October 8, 2018

Global Markets Research
Daily Market Highlights

Key Takeaways

- **The rout in bond market extended into its third day last Friday as the selloff in US treasuries continued after a fairly decent September job report even as it was skewed by hurricane effects.** Yields rose across the curve with larger jump seen at the longer ends - 10Y yield soared as high as 3.25% and levelled off to close at 3.23% (+5bps) while 30Y yield peaked at an intraday high of 3.42% and closed at 3.40% (+6bps) at the end of the day. This in turn weighed down on stocks as equity benchmarks closed in negative notes especially in the tech and communication services sectors where news on China hacking US tech companies have led investors to dump shares since Thursday. WTI was little changed at $74.34/barrel while Brent fell to $84.16/barrel. On Sunday, **the PBOC announced that it will cut its reserve requirement ratios for banks for the fourth time this year, by 1.0ppt, effective 15 October in a move to lower financing rates to spur a slowing economy.**

- **In the US. the latest official job report placed nonfarm payroll at +134k in September** (markedly below estimate of 185k) and revised figures shows a net addition of +87k in July and August. **Unemployment rate fell to 3.7% while labour participation rate held unchanged at 62.7%. Average hourly earnings growth eased from August's high to 2.8% YOY.** US trade deficit widened to -$53.2b as exports contracted 0.8% MOM while strong domestic demand led imports to grow 0.6% MOM. Elsewhere, the UK Halifax House Price Index fell 1.4% MOM, Japan leading indicators recorded improvements while Australia retail sales rose 0.3% MOM. Malaysia exports unexpectedly declined by 0.3% YOY while imports expanded considerably by 11.2% YOY thus pushing trade surplus to a near 4-year low of RM1.6b. Foreign reserves fell to $103.0b as at 28 September.

- **USD climbed against 6 G10s** but not before narrowing early gains after softer than expected NFP print. DXY returned all gains to close 0.13% lower at 95.62 after tumbling on soft US data. **We expect a slightly bearish USD** on continued softness from recent disappointment in US data as well as softer buying interest amid closure of US markets today. DXY is now at the end of its minor bullish trend and near a potential reversal lower. It should still hold above 95.50 today, but is likely targeting a move to 95.32 – 95.34 going forward.

- **MYR dipped 0.08% to 4.1500 against USD** after sliding most in the closing hour of Asian session but managed to beat 6 G10s. **MYR is neutral against USD**, with room for slight gains as the greenback is likely to retreat after Friday's soft US data and amid softer buying interest as US markets are closed today. USDMYR remains inclined toward a test at 4.1500 – 4.1505, above which 4.1555 will be eyed. Losses need to break below 4.1445 – 4.1450 to discourage the bulls.

- **SGD weakened 0.12% to 1.3825 against USD** and fell against 7 G10s as risk appetite retreated last Friday. **SGD is slightly bearish against USD** amid likelihood of extended risk aversion in the markets. USDSGD still sustains a bullish bias while above 1.3800 and is inclined to gains to circa 1.3830 – 1.3840. But we suspect further gains look doubtful as risk of rejection increases approaching 1.3863.

Overnight Economic Data	
Malaysia	↓
US	→
UK	↓
Japan	↑
Australia	↑

What's Coming Up Next

Major Data

- Eurozone Sentix Investor Confidence
- China Caixin PMI Services

Major Events

- Nil

Daily Supports – Resistances (spot prices)*

	S2	S1	Indicative	R1	R2	Outlook
EURUSD	1.1480	1.1505	1.1518	1.1535	1.1546	↗
USDJPY	1.3070	1.3092	1.3118	1.3129	1.3143	↗
GBPUSD	113.56	113.77	113.89	114.00	114.10	↘
AUDUSD	0.7020	0.7043	0.7054	0.7066	0.7075	↘
EURGBP	0.8760	0.8770	0.8779	0.8794	0.8810	↘
USDMYR	4.1465	4.1475	4.1490	4.1500	4.1520	→
EURMYR	4.7720	4.7761	4.7796	4.7831	4.7876	↗
JPYMYR	3.6405	3.6414	3.6427	3.6440	3.6452	↗
GBPMYR	5.4400	5.4420	5.4451	5.4498	5.4534	↗
SGDMYR	2.9980	3.0000	3.0017	3.0026	3.0040	→
AUDMYR	2.9450	2.9270	2.9281	2.9295	2.9306	↘
NZDMYR	2.6650	2.6680	2.6690	2.6706	2.6750	↘
USDSGD	1.3809	1.3820	1.3824	1.3833	1.3840	↗
EURSGD	1.5900	1.5907	1.5924	1.5939	1.5951	↗
GBPSGD	1.8100	1.8122	1.8140	1.8152	1.8180	↗
AUDSGD	0.9720	0.9739	0.9755	0.9763	0.9780	↘

* at time of writing
↗ = above 0.1% gain; ↘ = above 0.1% loss; → = less than 0.1% gain / loss

	Last Price	DoD %	YTD %
KLCI	1,777.15	-0.72	-1.09
Dow Jones Ind.	26,447.05	-0.68	6.99
S&P 500	2,885.57	-0.55	7.93
FTSE 100	7,318.54	-1.35	-4.80
Shanghai*	2,821.35	1.06	-14.69
Hang Seng	26,572.57	-0.19	-11.19
STI	3,209.79	-0.67	-5.68

Name	Last Price	DoD %	YTD %
CRB Index	199.04	0.13	2.67
WTI oil ($/bbl)	74.34	0.01	23.04
Brent oil ($/bbl)	84.16	-0.50	25.14
Gold (S/oz)	1,203.63	0.31	8.10
CPO (RM/tonne)	2,099.00	0.60	-12.18
Copper ($/tonne)	6,173.00	-1.86	-14.82
Rubber (sen/kg)	401.50	-0.86	-13.19

Source: Bloomberg

**Last closed at at 28 September.*

Economic Data				
	For	Actual	Last	Survey
MY Trade Balance MYR	Aug	1.6b	8.3b	9.0b
MY Exports YOY	Aug	-0.3%	9.4%	9.4%
MY Foreign Reserves	Sep-28	$103.0b	$103.9b	--
US Trade Balance	Aug	-$53.2b	-$50.0b	-$53.6b
US Change in Nonfarm Payrolls	Sep	134k	270k (revised)	185k
US Unemployment Rate	Sep	3.7%	3.9%	3.8%
US Average Hourly Earnings YOY	Sep	2.8%	2.9%	2.8%
US Labor Force Participation Rate	Sep	62.7%	62.7%	62.7%
UK Halifax House Prices MOM	Sep	-1.4%	0.1%	0.2%
JP Leading Index	Aug P	104.4	103.9	104.2
JP Coincident Index	Aug P	117.5	116.1	117.4
AU Retail Sales MOM	Aug	0.3%	0.0%	0.2%

Source: Bloomberg

Macroeconomics

- ***US nonfarm payrolls missed estimates on hurricane; unemployment rate went to near 50-year low:*** September nonfarm payroll clocked in at a modest 134k (Aug: 270k revised) which is considerably lower than consensus estimate of 185k and is the lowest level recorded since September 2017. Job growth was strong in the overall construction sector (+23k vs +26k) but residential construction sector saw only a minor addition (+2k vs +5k). The manufacturing sector added more jobs after slower month earlier (+18k vs +5k) whereas services jobs moderated (+75k vs +27k). While September print came unexpectedly lower as other employment data had earlier pointed to a much stronger job creation (upbeat ADP payrolls, initial jobless and ISM employment indexes), this was partly due to the disruption caused by hurricane Florence and the upside was that the figures for July and August were revised upwards resulting in a net addition of 87k for the previous two months. Average hourly earnings eased slightly from August's high to 2.8% YOY (Aug: +2.9%) but remained solid nonetheless. Meanwhile the Household Survey shows that unemployment rate fell to the Fed's latest projection of 3.7% (Aug: 3.9%), the lowest level since December 1969 (49 years) while participation rate remained unchanged at 62.7%. Overall job report continues to reinforce our view that the US labour market remains strong and inflation being consistent amidst a still-robust economic growth, which means that the Fed is on track to hike fed funds rate for the fourth time in coming December.

- ***US trade deficit with China widened despite tariffs:*** Exports in the US extended its third month of consecutive decline in August by 0.8% MOM (Jul: -1.0%) driven mainly by the fall in exports of goods (-1.4% vs -1.6%) as growth in services exports held steady. On an annual basis exports eased further to 7.1% YOY (Jul: +8.2%), the lowest level since the inception of the US-China trade dispute in March after peaking in May this year. Imports meanwhile rose 0.6% MOM (Jul: +0.9%) supported by the imports of goods (+0.8% vs +0.9%) and its annual growth edged higher to 9.6% YOY (Jul: +9.1%). This brings the trade deficit to widen further to $53.2bn (Jul: -$50.0n). The all-important trade deficit with China meanwhile continued to widen as well to -$34.4b (Aug: -34.1b) despite the imposition of tariffs since July as shipments to the country contracted by 11.3% MOM (Jul: -8.15%) whereas comparatively imports fell a mere 2.1% MOM (Jul: +1.6%). We believe that September figures remained distorted and it is still rather early for us to judge the impact of tariffs on the US economy as much of the goods subject to Chinese tariffs had been front loaded in the period of May to June. This could be seen in the shipments of foods, feed & beverages where growth peaked in May at 14.1% MOM and started to drop in June afterwards – in August shipments of these goods went down further by 9.2% MOM (Jul: -5.8%) as corns and soybeans (subject to Chinese tariffs) continued to decline after a surge in the Apr-May period. Domestic demand was unsurprisingly strong given the solid imports numbers and we expect US firms to continue purchasing goods from China in the near term despite increasingly widespread reports of tariffs exerting inflationary pressure on prices of raw materials.

- ***UK house prices contracted further signaling further weakening of housing market:*** The Halifax House Price Index unexpectedly dropped 1.4% MOM in September (Aug: +0.1% MOM) suggesting that housing market in the UK continued to weaken amidst softer demand. On a yearly basis, prices eased to increase 2.5% YOY (Aug: +3.7%). The standard average prices for September was £226k versus £229k in the previous month.

- ***Japan leading indicators suggest better growth outlook:*** Japan preliminary leading index rose to 104.4 in August (Jul: 103.9) while coincident index inched upwards to 117.5 (Jul: 116.1) signaling better growth prospect in August.

- ***Australia retail sales increased in August:*** Australia retail sales rose 0.3% MOM in August (Jul: +0.0%) after remaining flat in the previous month mainly due to the rebound in sales of (in) household goods (+0.2% vs -1.3%), apparel (+0.8% vs -2.1%) and department stores (+0.9% vs -1.8%).

- ***Malaysia saw surprised decline in exports:*** Exports growth surprised for the 2nd straight month but this time to the downside. Shipment abroad staged a surprised decline of 0.3% YOY (Jul: +9.4%) to RM81.8bn in August, its first contraction since Sept-16 and contrasted to the surprised pick-up to 9.4% YOY in July, probably reflective of payback to preceding month's gain which reinforced our believes that the earlier pick-up was due to frontloading shipment prior to the kick-in of higher trade tariffs. The expansion in imports on the other hand quickened more than expected to 11.2% YOY in August (Jul: +10.3%) shored up by broad-based pick-up across all major import categories. MOM, exports fell 5.0% in August (Jul: +9.6%) but imports extended gains for a 2nd straight month, albeit slower at 3.0% (Jul: +7.2%). The divergence between exports and imports pushed trade surplus to a near 4-year low of RM1.6bn in August (Jul: RM8.3bn) but we believe this poses little risks to the trade position as we do not anticipate the momentum in imports growth to sustain. No change to our view of moderate exports outlook going forward taking cue from increasing downside pressure on global demand and growth outlook in the advanced economies and China, with the US remaining an exception in light of its still decent macro data. We also foresee protracted stand-off between the US and China on trade issues having disruption to trade flows globally and regionally. Manufacturing exports aside, overall traction will also likely remain under pressure from softer commodity exports namely palm oil and LNG, somewhat shadowing boost from higher global oil prices. We are maintaining that full year 2018 GDP growth will likely come in lower at 4.5% YOY, on expectations of a softer economic environment in the months ahead on the back of both domestic and external challenges.

- ***Malaysia foreign reserves extended further decline:*** Malaysia foreign reserves fell to $103.0b as at 28 September (previous: $103.9b) sufficient to finance 7.4 months of retained imports and is 0.9 times short term external debt.

Economic Calendar

Date	Country	Events	Reporting Period	Survey	Prior	Revised
09/10	US	NFIB Small Business Optimism	Sep	108.0	108.8	--
08/10	**Eurozone**	**Sentix Investor Confidence**	**Oct**	**11.6**	**12.0**	**--**
09/10	Japan	Eco Watchers Survey Current SA	Sep	47.0	48.7	--
		Eco Watchers Survey Outlook SA	Sep	50.8	51.4	--
08/10	**China**	**Caixin China PMI Services**	**Sep**	**51.4**	**51.5**	**--**
09/10	Australia	NAB Business Conditions	Sep	--	15.0	--
		NAB Business Confidence	Sep	--	4.0	--

Source: Bloomberg

➢Forex

Name	Last Price	DoD %	High	Low	YTD %
EURUSD	1.1524	0.09	1.1549	1.1484	-4.03
GBPUSD	1.3120	0.76	1.3123	1.3003	-2.89
USDJPY	113.72	-0.17	114.10	113.56	1.03
AUDUSD	0.7052	-0.34	0.7087	0.7043	-9.73
EURGBP	0.8779	-0.72	0.8848	0.8777	-1.14
USDMYR	4.1500	0.08	4.1500	4.1445	2.55
EURMYR	4.7711	0.09	4.7761	4.7640	-1.40
JPYMYR	3.6425	0.42	3.6439	3.6339	1.39
GBPMYR	5.4046	0.56	5.4153	5.3913	-0.34
SGDMYR	3.0004	-0.07	3.0040	2.9985	-0.99
AUDMYR	2.9295	-0.14	2.9367	2.9249	-7.50
NZDMYR	2.6802	-0.38	2.6885	2.6783	-7.36
CHFMYR	4.1733	-0.17	4.1828	4.1707	0.84
CNYMYR	0.6010	-0.18	0.6020	0.6008	-3.34
HKDMYR	0.5293	0.00	0.5295	0.5291	2.26
USDSGD	1.3825	0.12	1.3834	1.3798	3.56
EURSGD	1.5933	0.21	1.5939	1.5880	-0.70
GBPSGD	1.8137	0.87	1.8139	1.7972	0.45
AUDSGD	0.9748	-0.24	0.9783	0.9737	-6.60

Source: Bloomberg

** CNYMYR last closed on 28 Sept 2018*

MYR

- **MYR dipped 0.08% to 4.1500 against USD** after sliding most in the closing hour of Asian session but managed to beat 6 G10s.
- **MYR is neutral against USD**, with room for slight gains as the greenback is likely to retreat after Friday's soft US data and amid softer buying interest as US markets are closed today. USDMYR remains inclined toward a test at 4.1500 – 4.1505, above which 4.1555 will be eyed. Losses need to break below 4.1445 – 4.1450 to discourage the bulls.

USD

- **USD climbed against 6 G10s** but not before narrowing early gains after softer than expected NFP print. DXY returned all gains to close 0.13% lower at 95.62 after tumbling on soft US data.
- **We expect a slightly bearish USD** on continued softness from recent disappointment in US data as well as softer buying interest amid closure of US markets today. DXY is now at the end of its minor bullish trend and near a potential reversal lower. It should still hold above 95.50 today, but is likely targeting a move to 95.32 – 95.34 going forward.

EUR

- **EUR inched 0.09% higher to 1.1524 against a soft USD** and climbed against 7 G10s.
- **Expect a slightly bullish EUR in line with our view of a softer USD** but gains will quickly turn into losses if Italian woes worsens. Expect EURUSD to remain below 1.1548 today, but recent bounce off the lower Bollinger suggests room for further upsides going forward. Beating 1.1548 – 1.1550 will encourage the bulls.

GBP

- **GBP surged 0.76% to 1.3120 against USD** and strengthened against all G10s, boosted by news of the EU's readiness to offer the UK a free-trade deal.
- **GBP is now slightly bullish against USD** as Brexit sentiment improved, but caution that gains will quickly be overturned if negative headlines emerge. A bullish trend has emerged; GBPUSD is now inclined to the upside, and a break at 1.3129 will further boost the bulls to challenge 1.3166.

JPY

- **JPY** was supported by retreat in equities and commodity majors, climbing against 8 G10s and **strengthening 0.17% to 113.72 against USD**.
- **Stay bullish on JPY against a soft USD**, further supported by potential for extended risk aversion in the markets taking cue from US losses on Friday. USDJPY remains inclined to the downside in our view. A bounce higher to test 114.00 – 114.10 cannot be ruled out, but going forward, we set sights on a gradual decline to circa 113.32 – 113.41.

AUD

- **AUD** was pressured by extended retreat in market risk appetite, sliding against 8 G10s and **falling 0.34% to 0.7052 against USD**.
- **We are slightly bearish on AUD against USD** amid likelihood of extended risk aversion in the markets, though losses may be limited by a soft greenback. Technical outlook remains bearish for AUDUSD and sustains an inclination towards a drop to 0.7020 – 0.7040 next. But we note that price-momentum divergence has emerged, hinting at a potential rebound going forward.

SGD

- **SGD weakened 0.12% to 1.3825 against USD** and fell against 7 G10s as risk appetite retreated last Friday.
- **SGD is slightly bearish against USD** amid likelihood of extended risk aversion in the markets. USDSGD still sustains a bullish bias while above 1.3800 and is inclined to gains to circa 1.3830 – 1.3840. But we suspect further gains look doubtful as risk of rejection increases approaching 1.3863.

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