September 14, 2018

HongLeong Bank

Global Markets Research

Daily Market Highlights

Key Takeaways

- **US stocks rallied overnight boosted by the gains in tech sector** despite President Trump tweeted that his Administration was under no pressure to reach a deal with China. WTI reversed its upward course to close 2.5% lower at $68.59 after the International Energy Agency raised its concern that global economic risks could potentially weigh on demand next year. **BOE held its bank rate steady while the ECB left its key rates unchanged and simultaneously cut its euro area growth forecast for 2018 and 2019. However, it maintained that bond buying programme will end in December this year.**

- At the data front, **US CPI eased to 2.7% YOY in August driven by a slowdown in energy and services inflation** as well as drop in apparel prices. Core CPI also posted a slower gain of 2.2% YOY as gains in prices of all services appeared to have eased while within the core commodities group, the upticks in prices of vehicles and tobacco & smoking products failed to offset the decline in apparels. **Australia added 44k jobs in August boosted by higher addition of full-time employments.** Despite that unemployment rate was held steady at 5.6% as the labour force expanded as seen in the higher participation rate of 65.7%. **New Zealand manufacturing sector growth remained muted** as the BusinessNZ Manufacturing PMI rose only minimally to 52.0 in August.

- **USD weakened against all G10s except the JPY again. T**he DXY fell for the 2nd straight day, by 0.30% to 94.52 dampened by reduced haven demand amid hope of reemerging trade talks between the US and China and contained EM risks following rate hike by Turkey. Softer than expected US CPI also pared expectations of further Fed rate hike beyond September, hence pushing the DXY further down. **We remain bearish on** USD in anticipation continued risk-on sentiments in the markets. Caution that USD stands a chance for a rebound should key US data tonight surprise on the upside. Technically, bearishness has increased after closing below 94.72 yesterday. We now set sights on 94.23, below which 94.06 could be eyed.

- **MYR narrowed early session gains to close marginally firmer by 0.06% against the USD at 4.1445.** MYR however fell against 8 G10s despite improving risk sentiments boosted by renewed trade-related optimism. **MYR could stay firmer today** against continued weakness in the greenback but lighter position ahead of the weekend may limit its gains. Technically, USDMYR remains tilted to the upside and still stands a chance to test 4.1632 next. A close below 4.1406 could potentially negate this bullish move but this may only be a brief reprieve in our view before the pair resumes its upward climb.

- **SGD strengthened 0.12% to 1.3704** against the USD on further USD weakness but fell against 7 G10s. **SGD is now turning bullish against USD** after yesterday's close below 1.3718 that pushed momentum indicators into negative territory. USDSGD is expected to head towards 1.3677 provided it does not bounce back above 1.3708.

Overnight Economic Data

US	→
Australia	↑
New Zealand	↑

What's Coming Up Next

Major Data

- US Retail Sales, Import Price Index, Industrial Production, Uni of Michigan Consumer Sentiment
- Eurozone Trade Balance
- Japan Industrial Production
- China Retail Sales, Industrial Production, Fixed Assets Ex Rural

Major Events

- Nil

Daily Supports – Resistances (spot prices)*

	S2	S1	Indicative	R1	R2	Outlook
EURUSD	1.1634	1.1669	1.1690	1.1706	1.1722	↗
GBPUSD	1.3024	1.3068	1.3112	1.3141	1.3170	↗
USDJPY	111.65	111.85	112.05	111.29	111.56	↗
AUDUSD	0.7158	0.7176	0.7189	0.7214	0.7235	↘
EURGBP	0.8899	0.8905	0.8916	0.8924	0.8935	→
USDMYR	4.1315	4.1382	4.1410	4.1456	4.1480	↘
EURMYR	4.8316	4.8366	4.8418	4.8471	4.8527	↗
JPYMYR	3.6854	3.6918	3.6969	3.7025	3.7138	↘
GBPMYR	5.4113	5.4155	5.4299	5.4347	5.4405	↗
SGDMYR	3.0145	3.0160	3.0213	3.0244	3.0276	↘
AUDMYR	2.9700	2.9732	2.9763	2.9803	2.9845	↘
NZDMYR	2.7110	2.7173	2.7236	2.7280	2.7329	↗
USDSGD	1.3682	1.3694	1.3705	1.3733	1.3753	↘
EURSGD	1.5987	1.6004	1.6023	1.6030	1.6056	→
GBPSGD	1.7879	1.7888	1.7970	1.7920	1.7935	→
AUDSGD	0.9811	0.9834	0.9853	0.9865	0.9878	→

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

	Last Price	DoD %	YTD %
KLCI	1,792.60	0.41	0.23
Dow Jones Ind.	26,145.99	0.57	5.77
S&P 500	2,904.18	0.53	8.62
FTSE 100	7,281.57	-0.43	-5.28
Shanghai	2,686.58	1.15	-18.77
Hang Seng	27,014.49	2.54	-9.71
STI	3,131.77	0.23	-7.97

Name	Last Price	DoD %	YTD %
CRB Index	191.41	-1.01	-1.27
WTI oil ($/bbl)	70.37	1.62	13.52
Brent oil ($/bbl)	79.74	0.86	17.21
Gold (S/oz)	1,201.49	-0.40	-8.10
CPO (RM/tonne)	2,209.50	-0.07	-7.55
Copper ($/tonne)	6,033.00	0.60	-16.75
Rubber (sen/kg)	413.00	0.24	-10.70

Source: Bloomberg

Economic Data

	For	Actual	Last	Survey
US CPI YOY	Aug	2.7%	2.9%	2.8%
US CPI Ex Food and Energy YOY	Aug	2.2%	2.4%	2.4%
US Initial Jobless Claims	Sep-08	204k	205k	210k
EU ECB Main Refinancing Rate	Sep-13	0.0%	0.0%	0.0%
UK BOE Bank Rate	Sep-13	0.75%	0.75%	0.75%
AU Employment Change	Aug	44.0k	-4.3k (revised)	18.0k
AU Unemployment Rate	Aug	5.3%	5.3%	5.3%
AU Participation Rate	Aug	65.7%	65.6% (revised)	65.6%
NZ BusinessNZ Manufacturing PMI	Aug	52.0	51.2	

Source: Bloomberg

Macroeconomics

- ***US inflation momentum slowed, brushed off overshooting concern; Fed on track to hike rate:*** Headline CPI growth eased to 2.7% YOY in August (Jul: +2.9%) after holding up at 2.9% for two consecutive months, driven by slower energy, services inflation and declining apparel prices. The gain in energy prices levelled off substantially (+10.2% vs +12.1%) while that of food prices was held steady at 1.4% YOY. Excluding energy and food, core inflation came in at a much softer 2.2% YOY (Jul: +2.4%) as the cost of services ex. energy eased marginally (+3.0% vs +3.1%) - all services components saw slower gain in prices except for airline fares which posted further decline. The core commodities segment experienced a drop in prices (-0.2% vs 0.0%) as the upticks in prices of vehicles (both new and used) as well as tobacco & smoking products failed to offset the decline in apparels (-1.4% vs +0.3%). August print came in tandem with the lower PPI released yesterday, suggesting that inflationary pressure was building up at a slower but decent momentum in August, simultaneously brushing off speculations over an overshooting inflation which would lead the Fed to hike fed funds rate at a faster pace. We think that inflation remained healthy at this level as the underlying growth in cost and prices is still entrenched driven by a tightening labour market – initial jobless claims fell to a 48-year low of 204k last week (prev: 205k revised), thus reaffirming our view that the Fed is on track to hike rate two more times this year.

- ***ECB left interest rates unchanged, confident over inflation outlook but cut growth forecast*** The ECB kept its key interest rates unchanged yesterday as expected and reaffirmed its monetary policy plan – (1) rates to remain at current levels at least through the summer of 2019, (2) current monthly pace of net asset purchases under its Asset Purchase Program (APP) to be reduced from €30bn in September to €15bn (after Sep) and program to end in December this year, (3) the principal payments from maturing securities will be reinvested after APP. Staff projections confirmed a broad-based expansion of the Eurozone economy but mentioned that uncertainties relating to rising protectionism, vulnerabilities in emerging markets and financial market volatility have gained more prominence recently. Annual growth forecast for 2018 was revised from 2.1% to 2.0% YOY, while that of 2019 from 1.9% to 1.8% YOY as it foresees weaker contribution from foreign demand. Forecast for inflation was unchanged at 1.7% YOY in 2018, 2019 and 2020 as domestic cost pressures are strengthening amidst tightening labour market and rising wages. Uncertainty around inflation outlook is receding. Underlying inflation remained muted – the ECB projected slightly lower oil prices, but stronger core inflation. Other key points of Mario Draghi's press conference include reinvestment policy was not discussed (discussion likely to take place in either of the next two meetings of 2018 with proper technical preparations required) while first rate hike was not discussed as well; on EM volatility, spillover from Turkey and Argentina was not substantial and countries with weakest fundamentals are most vulnerable to contagion; words of Italian politicians have changed many times in recent months, the central bank is still waiting for facts from Italy.

- ***BOE kept Bank Rate unchanged, highlighted uncertainty over Brexit:*** BOE MPC Committee voted unanimously to keep its Bank Rate unchanged at 0.75%. Economic projections were left unchanged from the previous meeting (and August inflation report) when it had hiked the Bank rate by 25bps. It viewed August projections as broadly on track with the actual data with tightening labour market and faster wage growth (+2.9% YOY). The statement mentioned the further announcement of protectionist measures between China and US could have impact on global growth while at the local front, greater uncertainty surrounding Brexit withdrawal process could affect outlook. Finally it added that an ongoing tightening of monetary policy would be appropriate to return inflations to 2.0% target (July inflation rate had been at 2.5%) provided that the economy continued to develop broadly in line with projections.

- ***Australia added more jobs than expected, unemployment rate held steady as labour force expanded:*** The Australian economy added 44.0k jobs in August (Jul: -4.3k revised) of which 33.7k (Jul: +20.1) are full-time employments whereas as part-time employments also increased by 10.2k (Jul: -24.4k). Unemployment meanwhile was held steady at 5.6% as the labour force expanded – the participation rate went up to 65.7% in August (Jul: 65.6% revised). August print reaffirmed the RBA view that the labour market continued to be in broad strength with improving participation rate. Wage growth remained subdued in the second quarter growing 2.1% YOY but is likely to see faster gain in 3Q given the recent hike in minimum wages effective 1 July. Even so, the pick-up in wages is unlikely to lead to any meaningful gain in inflation, in fact the RBA is projecting inflation to slow down this year to 1.75% due to the reduction in certain administered prices. We continued to believe that the RBA will not raise its cash rate this year.

- ***New Zealand manufacturing expansion remained muted:*** The BusinessNZ Manufacturing PMI rose only minimally to 52.0 in August (Jul: 51.2) as the rebound in production (52.6 vs 49.2) was offset by a contraction in employment (48.1 vs 51.2). New orders posted modest gain as well (53.2 vs 52.4) suggesting a slight improvement in demand conditions but remained well below the higher level seen earlier of the year.

Economic Calendar

Date	Country	Events	Reporting Period	Survey	Prior	Revised
14/09	**US**	**Retail Sales Advance MOM**	**Aug**	**0.4%**	**0.5%**	**--**
		Import Price Index MOM	**Aug**	**-0.2%**	**0.0%**	**--**
		Industrial Production MOM	**Aug**	**0.3%**	**0.1%**	**--**
		Capacity Utilization	**Aug**	**78.2%**	**78.1%**	**--**
		U. of Mich. Sentiment	**Sep P**	**96.6**	**96.2**	**--**
17/09		Empire Manufacturing	Sep	--	25.6	--
14/09	**Eurozone**	**Trade Balance SA**	**Jul**	**16.2b**	**16.7b**	**--**
17/09		CPI Core YOY	Aug F	--	1.0%	--
		CPI YOY	Aug F	--	2.1%	2.1%
17/09	UK	Rightmove House Prices MOM	Sep	--	-2.3%	--
14/09	**Japan**	**Industrial Production YOY**	**Jul F**	**--**	**2.3%**	**--**
14/09	**China**	**Retail Sales YOY**	**Aug**	**8.8%**	**8.8%**	**--**
		Industrial Production YOY	**Aug**	**6.1%**	**6.0%**	**--**
		Fixed Assets Ex Rural YTD YOY	**Aug**	**5.6%**	**5.50%**	**--**
17/09	Singapore	Electronic Exports YOY	Aug	--	-3.8%	--
		Non-oil Domestic Exports YOY	Aug	--	11.8%	--

Source: Bloomberg

FX Table

Name	Last Price	DoD %	High	Low	YTD %
EURUSD	1.1690	0.55	1.1701	1.1609	-2.62
GBPUSD	1.3108	0.48	1.3124	1.3026	-2.94
USDJPY	111.92	0.59	112.00	111.17	-0.55
AUDUSD	0.7195	0.36	0.7229	0.7168	-7.94
EURGBP	0.8920	0.06	0.8930	0.8893	0.37
USDMYR	4.1445	-0.06	4.1475	4.1375	2.34
EURMYR	4.8150	0.14	4.824	4.8127	-0.13
JPYMYR	3.7190	0.01	3.7301	3.7143	2.78
GBPMYR	5.4090	0.19	5.411	5.3980	-0.59
SGDMYR	3.0224	0.31	3.0229	3.0147	-0.23
AUDMYR	2.9797	0.92	2.9828	2.9669	-5.84
NZDMYR	2.7180	0.50	2.7206	2.7118	-5.43
CHFMYR	4.2738	0.46	4.2799	4.2643	3.30
CNYMYR	0.6057	0.35	0.6057	0.6046	-2.59
HKDMYR	0.5283	0.04	0.5285	0.5272	1.87
USDSGD	1.3704	-0.12	1.373	1.3677	2.57
EURSGD	1.6020	0.43	1.6024	1.5929	-0.19
GBPSGD	1.7962	0.36	1.7977	1.7873	-0.55
AUDSGD	0.9859	0.23	0.9889	0.9834	-5.64

Source: Bloomberg

Forex

MYR

- **MYR narrowed early session gains to close marginally firmer by 0.06% against the USD at 4.1445.** MYR however fell against 8 G10s despite improving risk sentiments boosted by renewed trade-related optimism.
- **MYR could stay firmer today** against continued weakness in the greenback but lighter position ahead of the weekend may limit its gains. Technically, USDMYR remains tilted to the upside and still stands a chance to test 4.1632 next. A close below 4.1406 could potentially negate this bullish move but this may only be a brief reprieve in our view before the pair resumes its upward climb.

USD

- **USD weakened against all G10s except the JPY again. T**he DXY fell for the 2nd straight day, by 0.30% to 94.52 dampened by reduced haven demand amid hope of reemerging trade talks between the US and China and contained EM risks following rate hike by Turkey. Softer than expected US CPI also pared expectations of further Fed rate hike beyond September, hence pushing the DXY further down.
- **We remain bearish on** USD in anticipation continued risk-on sentiments in the markets. Caution that USD stands a chance for a rebound should key US data tonight surprise on the upside. Technically, bearishness has increased after closing below 94.72 yesterday. We now set sights on 94.23, below which 94.06 could be eyed.

EUR

- **EUR advanced 0.55% to 1.1690 against a soft USD,** on the back of improving risk appetite in the market and as ECB signaled that QE programme is on track to end in December, brushing aside downgrades in growth and inflation forecasts. EUR strengthened against all G10s save for the CHF.
- **Stay slightly bullish on EUR** on expectations of a soft USD and ECB reaffirmation of policy normalization. EURUSD is technically bullish. Breaking above 1.1662 yesterday paves the way for EURUSD to test 1.1708 next, followed by 1.1729.

GBP

- **GBP jumped 0.48% to 1.3108** against a soft USD and advanced against 6 G10s. Markets took comfort in the upgrade in 3Q growth forecast by BOE and Carney reiteration that a 25bps rate hike per annum is about appropriate going forward even though BOE struck a dovish tone and policy makers voted unanimously to keep rates on hold last night.
- **Continue to expect a bullish GBP against a soft USD**. Staying above 1.3000 has strengthened upside bias in the pair and we now expect the pair to head towards 1.3139.

JPY

- **JPY fell against all G10s and was weaker by 0.59% against the USD at 111.92**, on the back of reduced haven flows.
- **We stay slightly bearish on JPY against USD** on the back of improving risk sentiments. Upside momentum continued to gain momentum and now set sights on 112.29.

AUD

- **AUD climbed 0.36% to 0.7195 against a soft USD** and managed to advance against 5 G10s, boosted by improved market sentiments as well as positive Australian job data.
- **We remain slightly bullish on AUD against USD** amid improving risk sentiments but cautioned that correction may set in after recent rally. Negative momentum in the pair continued to soften and yesterday's closing above 0.7158 has strengthened the case for further upward climb. We now expect AUDUSD to test 0.7215 provided it does not close below 0.7193 today.

SGD

- **SGD strengthened 0.12% to 1.3704** against the USD on further USD weakness but fell against 7 G10s.
- **SGD is now turning bullish against USD** after yesterday's close below 1.3718 that pushed momentum indicators into negative territory. USDSGD is expected to head towards 1.3677 provided it does not bounce back above 1.3708.

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