March 8, 2018

Hong Leong Bank

Global Markets Research

Daily Market Highlights

Key Takeaways

- Development on US trade protectionism policies with **chatters that Canada and Mexico could potentially be exempted from the tariff increase helped soothe market concerns. This overshadowed the series of first tier data releases which came in on the negative side. Data from the EU, Japan and Australia all confirmed growth decelerated in 4Q.** The similarity we observed in EU and Japan was that growth was dampened by slower expansion in consumption, which offset improvement in investment; whilst the reverse holds for Australia. **The softening growth outlook reaffirms our view that ECB, BOJ and RBA will stay pat on interest rates this year.**

- **In the US, the Fed Beige Book maintained that the US economy is on a moderate growth path and noted signs of build-up in inflation.** Job reports also reaffirmed continued recovery in the US labour market with 235k jobs being added while wage growth quickened. Other data on trade balance and consumer credit were more downbeat. Trade deficit widened to almost a 10-year high as a result of a drop in exports while consumer credit was lower at $13.9bn in January, implying cautiousness among consumers.

- **BNM kept OPR unchanged at 3.25%** at its MPC meeting yesterday as expected. There was also **no change in its policy tone and this reaffirmed our view for OPR to stay pat for the remaining of 2018.** Assessment on the global and domestic economy remained positive despite concerns over trade tensions and possible return of financial markets volatility.

- **USD advanced against 6 G10s** while the DXY inched 0.02% higher to 89.63, likely on retracement from recent sell-off as worries of trade war eased amid speculation that Mexico and Canada may be exempted from trade tariff. **USD remains slightly bearish** in our view as risks of a trade war still linger despite some ease in concerns overnight; a lack of positive catalyst is likely to keep buying interest subdued. DXY stays within a minor bearish trend that suggests further losses to 89.10 is probable. A close above 89.93 would alleviate the current downside bias but even so, we are skeptical that it spells the onset of a reversal.

- **MYR overturned early gains into minor loss of 0.03% close at 3.9048 against USD**, and fell against all other G10s amid risk aversion in the markets. **Expect a slightly bearish MYR against USD**, amid lack of positive catalyst to support further buying interests. We note the recent unconvincing downward moves and intraday rebound from lows are raising doubts over the sustainability of this minor downtrend. A close above 3.9032 today will tilt the pair upwards and target 3.9136.

- **SGD strengthened 0.15% to 1.3141 against USD** and advanced against all G10s on refuge demand in Asian session. **Keep a slight bullish view on SGD against USD** as risk aversion eases. Bearish bias prevails in USDSGD; the pair has closed below 1.3147 and is now poised to test 1.3092 in the next leg lower.

Overnight Economic Data

MY	↑
US	→
Eurozone	↓
UK	↓
Japan	↓
Australia	↓

What's Coming Up Next

Major Data

- US initial jobless claims
- UK RICS house prices balance
- Japan Eco watcher current, Eco watcher outlook
- China export
- Australia trade balance

Major Events

- ECB main refinancing rate

Daily Supports – Resistances (spot prices)*

	S2	S1	Indicative	R1	R2	Outlook
EURUSD	1.2370	1.2400	1.2414	1.2417	1.2465	↗
USDJPY	105.85	106.00	106.10	106.46	106.63	↘
GBPUSD	1.3857	1.3891	1.3908	1.3914	1.3930	↗
AUDUSD	0.7813	0.7819	0.7830	0.7838	0.7850	↗
EURGBP	0.8912	0.8920	0.8926	0.8934	0.8940	↘
USDMYR	3.8950	3.8992	3.9020	3.9035	3.9047	↗
EURMYR	4.8376	4.8400	4.8422	4.8500	4.8520	↗
JPYMYR	3.6684	3.6726	3.6779	3.6803	3.6845	↘
GBPMYR	5.4126	5.4200	5.4262	5.4286	5.4309	↗
SGDMYR	2.9651	2.9678	2.9688	2.9694	2.9710	↗
AUDMYR	3.0500	3.0515	3.0559	3.0562	3.0600	↗
NZDMYR	2.8352	2.8404	2.8417	2.8496	2.8524	↗
USDSGD	1.3120	1.3138	1.3142	1.3149	1.3166	↘
EURSGD	1.6293	1.6304	1.6315	1.6326	1.6350	↗
GBPSGD	1.8237	1.8259	1.8277	1.8290	1.8300	↗
AUDSGD	1.0258	1.0281	1.0290	1.0296	1.0306	↗

*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	1837.9	-0.6	2.3	CRB Index	194.4	-1.18	0.3
Dow Jones Ind.	24801.4	-0.3	0.3	WTI oil ($/bbl)	61.2	-2.32	1.2
S&P 500	2726.8	0.0	2.0	Brent oil ($/bbl)	64.3	-2.20	-2.0
FTSE 100	7157.8	0.2	-6.9	Gold (S/oz)	1325.5	-0.70	1.6
Shanghai	3271.7	-0.5	-1.1	CPO (RM/tonne)	2468.5	0.33	3.3
Hang Seng	30196.9	-1.0	0.9	Copper ($/tonne)	6950.0	-0.77	-4.1
STI	3450.7	-1.2	1.4	Rubber (sen/kg)	499.0	0.60	7.9

Source: Bloomberg

Economic Data

	For	Actual	Last	Survey
MY BNM OPR	7 Mar	3.25%	3.25%	3.25%
MY Foreign reserves	28 Feb	$103.7b	$103.6b	--
US MBA mortgage applications	2 Mar	0.3%	2.7%	--
US ADP employment change	Feb	235k	244k	200k
US Trade balance	Jan	-$56.6b	-$53.9b	-$55.0b
US consumer credit	Jan	$13.9b	$19.2b	$17.7b
EU GDP SA QOQ	4Q	0.6%	0.6%	0.6%
UK Halifax house prices YOY	Feb	1.8%	2.2%	1.6%
JP Leading index	Jan P	104.8	106.6	106.5
JP Coincident index	Jan P	114.0	119.7	115.3
JP BOP current account balance	Jan	¥607.4b	¥797.2b	¥437.4b
JP GDP SA QOQ	4Q F	0.4%	0.1%	0.2%
AU GDP SA QOQ	4Q	0.4%	0.6%	0.5%

Source: Bloomberg

➢ Macroeconomics

- BNM kept OPR unchanged at 3.25% at its MPC meeting yesterday as expected. There was also no change in its policy tone and this reaffirmed our view for OPR to stay pat for the remaining of 2018. Assessment on the global and domestic economy remained positive despite concerns over trade tensions and possible return of financial markets volatility. No change to our view for growth to moderate to 5.0% and for inflation to soften to 2.0% this year. Amid a backdrop of moderate growth and softer inflation, and with real interest rates returning to positive territory, we believe further policy normalization is not necessary. In another release by BNM, foreign reserves ticked higher again by $0.1bn to $103.7bn as at end-February, sufficient to finance 7.2 months of retained imports and 1.1x short term external debt.

- In the US, the Fed Beige Book maintained that the US economy is on a moderate growth path and noted signs of build-up in inflation. Job reports also reaffirmed continued growth in the US labour market. ADP showed the private sector added 235k jobs in February, down from the upwardly revised 244k jobs in January (from 234k). Nonfarm productivity decelerated and was flat in 4Q (3Q: +2.6%) vs a preliminary reading of -0.1% but unit labour costs quickened to 2.5% (3Q: +1.0%). Trade deficit widened more than expected to $56.6bn in January, no thanks to a 1.3% MOM decline in exports even as imports were flat. Consumer credit was however a tad lower at $13.9bn in January, implying cautiousness among consumers, in line with slower growth seen in personal spending released earlier. Meanwhile, MBA mortgage applications rose at a slower pace of 0.3% WOW in the week ended 2-March.

- Eurozone 4Q GDP maintained a 0.6% QOQ growth as initially estimated, but down a notch from the 0.7% QOQ increase in 3Q, as slower growth in household and government spending offset a rebound in investment. Softening growth outlook could potentially delay ECB's policy normalization plans.

- In tandem with easing house prices surveyed by other bodies in the UK, yesterday release by Halifax showed the increase in house prices moderated for the 4th consecutive month to 1.8% YOY in the three months to February (Jan: +2.2%), its slowest in five years as softening growth outlook and rising inflation is taking a toll on consumers.

- In the Asia space, Japan leading and coincident indices pulled back more than expected to 104.8 and 114.0 in January, dragged by declines in new job offers and housing starts, signaling a more subdued outlook in the next 3-6 months. Evidently, final reading of 4Q GDP confirmed a slowdown but at a lesser than expected rate to 0.4% QOQ (3Q: +0.6% QOQ), as a result slower growth in private consumption but the slowdown was mitigated by a rebound in fixed capital formation.

- Down under, 4Q GDP also disappointed, moderated more than expected to 0.4% QOQ (3Q: +0.7% QOQ revised) as quicker expansion in consumption (+0.9% vs +0.3%) was offset by decline in investment (-0.4% vs +1.0%). YOY, the Australian economy grew at a slower pace of 2.4% YOY in 4Q, down from the 2.9% YOY increase in 3Q. The softer growth outlook was in tandem with RBA less upbeat assessment at its policy meeting earlier this week, reinforcing the case for interest rates to stay pat this year.

Economic Calendar Release Date						
Country	**Date**	**Event**	**Reporting Period**	**Survey**	**Prior**	**Revised**
US	8/3	Fed Beige Book				--
		Consumer credit	Jan	$17.65b	$18.44b	--
		Initial jobless claims	Mar 3	220k	210k	--
	9/3	Change in nonfarm payroll	Feb	200k	200k	--
		Unemployment rate	Feb	4.0%	4.1%	--
Eurozone	8/3	ECB main refinancing rate	Mar 8	0.00%	0.00%	--
UK	8/3	RICS house prices balance	Feb	7%	8%	--
	9/3	Visible trade balance	Jan	-11900	-13576m	--
		Industrial production MOM	Jan	1.5%	-1.3%	--
		NIESR GDP estimate	Feb	0.4%	0.5%	--
Japan	8/3	Eco Watcher current	Feb	50.5	49.9	--
		Eco Watcher outlook	Feb	51.7	52.4	--
	9/3	Overall household spending	Jan	-1.0%	-0.1%	--
		BOJ policy balance rate	Mar 9	-0.10%	-0.10%	--
China	8/3	Exports YOY	Feb	11.0%	11.1%	--
	8 – 18/3	FDI YOY	Feb	--	0.3%	--
	9/3	PPI YOY	Feb	3.8%	4.3%	--
		CPI YOY	Feb	2.5%	1.5%	--
Australia	8/3	Trade balance	Jan	A$160m	-A$1358m	--
Vietnam	7 – 13/3	Domestic vehicle sales YOY	Feb	--	29.4%	--

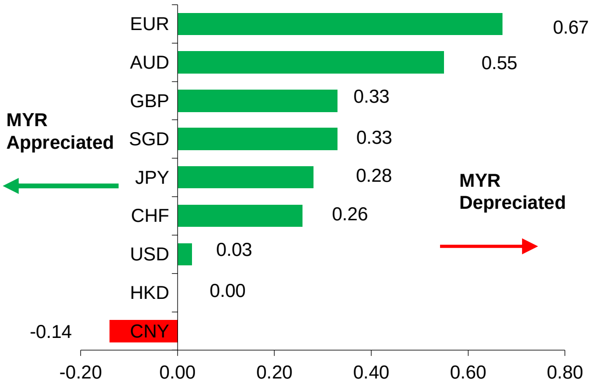
Source: Bloomberg

FX Table

Name	Last Price	DoD %	High	Low	YTD %
EURUSD	1.2411	0.06	1.2444	1.2385	3.4
USDJPY	106.07	-0.06	106.22	105.46	-5.8
GBPUSD	1.3896	0.06	1.3912	1.3846	2.9
AUDUSD	0.7825	-0.05	0.783	0.7772	0.2
EURGBP	0.8931	-0.01	0.8968	0.8919	0.5
USDMYR	3.9048	0.03	3.9058	3.8955	-3.6
EURMYR	4.8511	0.67	4.8533	4.8376	-0.2
JPYMYR	3.6912	0.28	3.6985	3.6839	2.2
GBPMYR	5.4149	0.33	5.4286	5.4124	-0.7
SGDMYR	2.9679	0.33	2.9679	2.9541	-2.0
AUDMYR	3.0463	0.55	3.0515	3.0300	-3.4
NZDMYR	2.8433	0.59	2.8480	2.8365	-1.3

Source: Bloomberg

MYR vs Major Counterparts (% DOD)



➢Forex

MYR

- **MYR overturned early gains into minor loss of 0.03% close at 3.9048 against USD**, and fell against all other G10s amid risk aversion in the markets.
- **Expect a slightly bearish MYR against USD**, amid lack of positive catalyst to support further buying interests. We note the recent unconvincing downward moves and intraday rebound from lows are raising doubts over the sustainability of this minor downtrend. A close above 3.9032 today will tilt the pair upwards and target 3.9136.

USD

- **USD advanced against 6 G10s** while the DXY inched 0.02% higher to 89.63, likely on retracement from recent sell-off as worries of trade war eased amid speculation that Mexico and Canada may be exempted from trade tariff.
- **USD remains slightly bearish** in our view as risks of a trade war still linger despite some ease in concerns overnight; a lack of positive catalyst is likely to keep buying interest subdued. DXY stays within a minor bearish trend that suggests further losses to 89.10 is probable. A close above 89.93 would alleviate the current downside bias but even so, we are skeptical that it spells the onset of a reversal.

EUR

- **EUR inched 0.06% higher to 1.2411 against USD** and advanced against 8 G10s as risk appetite improved on easing trade war concerns.
- **Expect a slightly bullish EUR on the back of a still soft USD**, anticipating the ECB to remain positive on Eurozone outlook; caution that a surprise dovish tone in ECB statement will greatly alter the current bullish landscape. EURUSD remains technically bullish and is on track to test 1.2488, but we still caution on potential for a reversal to the downside before 1.2555.

GBP

- **GBP also inched 0.06% higher to 1.3896 against USD** and bested all G10s on rising optimism of positive development in Brexit negotiations.
- **Stay slightly bullish on GBP against USD**, supported by rising optimism that events relating to Brexit treaty will be positive. GBPUSD's failure to break 1.3914 has raised concerns that upside strength is insufficient. The pair will test 1.3914 again today; a break exposes a move to 1.3986 in the coming days, otherwise, a return to 1.3839 is likely.

JPY

- **JPY** advanced against 7 G10s and **inched 0.06% firmer to 106.07 against USD** from strong early gains in Asian-European trade due to spillover of risk aversion from previous US session.
- **We turn slightly bearish on JPY against USD**, anticipating ease in risk aversion to dampen demand for refuge. Technical landscape in USDJPY is changing; a close above 106 today increases the ability to test 106.87 next, but we are skeptical that further gains can be achieved thereafter.

AUD

- **AUD** recovered from losses triggered by softer than expected Australia 4Q GDP to beat 5 G10s but **failed to overturn a 0.05% loss to 0.7825 against USD**.
- **We turn slightly bullish on AUD against USD**, supported by retreat in risk aversion in the markets. AUDUSD's outlook remains fragile and a close below 0.7819 would tilt the pair lower towards 0.7719. A close above 0.7838 is required to affirm that upsides can sustain.

SGD

- **SGD strengthened 0.15% to 1.3141 against USD** and advanced against all G10s on refuge demand in Asian session.
- **Keep a slight bullish view on SGD against USD** as risk aversion eases. Bearish bias prevails in USDSGD; the pair has closed below 1.3147 and is now poised to test 1.3092 in the next leg lower.

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