HongLeong Bank

Global Markets Research

Daily Market Highlights

Key Takeaways

- **China announced retaliatory tariffs on $16b worth of US goods (333 items) in what is now a tit-for-tat trade war** following US announcement yesterday that it will impose a new round of tariffs on $16b worth of Chinese imports on 23 August. **A dovish RBNZ left Official Cash Rate unchanged at 1.75% and delayed timing of next rate hike by a year on weakening outlook**, leading the kiwi to slip. US and European equity snapped gaining streaks on escalations of trade war. WTI tumbled, closing below $67/barrel on trade dispute as well as EIA's report on less-than-expected decrease in crude oil inventory. US 10Y treasuries yield fell only 1bp to close at 2.96% despite a decent auction of $26b of 10Y notes which fetched a high yield of 2.96%.

- **Mortgages applications in the US fell 3.0% last week marking its fourth consecutive week of decline** despite lower mortgage rates in general. UK house prices rose in July as RICS house price balance rose to 4.0%. **China July exports rose 12.2% YOY as tariffs seemed to have little effect on trade thus far** while imports surged 27.3% driven by base effect and higher energy prices. Trade balance went down to $28.05b. **Sentiments in Japan weakened in July** as the Economy Watchers Survey for Current Conditions fell to 46.6 in while the Expectations Index fell to 49.0. **Australia home loan approvals inched lower by 1.1% as housing market continued to soften.**

- **USD fell against 7 G10s** while the DXY ended 0.1% lower at 95.09 after erasing gains from European morning following a lack of positive catalysts to drive demand. **Stay slightly bearish on USD** in anticipation of softer buying interest ahead of the much-watched US CPI data tomorrow. Current bearish trend is still fragile and could be nullified by a close above 95.16 today. Otherwise, DXY remains tilted to the downside and likely to test 94.60 – 94.68 in the next leg lower.

- **MYR overturned early losses to inch 0.04% firmer at 4.0745 against USD** and closed higher against 7 G10s, supported by improved regional sentiment. **MYR is neutral against a soft overnight USD**, with gains likely capped by receding risk appetite in the markets taking cue from overnight US trading. Given continued increase in downside momentum, we maintain that USDMYR is heading lower, with scope to slide lower to 4.0645. Below this, expect a test at 4.0560.

- **SGD climbed 0.1% to 1.3630 against USD** and advanced against 5 G10s. **SGD remains bullish against a soft USD**, supported by refuge demand on likelihood of receding risk appetite in regional markets. We continue to view upside fatigue to lead USDSGD lower, possibly testing 1.3613 before sliding lower to circa 1.3585.

Overnight Economic Data

US	↓
UK	↑
Japan	↓
China	↑
Australia	↓

What's Coming Up Next

Major Data
- US Initial Jobless Claims, PPI, Wholesale Inventories
- UK RICS House Price Balance
- Japan Core Machine Orders, Machine Tool Orders
- China PPI & CPI

Major Events
- Nil

Daily Supports – Resistances (spot prices)*

	S2	S1	Indicative	R1	R2	Outlook
EURUSD	1.1582	1.1600	1.1606	1.1620	1.1638	↗
USDJPY	110.36	110.73	110.81	111.00	111.30	↘
GBPUSD	1.2854	1.2870	1.2873	1.2888	1.2900	↘
AUDUSD	0.7397	0.7409	0.7427	0.7436	0.7451	↗
EURGBP	0.9000	0.9010	0.9015	0.9020	0.9025	↗
USDMYR	4.0705	4.0750	4.0770	4.0790	4.0805	→
EURMYR	4.7260	4.7300	4.7323	4.7341	4.7398	↗
JPYMYR	3.6710	3.6750	3.6801	3.6827	3.6850	↗
GBPMYR	5.2443	5.2480	5.2494	5.2523	5.2560	↘
SGDMYR	2.9885	2.9900	2.9910	2.9915	2.9925	→
AUDMYR	3.0220	3.0256	3.0282	3.0300	3.0311	↗
NZDMYR	2.7200	2.7220	2.7245	2.7274	2.7290	↘
USDSGD	1.3600	1.3613	1.3633	1.3641	1.3657	↘
EURSGD	1.5800	1.5819	1.5825	1.5831	1.5840	↗
GBPSGD	1.7520	1.7540	1.7553	1.7556	1.7577	↘
AUDSGD	1.0106	1.0123	1.0126	1.0137	1.0144	↗

*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	1,804.73	0.76	0.44	CRB Index	193.04	-0.75	-0.43
Dow Jones Ind.	25,583.75	-0.18	3.50	WTI oil ($/bbl)	66.94	-3.22	10.79
S&P 500	2,857.70	-0.03	6.89	Brent oil ($/bbl)	72.28	-3.17	8.09
FTSE 100	7,776.65	0.75	1.16	Gold (S/oz)	1,213.88	0.24	8.10
Shanghai	2,744.07	-1.27	-17.03	CPO (RM/tonne)	2,182.50	0.09	-8.68
Hang Seng	28,359.14	0.39	-5.21	Copper ($/tonne)	6,173.00	-0.03	-14.82
STI	3,326.74	-0.40	-2.24	Rubber (sen/kg)	410.50	-1.32	-11.24

Source: Bloomberg

Economic Data

	For	Actual	Last	Survey
US MBA Mortgage Applications	03-Aug	-3.0%	-2.6%	--
UK RICS House Price Balance	Jul	4.0%	3.0% (revised)	4.0%
JP Eco Watchers Survey Current SA	Jul	46.6	48.1	48.0
JP Eco Watchers Survey Outlook SA	Jul	49.0	50.0	49.9
CN Trade Balance	Jul	$28.05b	$41.47b	$38.92b
CN Imports YOY	Jul	27.3%	14.1%	16.5%
CN Exports YOY	Jul	12.2%	11.2%	10.0%
AU Home Loans MOM	Jun	-1.1%	1.0%	0.0%
AU Investment Lending	Jun	-2.7%	-0.1%	--
RBNZ Official Cash Rate	09-Aug	1.75%	1.75%	1.75%

Source: Bloomberg

➢ Macroeconomics

- ***Dovish RBNZ left interest rate unchanged, delayed timing of next rate hike:*** The RBNZ held Official Cash Rate (OCR) steady at 1.7% as widely expected but delivered a dovish opening statement. It acknowledged that economic growth has moderated and is expected to pick up pace over the rest of the year, adding that robust global growth and a lower Kiwi will support export earnings. It remained upbeat on the labour market and projected unemployment rate to decline modestly. On inflation, there are "welcome early signs" of core inflation rising and it reiterated that inflation will increase towards 2% due to capacity pressure. The path however may be "bumpy" with one-off price changes from global oil prices, a lower exchange rate and announced petrol excise tax rises expected. The central bank shifted the timing of the next rate hike by a year from the initial 3Q19 to 3Q20. Simultaneously it also revised down its GDP growth forecast for 2018 (2.8% to 2.7%) and 2019 (3.1% and 2.6%).

- ***US mortgage applications extended further decline:*** MBA mortgage applications fell 3.0% for the week ended 3 August (previous: -2.6%), marking its fourth consecutive week of decline despite lower mortgages rates in general. The average interest rate for a 30Y fixed rate loan was held steady at 4.84% (previous: 4.84%). Applications to purchase a new home dropped 2.0% (previous: -3.1%) while applications to refinance a home dropped 4.5% (previous: -1.7%).

- ***UK house prices rose:*** The Royal Institution of Chartered Surveyors' (RICS) monthly house price balance which measures the percentage of surveyors reporting a house price increase, rose to 4% in July (Jun: 3% revised). The number is in line with other house prices data such as the Halifax House Price Index where the housing market saw a pick-up in prices in July.

- ***China exports rose as tariffs failed to hamper demand thus far:*** July exports rose 12.2% YOY in dollar term (Jun: +11.2%) signalling that US tariffs imposed on $34b worth of Chinese goods which came into effect on 6 July has had little impact on exports thus far. Imports meanwhile rose a whopping 27.3% YOY in July (Jun: +14.1%) partly driven by base effect and higher energy prices. This brings the trade balance to a relatively lower $28.05b (Jun: $41.47b). Exports to the US seemed to hold up registering an 11.2% YOY growth (Jun: +12.5%) while imports rose 11.1% YOY (Jun: +9.6%). The full impact of tariff is yet to be reflected for now but shipment is expected to slow down in the following months especially after the US announced its decision to impose new tariffs on $16b worth of Chinese goods on 23 August.

- ***Japan overall sentiments weakened:*** The Economy Watchers Survey for Current Conditions fell to 46.6 in July (Jun: 48.1) while the Expectations Index fell to 49.0 (Jun: 50.0) as signalling weaker sentiments among household and businesses.

- ***Australia home loan approvals fell as housing market continued to soften:*** The number of mortgages approved fell 1.1% MOM in June (May: +1.0% revised) as loans granted to purchase new homes and existing homes fell. Loans for refinancing purposes dropped as well. Meanwhile, investment lending in Aussie dollar term fell for the fourth consecutive month by 2.7% MOM (May: -0.1%). Housing markets continued to soften in Australia, a result of the APRA's prudential regulatory measures to curb speculative activities. The RBA in its monetary statement yesterday also noted that housing credit growth has declined largely due to the reduced demand by investors as the dynamics of the housing market has changed.

Economic Calendar Release Date						
Date	**Country**	**Event**	**Reporting Period**	**Survey**	**Prior**	**Revised**
10/08	Malaysia	Industrial Production YOY	Jun	3.4%	3.0%	--
09/08	**US**	**Initial Jobless Claims**	**04-Aug**	**220k**	**218k**	**--**
		PPI Final Demand MOM	**Jul**	**0.2%**	**0.3%**	**--**
		PPI Final Demand YOY	**Jul**	**3.4%**	**3.4%**	**--**
		Wholesale Inventories MOM	**Jun F**	**0.0%**	**0.4%**	**--**
10/08		CPI YOY	Jul	2.9%	2.9%	--
10/08	UK	Visible Trade Balance GBP/Mn	Jun	-£11,950.0	-£12,362.0	--
		Industrial Production YOY	Jun	0.7%	0.8%	--
		Manufacturing Production YOY	Jun	1.0%	1.1%	--
		Construction Output SA YOY	Jun	0.7%	1.6%	--
		GDP (MOM)	Jun	0.2%	0.3%	--
		GDP QOQ	2Q P	0.4%	0.2%	--
		GDP YOY	2Q P	1.3%	1.2%	--
09/08	**Japan**	**Core Machine Orders YOY**	**Jun**	**10.5%**	**16.5%**	**--**
		Machine Tool Orders YOY	**Jul P**	**11.4%**	**11.4%**	**--**
10/08		PPI YOY	Jul	2.9%	2.8%	--
		GDP SA QOQ	2Q P	0.3%	-0.2%	--
09/08	**China**	**PPI YOY**	**Jul**	**4.5%**	**4.7%**	**--**
		CPI YOY	**Jul**	**2.0%**	**1.9%**	**--**
10/08	Hong Kong	GDP YOY	2Q	--	4.7%	--
10/08	New Zealand	BusinessNZ Manufacturing PMI	Jul	--	52.8	--
		REINZ House Sales YOY	Jul	--	-1.6%	--

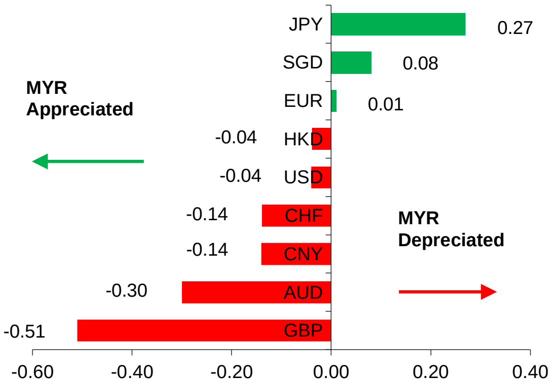
Source: Bloomberg

FX Table

Name	Last Price	DoD %	High	Low	YTD %
EURUSD	1.1610	0.09	1.1628	1.1573	-3.3
USDJPY	110.98	-0.36	111.44	110.84	-1.6
GBPUSD	1.2882	-0.44	1.296	1.2854	-4.7
AUDUSD	0.7431	0.13	0.744	0.7383	-4.9
EURGBP	0.9013	0.55	0.9017	0.8959	1.5
USDMYR	4.0745	-0.04	4.0810	4.0705	0.7
EURMYR	4.7254	0.01	4.7393	4.7183	-2.4
JPYMYR	3.6726	0.27	3.6750	3.6571	2.3
GBPMYR	5.2587	-0.51	5.2821	5.2560	-3.9
SGDMYR	2.9875	0.08	2.9915	2.9864	-1.3
AUDMYR	3.0208	-0.30	3.0311	3.0183	-4.2
NZDMYR	2.7466	-0.22	2.7540	2.7439	-5.3

Source: Bloomberg

MYR vs Major Counterparts (% DOD)



➢Forex

MYR

- **MYR overturned early losses to inch 0.04% firmer at 4.0745 against USD** and closed higher against 7 G10s, supported by improved regional sentiment.
- **MYR is neutral against a soft overnight USD**, with gains likely capped by receding risk appetite in the markets taking cue from overnight US trading. Given continued increase in downside momentum, we maintain that USDMYR is heading lower, with scope to slide lower to 4.0645. Below this, expect a test at 4.0560.

USD

- **USD fell against 7 G10s** while the DXY ended 0.1% lower at 95.09 after erasing gains from European morning following a lack of positive catalysts to drive demand.
- **Stay slightly bearish on USD** in anticipation of softer buying interest ahead of the much-watched US CPI data tomorrow. Current bearish trend is still fragile and could be nullified by a close above 95.16 today. Otherwise, DXY remains tilted to the downside and likely to test 94.60 – 94.68 in the next leg lower.

EUR

- **EUR inched 0.09% higher to 1.1610 on the back of a soft USD** but still ended lower against 5 G10s amid relatively softer risk sentiment in European market.
- **EUR is slightly bullish in line with our view on USD**. EURUSD has turned technically bullish after breaking above 1.1600. Expect a test at 1.1638 next, above which 1.1660 will be challenged. But with upside momentum still soft, current bullish trend may be nullified by a close below 1.1585.

GBP

- **GBP** tumbled against all G10s and **weakened 0.44% to 1.2882 against USD** as downside pressure from fears of no-deal Brexit continue to linger.
- **GBP remains bearish against USD** as Brexit jitters continue to prevail. GBPUSD broke below 1.2900 and is now exposes to further losses. Expect a test at 1.2854 next, below which 1.2800 will be threatened.

JPY

- **JPY** rebounded to beat all G10s and **strengthened 0.36% to 110.98 against USD** as risk sentiment dipped in European and US markets, on top of news of trade tariff retaliation from China against US.
- **Keep a bullish view on JPY against a soft USD**, supported by likelihood of softer risk sentiment in the markets taking cue from overnight US session. USDJPY breaking below 111 puts it on track to head towards 110.68. Below this, 110 will be eyed.

AUD

- **AUD climbed 0.13% to 0.7431 against a soft USD** and outperformed 5 G10s that were lack luster European majors.
- **AUD is slightly bullish to the extent of a soft USD** but gains are likely modest given receding risk sentiment in the markets on top of potential emergence of risk aversion ahead of RBA policy statement tomorrow. After recent gains, we would not discount a modest pullback in AUDUSD. But as long as it holds above 0.7405, it remains tilted towards the upside with scope to test 0.7451, above which 0.7494 will be targeted.

SGD

- **SGD climbed 0.1% to 1.3630 against USD** and advanced against 5 G10s.
- **SGD remains bullish against a soft USD**, supported by refuge demand on likelihood of receding risk appetite in regional markets. We continue to view upside fatigue to lead USDSGD lower, possibly testing 1.3613 before sliding lower to circa 1.3585.

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