47
Dow Jones Ind.	25,974.99	0.09	5.08	WTI oil ($/bbl)	68.72	-1.65	13.74
S&P 500	2,888.60	-0.28	8.04	Brent oil ($/bbl)	77.27	-1.15	15.55
FTSE 100	7,383.28	-1.00	-3.96	Gold (S/oz)	1,196.73	0.44	-8.10
Shanghai	2,704.34	-1.68	-18.23	CPO (RM/tonne)	2,215.00	0.75	-7.32
Hang Seng	27,243.85	-2.61	-8.94	Copper ($/tonne)	5,871.00	0.96	-18.99
STI	3,156.28	-1.69	-7.25	Rubber (sen/kg)	408.00	0.25	-11.78

Source: Bloomberg

Economic Data

	For	Actual	Last	Survey
MA Trade Balance MYR	Jul	8.30b	6.00b	6.70b
MA Exports YOY	Jul	9.4%	7.6%	4.7%
MA BNM OPR	05 Sep	3.25%	3.25%	3.25%
US MBA Mortgage Applications	32 Aug	-0.1%	-1.7%	--
US Trade Balance	Jul	-$50.1b	-$45.7b (revised)	-$50.2b
EU Markit Services PMI	Aug F	54.4	54.2	54.4
EU Retail Sales MOM	Jul	-0.2%	0.3%	-0.1%
UK Markit/CIPS Services PMI	Aug	54.3	53.5	53.9
JP Nikkei PMI Services	Aug	51.5	51.3	--
CN Caixin PMI Services	Aug	51.5	52.8	52.6
HK Nikkei PMI	Aug	48.5	48.2	--
SG Nikkei PMI	Aug	51.1	53.0	--
AU GDP SA QOQ	2Q	0.9%	1.1% (revised)	0.7%

Source: Bloomberg

➢ Macroeconomics

- ***US trade deficit widened to 5-month high:*** Trade deficit clocked in 9.5% MOM higher at $50.1b in July (Jun: $45.7b) as exports decreased 1.0% MOM (Jun: -0.7%) totaling $211.08b (Jun: $213.2b) whereas imports rose 0.9% MOM (Jun: +0.7%) to $261.2b (Jun: $258.9b). The decline in exports were driven by mainly by the drop in shipment of goods (-1.6% vs -1.3%) as it saw a broad-based decline across key sub categories while services exports continued to rise for the month. Within goods, food & beverage recorded a faster contraction (-6.3% vs -0.4%) due to the lower shipment of soybean (a product subject to the newly imposed tariff by China) as firms have earlier ramped up the shipment of soybean prior to the imposition of tariffs. The drop in capital goods for the second consecutive month (-2.0% vs -1.8%) was attributed to the lower shipment of civilian aircrafts. Similarly the faster growth in imports while suggesting a continuous strength in domestic demand was also a race to obtain goods from overseas before tariff impositions. The deficit with China meanwhile increased to $34.1b (Jun: $32.4b). In a separate release, mortgage application in the US fell 0.1% for the week ended 31 Aug (previous: -1.7%).

- ***Australia 2Q GDP topped estimates, Aussie dollar surged:*** Australia 2Q GDP growth clocked in at 0.9% QOQ (1Q: +1.1%) while growth in the previous quarter was revised from 1.0% to 1.1% QOQ. A Bloomberg survey had earlier placed consensus estimate at 0.7% QOQ. The better-than-expected growth was led mainly by consumption (+0.7% vs +0.8%). Household consumption which makes up 59% of the economy saw faster expansion (+0.7% vs +0.5%) whereas growth in government consumption slowed (+1.0% vs +1.6%). Investment was flat (+0.0% vs +1.4%) with public investment remaining at a high level reflecting continued work on infrastructure projects across the country. Exports growth softened (+1.1% vs +3.0%) while imports posted a miniscule increase (+0.4% vs +1.7%) which led to a slower decline in net exports (-4.15 vs -5.9%).

- ***Eurozone services sector registered marginal growth; retail sales softened:*** The final reading of the Markit Eurozone Services Business Activity Index was unrevised at 54.4 in August (Jul: 54.2) marking a marginal improvement in the services sector for the month. Growth remained broad-based at the country level with the slightly firmer increase in activity being accompanied by stronger gain in new business. Higher wage cost and fuel prices resulted in elevated rise in company operating expenses and this in turn led to higher output charges. Business expectations fell to a 21-month low as confidence was weighed down by concerns over geo-political trade tensions. This however did not impact the rapid growth in employment as the number of jobs added were the greatest in nearly 11 years signaling a further tightening of the labour market. In a separate release, retail sales in the Euro Area contracted 0.2% MOM in July (Jun: +0.3%) as the rebound in sales of nonfood products (+0.4% vs -0.2%) as well as textiles, clothing & footwear (+1.4% vs -0.7%) were offset by a decline in sales of food, drink & tobacco (-0.6% vs +0.5%), electrical goods & furniture (-1.3% vs +0.6%) and automotive fuel (-0.7% vs +0.8). On a yearly basis, retail sales softened to increase 1.1% YOY (Jun: +1.5%), the slowest pace thus far this year suggesting weakening demand in the month.

- ***UK services sector saw faster expansion:*** The Markit/CIPS UK Services PMI rose more than expected to 54.3 in August (Jul: 53.5) on higher business activity and incoming new work. Payroll numbers recorded a moderate expansion reflecting efforts to boost business capacity but there are widespread reports citing tight labour market conditions constraining employment growth. Intense competitive pressures led to only a modest prices charged inflation despite an accelerated rise in average cost burdens. Business optimism eased to a five-month low with Brexit uncertainty remained the major source of concerns.

- ***China services sector growth posted modest increase:*** The Caixin China General Services Business Activity fell to 51.5 in August (Jul: 52.8). New business rose modestly improving from July's 31-month low while the pace of job creation remained moderate as well. Input costs registered stronger increase due to a solid rise in operating expenses with several service providers commented on higher prices for fuel, raw materials and staffing costs. This however did not lead to notable rise in prices charged by firms as the pace of charged inflation across the service sector was marginal. The level of optimism recovered to some extent but remained below the long-run series average.

- ***Hong Kong private sector conditions continued to deteriorate:*** The Nikkei Hong Kong PMI rose to 48.5 in August (Jul: 48.2) signaling a modest deterioration in the health of the private sector. New orders fell for the fifth consecutive month which in turn weighed on business activity. Weaker demand has led firm to scale back on output. Overall the private sector remained one marked by slower job creation and milder cost pressures as input price inflation eased further (which led firms to reduce selling prices). Confidence fell to the lowest level since end-2016 as firms remained pessimistic about future output mainly on competitive pressures and dollar strength.

- ***Singapore private sector posted slower growth:*** The Nikkei Singapore PMI fell to 51.1 in August (Jul: 53.0) suggesting that Singapore's private sector economy lost further momentum marked by a noticeably slow growth in both output and new orders. External demand weakened as well with overseas sales fell further in the month. Firms were reluctant to hire more due to softer demand and capacity pressures remained modest. Inflation eased as input prices rose at the weakest rate this year. Business confidence about output over the next year however improved to the best for a year, attributed to promotional activity, new marketing strategies and planned business expansions.

- ***Malaysia recorded a surprised pick-up in exports:*** Exports growth unexpectedly quickened to 9.4% YOY in July (Jun: +7.6%), as the faster gain in E&E exports offset slower shipment in other manufacturing exports as well as the decline in exports of palm oil and LNG. Exports to major destinations namely the US and China saw a pick-up, probably due to some frontloading shipment before the onset of higher tariffs on selected products. On the contrary, imports registered softer increase as expected, by 10.3% YOY in July (Jun: +14.9% YOY), dampened by slower increase in capital goods imports and decline in intermediate goods. This led the trade surplus to widen to RM8.3bn (Jun: RM6.0bn). Looking ahead, we maintain our view for less sanguine exports outlook acknowledging moderating global demand and economic growth among the majors (US exclusive) and China. On top of that, we also believe trade disputes between the US and China and the resultant disruption to trade flows globally and regionally, will begin to bite in the second half of the year. Softer commodity exports namely palm oil and LNG are also expected to dampen exports performance. On the contrary, more modest imports growth compared to the rally seen in June, is expected to keep trade balance well supported in surplus position. Anticipating a softer economic environment in the months ahead on the back of both domestic and external challenges, we have revised our full year growth forecast lower to 4.5% (previous 5.0%), below BNM revised forecast of 5.0% (previous: 5.5-6.0%).

- ***BNM left OPR unchanged, maintaining policy tone:*** BNM maintained the Overnight Policy Rate (OPR) at 3.25% as expected, and there is no change to the neutral tone of the monetary policy statement. Assessment and key messages on the global economy, domestic economy, as well as financial and monetary conditions remained little changed from the July statement in our view. The slight tweak lies in BNM's acknowledgement of "signs of a slower momentum" in the global economy and that risks to growth have increased. On the domestic front, BNM reiterated that the Malaysian economy is expected to remain on a steady growth path. For the first time in as far as we can recall, BNM acknowledged that lower public spending is expected to weigh on growth as the government reprioritize its expenditure. The central bank also highlighted downside risks in the immediate term stemming from heightened trade tensions, prolonged weakness in mining and agriculture sectors, as well as some domestic policy uncertainty. Contrary to our projection, inflation meanwhile is expected to go up taking into consideration the impact of policy measures on domestic cost factors. It also reiterated that the current degree of monetary accommodativeness is consistent with the intended policy stance. We therefore maintained our view for OPR to stay unchanged for the remaining of the year.

Economic Calendar Release Date

Date	Country	Event	Reporting Period	Survey	Prior	Revised
06/09	**Malaysia**	**Foreign Reserves**	**Aug-30**	**--**	**$104.2b**	**--**
07/09		Industrial Production YOY	Jul	1.4%	1.1%	1.5%
06/09	**US**	**ADP Employment Change**	**Aug**	**200k**	**219k**	**--**
		Initial Jobless Claims	**Sep-01**	**213k**	**213k**	**--**
		Markit US Services PMI	**Aug F**	**55.2**	**56.0**	**--**
		ISM Non-Manufacturing Index	**Aug**	**56.8**	**55.7**	**--**
		Factory Orders	**Jul**	**-0.6%**	**0.7%**	**--**
		Durable Goods Orders	**Jul F**	**-1.7%**	**0.7%**	**--**
		Cap Goods Orders Nondef Ex Air	**Jul F**	**--**	**0.9%**	**--**
07/09		Change in Nonfarm Payrolls	Aug	198k	157k	--
		Unemployment Rate	Aug	3.8%	3.9%	--
		Average Hourly Earnings YOY	Aug	2.7%	2.7%	--
		Labor Force Participation Rate	Aug	--	62.9%	--
07/09	Eurozone	GDP SA QOQ	2Q F	0.4%	0.4%	--
07/09	UK	Halifax House Prices MOM	Aug	0.1%	1.4%	--
07/09	Japan	Household Spending YOY	Jul	-0.9%	-1.2%	--
		Labor Cash Earnings YOY	Jul	2.4%	3.6%	3.30%
		Leading Index CI	Jul P	103.5	104.7	--
		Coincident Index	Jul P	115.7	116.4	--
06/09	**Australia**	**Trade Balance**	**Jul**	**A$1,450M**	**A$1,873m**	**--**
07/09		AiG Perf of Construction Index	Aug	--	52.0	--
		Home Loans MoM	Jul	0.1%	-1.1%	--
		Investment Lending	Jul	--	-2.7%	--
6-13/09		Domestic Vehicle Sales YOY	Aug	--	3.6%	--

Source: Bloomberg

FX Table

Name	Last Price	DoD %	High	Low	YTD %
EURUSD	1.1630	0.41	1.164	1.1543	-2.98
GBPUSD	1.2905	0.39	1.2983	1.2786	-4.38
USDJPY	111.53	0.11	111.76	111.37	-1.16
AUDUSD	0.7193	0.21	0.7218	0.7145	-7.77
EURGBP	0.9012	0.02	0.9052	0.8956	1.50
USDMYR	4.1475	0.22	4.1480	4.1375	2.41
EURMYR	4.8010	0.37	4.8119	4.7858	-0.45
JPYMYR	3.7193	0.14	3.7211	3.7090	3.49
GBPMYR	5.3171	0.10	5.336	5.3094	-2.01
SGDMYR	3.0082	-0.02	3.0158	3.0011	-0.49
AUDMYR	2.9748	0.18	2.9921	2.9619	-5.61
NZDMYR	2.7181	0.27	2.7206	2.7063	-4.88
CHFMYR	4.2558	0.01	4.2609	4.2475	2.90
CNYMYR	0.6065	0.10	0.6071	0.6057	-2.45
HKDMYR	0.5283	0.17	0.5283	0.5271	1.95
USDSGD	1.3757	-0.04	1.3814	1.3748	2.90
EURSGD	1.6001	0.38	1.6009	1.5922	-0.25
GBPSGD	1.7754	0.36	1.7865	1.7637	-1.72
AUDSGD	0.9895	0.16	0.9927	0.9867	-5.18

Source: Bloomberg

➢Forex

MYR

- **MYR weakened 0.22% to 4.1475 against USD** and slipped against 9 G10s on the back of extended pressure on emerging majors.
- **We are neutral on MYR against USD**, with room for slight losses as trade concerns remains unabated. USDMYR remains tilted to the upside and is poised to test 4.1450 – 4.1480 next. Still, USDMYR appears stretched, thus we caution on rising risk of rejection approaching 4.1500 – 4.1555.

USD

- **USD weakened against 8 G10s** while the DXY tumbled in US morning to erase early gains and closed 0.27% lower at 95.18, weighed down by the surge in GBP following improvement in Brexit sentiment as well as receding buying interest ahead of a string of US data tonight.
- **USD is bearish in our view** at this juncture as demand fades amid improving risk appetite in the markets and ahead of important US data. With USD staying relatively stretched, we reckon that it is likely more reactive to negative headlines, thus expect losses to accumulate on disappointing US data. As cautioned yesterday, DXY tested and was rejected by 95.54 – 95.65 range. DXY is now tilted to the downside with scope to slide to circa 94.84 and needs to recapture above 95.14 today to stay on track for a return to 96.25.

EUR

- **EUR jumped 0.41% to 1.1630 against a tumbling USD** and advanced against 8 G10s following improved risk sentiment in FX space.
- **We turn bullish on EUR against USD**, supported by improving risk appetite in FX space. A minor bullish trend has emerged after beating 1.1602 overnight. EURUSD is now poised to test 1.1662, then 1.1680, next. Nonetheless, we would view a rebound short of 1.1790 to be corrective in nature and soon to be reversed.

GBP

- **GBP jumped 0.39% to 1.2905 against USD** and strengthened against 6 G10s, supported by improved Brexit sentiment amid reports that the UK and Germany dropped key Brexit demands that would likely make an easier UK-EU deal.
- **GBP is bullish against USD**, supported by improving Brexit sentiment but we caution that amid lingering uncertainties, the return of negative headlines would quickly see bears making a comeback. Technical viewpoint suggests that GBPUSD bearish trend is set to end; holding above 1.2870 tonight and tomorrow would point to an advance to circa 1.2983 – 1.3000 going forward.

JPY

- **JPY weakened 0.11% to 111.53 against USD** and fell against all G10s as refuge demand retreated following improved risk appetite in FX space.
- **Stay slightly bearish on JPY against USD** as refuge demand in the FX space wanes. Despite potential losses in USDJPY today from rejection by 111.47, we reckon that overall direction remains up as long as it holds above 111.07.

AUD

- **AUD** slipped against 6 G10s but **managed to climb 0.21% to 0.7193 against a soft USD** after losing early gains from a stronger than expected 2Q Australia GDP.
- **We now expect a slightly bullish AUD against a soft USD**, further supported by improved risk sentiment in FX space. AUDUSD technical outlook suggests a rebound may be forming amid price-momentum divergence and a bounce of the strong 0.7158 support. The resulting rebound could test 0.7254 – 0.7281.

SGD

- **SGD** ended lower against 8 G10s as risk appetite in the FX space improved but **closed 0.04% firmer at 1.3757 against USD**.
- **SGD remains bearish against USD** on technical reasons. Prevalence of minor bullish trend continues to suggest that USDSGD is likely to trend higher going forward. USDSGD is poised to beat 1.3783 in the coming days.

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