June 14, 2018

# Global Markets Research

# Daily Market Highlights

## Key Takeaways

- **The Fed raised fed funds rate by 25bps today as widely expected and signaled a total of four hikes in 2018 in its new dot plot.** Economic projections were revised as well with the Fed now see GDP growth at 2.8% (prev: 2.7%), PCE core 2.1% (prev: 1.9%) and unemployment rate 3.6% (prev: 3.8%). Fed Chair Jerome Powell said he will hold a press conference after every FOMC meeting starting in January 2019. US stocks ended lower after the more hawkish statement while yields on 10Y US treasuries briefly hit 3.00% on the prospect of two additional hikes and closed at 2.97%. The dollar boosted across the board immediately after the statement with the dollar index surged to 94.03 but closed lower near the day low.

- **US factory gate inflation quickened** with the PPI rose to 3.1% YOY, the largest gain since Jan-12. Mortgage applications fell again as interest rate recovered to above 4.80% level. **UK inflation held steady at 2.4% as expected** due to higher oil prices while house prices extended its fourth month decline. **Eurozone industrial production dipped 0.9%** adding injury to a series of soft data ahead of ECB meeting today. Elsewhere, **Australia consumer confidence improved while New Zealand house sales slowed.**

- **The USD fell against all G10s and** the DXY closed 0.29% lower at 93.54, near its session low as the spike post-FOMC announcement proved shortlived. Fed Chair Powell commented that hosting press conferences after every FOMC meetings beginning next January does not signal anything while the long run Fed rate was left unchanged at 2.9% even as the Fed revised the dot plots higher from a total of three hikes to four hikes this year. **DXY is expected to regain some lost ground today** as markets digest the Fed decision and communique. While bearishness has somewhat reduced, we maintain that DXY need to recapture 94.03 to overturn current bearish trend.

- **MYR** continued to eke out small losses, **weakening 0.09% to 3.9938 against the USD,** its weakest since January this year. The local unit also underperformed all G10s. **We remain slightly bearish on MYR despite a softer USD** as a hawkish Fed signaling more aggressive rate hike for this year could continue to dampen demand for EM currencies. Technicals suggest upside momentum is building in USDMYR, indicating the pair is on track to test 3.9952 next.

- **SGD** fell against 7 G10s but **gained 0.10% to 1.3354 against the USD**. **Expect a bearish SGD** in anticipation of a rebounding USD and subdued demand for EM currencies. However, negative momentum in USDSGD continues to retreat, further dampening the chance of the pair closing below 1.3325 by next Tuesday.

**Overnight Economic Data**

| | |
|---|---|
| US | ↑ |
| UK | → |
| Eurozone | ↓ |
| Australia | ↑ |
| New Zealand | → |

## What's Coming Up Next

**Major Data**

- US Retail Sales Advance, Initial Jobless Claims
- UK Retail Sales Inc. Auto Fuel
- Japan Industrial Production
- China Retail Sales, Industrial Production
- Australia Employment Change, Unemployment Rate, Participation Rate

**Major Events**

- ECB MPC meeting

**Daily Supports – Resistances (spot prices)***

| | S2 | S1 | Indicative | R1 | R2 | Outlook |
|---|---|---|---|---|---|---|
| **EURUSD** | 1.1739 | 1.1771 | 1.1793 | 1.1806 | 1.1825 | ↘ |
| **USDJPY** | 109.79 | 110.04 | 110.28 | 110.50 | 110.75 | ↗ |
| **GBPUSD** | 1.3294 | 1.3338 | 1.3373 | 1.3389 | 1.3433 | ↘ |
| **AUDUSD** | 0.7532 | 0.7557 | 0.7564 | 0.7613 | 0.7652 | ↘ |
| **EURGBP** | 0.8787 | 0.8799 | 0.8818 | 0.8832 | 0.8844 | → |
| | | | | | | |
| **USDMYR** | 3.9826 | 3.9878 | 3.9940 | 3.9952 | 3.9990 | ↗ |
| **EURMYR** | 4.6980 | 4.7062 | 4.7102 | 4.7164 | 4.7205 | ↗ |
| **JPYMYR** | 3.6079 | 3.6157 | 3.6211 | 3.6259 | 3.6336 | ↗ |
| **GBPMYR** | 5.3291 | 5.3354 | 5.3424 | 5.3454 | 5.3490 | ↗ |
| **SGDMYR** | 2.9849 | 2.9880 | 2.9908 | 2.9916 | 2.9938 | → |
| **AUDMYR** | 3.0089 | 3.0125 | 3.0220 | 3.0251 | 3.0287 | ↘ |
| **NZDMYR** | 2.7921 | 2.7955 | 2.8052 | 2.8084 | 2.8149 | ↘ |
| | | | | | | |
| **USDSGD** | 1.3306 | 1.3328 | 1.3354 | 1.3370 | 1.3390 | ↗ |
| **EURSGD** | 1.5698 | 1.5731 | 1.5752 | 1.5771 | 1.5788 | ↗ |
| **GBPSGD** | 1.7794 | 1.7834 | 1.7861 | 1.7878 | 1.7905 | → |
| **AUDSGD** | 1.0057 | 1.0087 | 1.0103 | 1.0122 | 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 | 1763.57 | -0.03 | -1.85 | CRB Index | 200.09 | -0.03 | 3.21 |
| Dow Jones Ind. | 25201.20 | -0.47 | 1.95 | WTI oil ($/bbl) | 66.64 | 0.42 | 10.29 |
| S&P 500 | 2775.63 | -0.40 | 3.82 | Brent oil ($/bbl) | 76.74 | 1.13 | 14.76 |
| FTSE 100 | 7703.71 | 0.00 | 0.21 | Gold (S/oz) | 1299.31 | 0.26 | -0.26 |
| Shanghai | 3049.80 | -0.97 | -7.78 | CPO (RM/tonne) | 2340.50 | 0.02 | -2.07 |
| Hang Seng | 30725.15 | -1.22 | 2.69 | Copper ($/tonne) | 7257.00 | 0.48 | 0.14 |
| STI | 3392.51 | -1.11 | -0.31 | Rubber (sen/kg) | 431.50 | -2.38 | -6.70 |

*Source: Bloomberg*

## Economic Data

| | For | Actual | Last | Survey |
|---|---|---|---|---|
| US FOMC Rate Decision | 13 Jun | 1.75%-2.00% | 1-50%-1.75% | 1.75%-2.00% |
| US MBA Mortgage Applications | 08 Jun | 1.5% | 4.1% | -- |
| US PPI Final Demand YOY | May | 3.1% | 2.6% | 2.8% |
| EU Industrial Production SA MOM | Apr | -0.9% | 0.5% | -0.7% |
| UK CPI YOY | May | 2.4% | 2.4% | 2.4% |
| UK PPI Output NSA YOY | May | 2.9% | 2.5% (revised) | 2.9% |
| UK RICS House Price Balance | May | -3.0% | -7.0% (revised) | -5.0% |
| AU Westpac Consumer Conf SA MOM | Jun | 0.3% | -0.6% | -- |
| NZ REINZ House Sales YOY | May | 1.3% | 6.6% | -- |

*Source: Bloomberg*

## ➢ Macroeconomics

- ***Fed raised interest rate, signaled four hikes:*** The Fed raised fed funds rate by 25bps today from its target range of 1.5-1.75% to 1.75-2.0% as widely expected. Economic projections were revised - the Fed now expect GDP growth to reach 2.8% (up from a 2.7% in its March projections), PCE core 1.9% (down from 2.1%) and unemployment rate 3.6% (down from 3.8%) in 2018. The newly released dot plot shows that members now expect a total of four hikes this year (up from the three expected in March), three hikes in 2019 and one hike in 2020. In the post FOMC press conference, Fed Chair Jerome Powell said that the US economy is in "great shape", and fiscal policy seen providing support to demand over the next three years. On inflation, it is important that expectations remained anchored at 2% and the Fed sees no sense that inflation will move significantly higher if unemployment rate falls further, low productivity could be a reason behind the slow increase in wages. The Fed does not see excess credit growth in household and is monitoring non-financial corporates' debt, financial vulnerabilities are seen as "moderate". Powell also said that the Fed discussed removing the term "accommodative monetary policy" from its statement and each FOMC meeting will be followed by a press conference starting in January 2019. US stocks ended lower after the more hawkish statement while yields on 10Y US treasuries briefly hit 3.00% on the prospect of two additional hikes and closed at 2.97%. The dollar boosted across the board immediately after the statement with the dollar index surged to 94.03 but closed lower near the day low. The euro dipped substantially but managed to recover to a session high thereafter.

- ***US Factory gate inflation quickened: Mortgage applications fell (again):*** PPI for final demand rose 3.1% YOY in May (Apr: +2.6%), the largest gain since January 2012 attributed to higher energy prices which is in line with the surge in ISM Prices Paid Index. MBA mortgage applications fell 1.5% for the week ended 8 June (Previous: +4.1%) following a rebound in the previous week as mortgage interest rates recovered to above 4.8% level. Average interest rate for a 30-year fixed rate mortgage loan increased to 4.83% (previous: 4.75%). Both loans for refinancing and purchase of a home decreased 1.5% as well.

- ***UK inflation held steady, matched expectations; House prices continued to fall:*** CPI rose 2.4% YOY in May (Apr: +2.4%) as expected as faster gain in energy prices was offset by slower growth in cost of food, alcohol & tobacco, clothing & footwear and housing. Meanwhile, core inflation which stripped out the volatile energy, food, alcohol & tobacco was also held steady increasing by 2.1% YOY (Apr: +2.1%). Producer prices increased 2.9% YOY (Apr: +2.5% revised). The recent jump in oil prices has contributed to a steady April print which would have otherwise eased given that prices have adjusted to a weaker euro. Inflation is likely to cool further to meet the BOE target of 2%. As of writing, markets are pricing in 48.9% chance of a rate hike by the BOE in its August meeting compared to 50.7% observed on Monday prior to the release of jobs report and inflation data. In a separate release, the Royal Institution of Chartered Surveyors (RICS) published its price balance index today which extended its fourth month decline by 3.0% in May (Apr: -7.0% revised) as the housing markets continued to be in a slump amidst soft demand.

- ***Eurozone industrial production dipped:*** Industrial output fell 0.9% MOM in April (Mar: +0.5%) led by drop in energy production as well as durable and non-durable consumer goods. On an annual basis, output slowed substantially to increase 1.7% YOY (Mar: +3.2%) signaling a weak start to 2Q18. Output in the bloc's largest economies fell with production in Germany dropped by 1.7% MOM (Mar: +1.7%), France by 0.6% MOM (Mar: -0.4%), Italy by 1.2% MOM (Mar: +1.2%) and Spain by 1.9% MOM (Mar: +1.1%). The decline in output added injury to a series of already weak data in the Eurozone ahead of today's ECB meeting. The economy lost momentum in 1Q18 following several strong quarters in 2017 attributed to weather conditions and Easter timing. That would not stop the ECB from discussing the timeline to end its bond buying program in the coming meeting, possibly due to encouraging inflation data - CPI rose 1.9% YOY in May due to higher oil prices.

- ***Australia consumer confidence improved:*** The Westpac Consumer Confidence Index rebounded to increase 0.3% MOM in June (May: -0.6%) driven by better sentiment over current conditions and brighter outlook over family finances.

- ***New Zealand house sales slowed:*** The Real Estate Institute of New Zealand (REINZ) announced sales increased 1.3% YOY in May (Apr: +6.6%). Median price of houses rose 5.0% YOY in May (Apr: +1.9%) to NZ$562k (Apr: NZ$550k).

**Economic Calendar Release Date**

| Date | Country | Events | Reporting Period | Survey | Prior | Revised |
|---|---|---|---|---|---|---|
| **14/06** | **US** | **Retail Sales Advance MOM** | **May** | **0.4%** | **0.3%** | **0.2%** |
| | | **Initial Jobless Claims** | **09 Jun** | **223k** | **222k** | **--** |
| 15/06 | | Empire Manufacturing | Jun | 19.0 | 20.1 | -- |
| | | Industrial Production MOM | May | 0.2% | 0.7% | -- |
| | | Capacity Utilization | May | 78.1% | 78.0% | -- |
| | | U. of Mich. Sentiment | Jun P | 98.5 | 98.0 | -- |
| **14/06** | **Eurozone** | **ECB Main Refinancing Rate** | **14 Jun** | **0.00%** | **0.00%** | **--** |
| 15/06 | | Trade Balance SA | Apr | 20.0b | 21.2b | -- |
| | | CPI YOY | May F | 1.9% | 1.2% | 1.2% |
| **14/06** | **UK** | **Retail Sales Inc. Auto Fuel MOM** | **May** | **0.5%** | **1.6%** | **--** |
| **14/06** | **Japan** | **Industrial Production YOY** | **Apr F** | **--** | **2.5%** | **--** |
| 15/06 | | BOJ Policy Balance Rate | 15 Jun | -0.10% | -0.10% | -- |
| **14/06** | **China** | **Retail Sales YOY** | **May** | **9.6%** | **9.4%** | **--** |
| | | **Industrial Production YOY** | **May** | **7.0%** | **7.0%** | **--** |
| 15/06 | | New Home Prices MOM | May | -- | 0.57% | -- |
| **14/06** | **Australia** | **Employment Change** | **May** | **19.0k** | **22.6k** | **--** |
| | | **Unemployment Rate** | **May** | **5.5%** | **5.6%** | **--** |
| | | **Participation Rate** | **May** | **65.6%** | **65.6%** | **--** |
| 15/06 | **New Zealand** | BusinessNZ Manufacturing PMI | May | -- | 58.9 | -- |

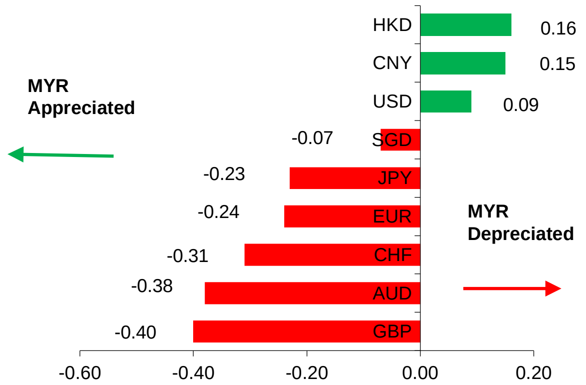
*Source: Bloomberg*

**FX Table**

| Name | Last Price | DoD % | High | Low | YTD % |
|---|---|---|---|---|---|
| EURUSD | 1.1791 | 0.39 | 1.1801 | 1.1726 | -1.7 |
| USDJPY | 110.34 | -0.03 | 110.85 | 110.27 | -2.2 |
| GBPUSD | 1.3376 | 0.03 | 1.339 | 1.3308 | -1.0 |
| AUDUSD | 0.7578 | 0.07 | 0.7609 | 0.7530 | -3.0 |
| EURGBP | 0.8817 | 0.39 | 0.8826 | 0.8781 | -0.7 |
| | | | | | |
| USDMYR | 3.9938 | 0.09 | 3.9992 | 3.9925 | -1.3 |
| EURMYR | 4.6956 | -0.24 | 4.7001 | 4.6872 | -3.1 |
| JPYMYR | 3.6151 | -0.23 | 3.6179 | 3.6089 | 0.6 |
| GBPMYR | 5.3285 | -0.40 | 5.3425 | 5.3202 | -2.5 |
| SGDMYR | 2.9912 | -0.07 | 2.9912 | 2.9847 | -1.2 |
| AUDMYR | 3.0294 | -0.38 | 3.0294 | 3.0182 | -4.2 |
| NZDMYR | 2.8056 | -0.10 | 2.8056 | 2.7941 | -2.6 |

*Source: Bloomberg*

**MYR vs Major Counterparts (% DOD)**




# ➢Forex

### MYR

- **MYR** continued to eke out small losses, **weakening 0.09% to 3.9938 against the USD,** its weakest since January this year. The local unit also underperformed all G10s.
- **We remain slightly bearish on MYR despite a softer USD** as a hawkish Fed signaling more aggressive rate hike for this year could continue to dampen EM currencies. Technicals suggest upside momentum is building in USDMYR, indicating the pair is on track to test 3.9952 next.

### USD

- **The USD fell against all G10s and** the DXY closed 0.29% lower at 93.54, near its session low as the spike post-FOMC announcement proved shortlived. Fed Chair Powell commented that hosting press conferences after every FOMC meetings beginning next January does not signal anything while the long run Fed rate was left unchanged at 2.9% even as the Fed revised the dot plots higher from a total of three hikes to four hikes this year.
- **DXY is expected to regain some lost ground today** as markets digest the Fed decision and communique. While bearishness has somewhat reduced, we maintain that DXY need to recapture 94.03 to overturn current bearish trend.

### EUR

- **EUR** rebounded strongly and **rose 0.39% to 1.1791 against a softer USD at close,** pulling back from an intraday high of 1.1801. EUR also strengthened against 7 G10s.
- **EUR remains slightly bearish in our view** ahead of ECB policy meeting today but we caution that EUR would likely rally should the ECB lay down more detailed plans for QE exit while any plans short of market expectations would condemn EUR to the downside. EURUSD is still at risk of turning lower as it closes below 1.1800 despite overnight attempt to break 1.1800. That said, EURUSD needs to break 1.1723 to trigger a bearish case.

### GBP

- **GBP eked out a marginal 0.03% gain against a battered down USD, closing at 1.3376. The sterling however weakened against all other G10s** save for the JPY where it ended flat.
- **GBP remains bearish against the USD**. Minor bullish trend in GBPUSD has come to an end and the pair is now on track to head towards 1.3348, below which 1.3311 could be tested.

### JPY

- **JPY** snapped two consecutive days of losses and **advanced 0.03% against the USD to 110.34** at close, but it weakened against all other G10s.
- **Expect JPY to remain bearish against USD.** Extended close above 110 continued to reinforce bullishness in USDJPY, pushing the pair towards 110.75 in the next move higher.

### AUD

- **AUD** rose a small 0.07% to 0.7578 against a soft USD but weakened against 7 G10s as demand for risk currencies remained subdued while RBA Governor Lowe reiterated that rate increase is still "some time away".
- **Stay bearish on AUD against USD**, weighed down by absence of risk appetite as markets await ECB policy meeting tonight. Losses may be capped should job data surprised on the upside. AUDUSD is on track for a decline towards 0.7565 next, below which 0.7507 will be tested. Do not rule out a potential bounce off 0.7565, a level that we believe to be strong enough to reboot the recent minor bullish trend.

### SGD

- **SGD** fell against 7 G10s but **gained 0.10% to 1.3354 against the USD**.
- **Expect a bearish SGD** in anticipation of a rebounding USD and subdued demand for EM currencies. However, negative momentum in USDSGD continues to retreat, further dampening the chance of the pair closing below 1.3325 by next Tuesday.

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