Hong Leong Bank

Global Markets Research

Daily Market Highlights

Key Takeaways

- **US stocks tumbled overnight erasing gains made on the previous day as markets resumed worries over the financial crisis in Turkey.** The concerns were **compounded by the worsening relationship between Turkey and the US** where the former has made announcement to double tariffs on some American goods. **The CBOE VIX index, a gauge of volatility rose nearly 10%.** WTI was weighed down by trade tension as well as larger-than-expected stocks pile to close at $65.01/barrel, leading the S&P500 Energy sector to be the worst performing sector of the day. Tech shares took a beating as werll partly on the earlier sell-off in Chinese internet giant Tencent after it reported a drop in 2Q profit. Yield on 10Y US treasuries dropped 4bps to 2.86% on safe haven bid.

- **Dataflow remained decent and signaled no shift in the underlying global landscape.** US Retail sales topped estimates to increase 0.5% MOM in July while industrial production growth eased to 0.1% MOM following an upward revision to June number. Capacity utilization held unchanged at 78.1%. The NY Fed Empire Manufacturing Index rose to 25.6. Data were less upbeat in the housing market, homebuilders sentiments weakened as the NAHB Housing Market Index fell to 67.0 in August while mortgage applications fell 2.0% last week. Elsewhere, UK inflation accelerated to 2.5% YOY in July on higher energy prices. Japan trade balance swing to a deficit of ¥231.2b as imports growth surged far outweighing that of exports. Australia wage growth remained subdued as the wage price index rose 2.1% YOY in 2Q18. China new home prices rose 1.12% MOM in July, a 22-month high despite ongoing policy tightening.

- **USD stayed firm as it advanced against 6 G10s** though on softer gains but dipped into a mild 0.04% loss at 96.69 as buying interest retreated on easing concerns in Turkey and contagion fears into Europe. **Expect US to hold firm** on the back of unresolved US-Turkey diplomatic issue that is likely to continue anchoring EM/Europe contagion fears. Recent DXY rally continues to expose it to technical pullback but given that a bullish trend prevails, losses are likely to stay above 96.50 before attempting a test at 97.00.

- **MYR weakened 0.2% to 4.1040 against USD** as pressure on EMs continue to persist, but managed to advance against 9 G10s. **Stay neutral on MYR against USD** with inclination to mild losses given extended risk-off in the markets. USDMYR remains biased to the upside but we continue to note prevalence of price-momentum divergence that hint at potential reversal lower going forward.

- **SGD** fell against 6 G10s and **slipped 0.17% to 1.3802 against a firm USD** on the back softer sentiment in US markets. **We turn bearish on SGD against USD** on the back of sustained risk-off sentiment in the markets. Bearish trend continue to prevail in USDSGD, tilting it upwards. Holding above 1.3800 exposes a move to 1.3820 in the next leg higher.

Overnight Economic Data	
US	➔
UK	➔
China	↑
Japan	↓
Australia	➔

What's Coming Up Next

Major Data

- US Philadelphia Fed Business Outlook, Initial Jobless Claims, Housing Starts, Building Permits
- Eurozone Trade Balance
- UK Retail Sales (Inc Auto Fuel)
- Australia Employment Change, Unemployment Rate, Participation Rate

Major Events

- Nil

Daily Supports – Resistances (spot prices)*

	S2	S1	Indicative	R1	R2	Outlook
EURUSD	1.1300	1.1320	1.1341	1.1365	1.1384	↘
USDJPY	110.30	110.50	110.55	110.82	111.00	↘
GBPUSD	1.2662	1.2680	1.2692	1.2705	1.2728	↘
AUDUSD	0.7200	0.7220	0.7233	0.7249	0.7267	↘
EURGBP	0.8923	0.8930	0.8935	0.8940	0.8946	↘
USDMYR	4.1010	4.1020	4.1030	4.1040	4.1050	➔
EURMYR	4.6500	4.6520	4.6540	4.6560	4.6585	➔
JPYMYR	3.7085	3.7100	3.7109	3.7142	3.7172	↗
GBPMYR	5.2020	5.2052	5.2073	5.2106	5.2150	↘
SGDMYR	2.9700	2.9723	2.9731	2.9740	2.9751	➔
AUDMYR	2.9629	2.9650	2.9662	2.9685	2.9700	➔
NZDMYR	2.6876	2.6900	2.6918	2.6946	2.6961	➔
USDSGD	1.3775	1.3790	1.3803	1.3815	1.3820	↗
EURSGD	1.5609	1.5637	1.5653	1.5669	1.5985	↘
GBPSGD	1.7485	1.7500	1.7516	1.7535	1.7556	↘
AUDSGD	0.9959	0.9976	0.9983	0.9990	1.0000	↘

* 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	1,785.94	0.12	-0.60	CRB Index	186.95	-1.83	-3.57
Dow Jones Ind.	25,162.41	-0.54	1.79	WTI oil ($/bbl)	65.01	-3.03	7.60
S&P 500	2,818.37	-0.76	5.41	Brent oil ($/bbl)	70.76	-2.35	5.82
FTSE 100	7,497.87	-1.49	-2.47	Gold (S/oz)	1,174.85	-1.61	8.10
Shanghai	2,723.26	-2.08	-17.66	CPO (RM/tonne)	2,175.50	-0.78	-8.97
Hang Seng	27,323.59	-1.55	-8.68	Copper ($/tonne)	5,801.00	-4.02	-19.95
STI	3,234.12	-0.27	-4.96	Rubber (sen/kg)	414.50	0.24	-10.38

Source: Bloomberg

Economic Data	For	Actual	Last	Survey
US MBA Mortgage Applications	Aug-10	-2.0%	-3.0%	--
US Empire Manufacturing	Aug	25.6	22.6	20.0
US Retail Sales Advance MOM	Jul	0.5%	0.2% (revised)	0.1%
US Industrial Production MOM	Jul	0.1%	1.0% (revised)	0.3%
US Capacity Utilization	Jul	78.1%	78.1% (revised)	78.2%
US NAHB Housing Market Index	Aug	67.0	68.0	67.0
UK CPI YOY	Jul	2.5%	2.4%	2.5%
UK PPI Output NSA YOY	Jul	3.1%	3.3% (revised)	3.0%
JP Trade Balance	Jul	-¥231.2b	¥721.4b	-¥41.2b
JP Exports YOY	Jul	3.9%	6.7%	6.3%
CN New Home Prices MOM	Jul	1.12%	1.11%	--
AU Wage Price Index YOY	2Q	2.1%	2.1%	2.1%

Source: Bloomberg

➢ Macroeconomics

- ***US retail sales beat estimates, industrial productions softened:*** Consumer spending remained robust in the US as retail sales topped estimates to increase 0.5% MOM in July (Jun: +0.2% revised). The upturn was led by higher sales in motor, vehicles, parts (Jul +0.2% vs Jun +0.1%), food & beverages (+0.6% vs 0.0%), gasoline stations (+0.8% vs +0.3%) and clothing (+1.3% vs -1.6%). Excluding autos and gas, sales posted a solid gain of 0.6% MOM (Jun: +0.2% revised). Many have expected retail sales to retreat especially when prices of gasoline have fallen (A simple calculation based on EIA data shows that the average gasoline prices fell 1.5% MOM in July compared to a gain of 0.3% MOM in June). In a separate release, Industrial production rose 0.1% MOM in July (Jun: +1.0% revised) as the slower gain in manufacturing output (Jul +0.3% vs Jun +0.8%) was offset by drop in utilities (-0.5% vs -0.7%) and mining (-0.3% vs +2.95). Within the manufacturing sector, production of motor vehicle and parts normalized (+0.9% vs +7.6%) after a sharp rebound in the June following a drop in May due to a disruption to auto-part assemblies. Overall output growth softened as it came off from the high level in the previous month as the number was revised higher from 0.6% to 1.0% MOM. Capacity utilization was held steady at 78.1% (Jun: 78.1% revised), but still a strong improvement from the 77% in Jan-18. The New York Fed Empire Manufacturing Index meanwhile edged up to 25.6 in August (Jul: 22.6). Both retail sales and industrial production show that the US economy remained in a healthy state but we continue to expect a softer growth ahead as the effect of tax cut introduced in early 2018 will fade eventually. We reaffirm our view that the Fed will raise interest rate two more times this year.

- ***US homebuilders sentiment weakened, mortgage applications fell***: Other releases for the US overnight include the NAHB Housing Market Index, a gauge of homebuilders' sentiments which fell to 67.0 in August (Jul: 68.0) on rising construction cost and shortages of skilled labour. Mortgage applications dropped 2.0% for the week ended 10 August (previous: -3.0%), marking its fifth week of consecutive decline despite lower interest rate generally. The average interest rate for a 30Y fixed rate loan dropped to 4.81% (previous: 4.84%). Applications to refinance a home was left unchanged (previous: -4.5%) while the number of applications to purchase a new home fell 3.3% (previous: 2.0%).

- ***UK inflation accelerated on higher energy prices***: Consumer price index matched consensus estimate to increase 2.5% YOY in July (Jun: +2.4%). The faster gain was attributed to higher prices of energy, (+9.3% vs +8.7%), recreational (+2.1% vs +0.7%), housing (+0.9% vs +0.8%) and transports (+4.0% vs +3.4%). Gain in prices of food, alcohol and tobacco was held steady at 2.6% YOY (Jun: +2.6%). Stripping out energy, food, alcohol and tobacco, core CPI growth remained unchanged at 1.9% YOY (Jun: +1.9%). Producer prices meanwhile eased to increase 3.1% YOY (Jun: +3.3% revised) following an upward revision to June figure but input prices jumped 10.9% YOY (Jun: +10.2%). The BOE had projected inflation to pick up to 2.6% in July before gradually returning to its 2% target as the effect of post-Brexit pound depreciation wears off.

- ***Japan swing to trade deficit as imports far outweighed exports:*** Demand of Japanese goods softened more than expected as exports registered a slower growth of 3.9% YOY (Jun: +6.7%). Shipments to the US fell, while shipments to Europe and Asia both saw slower gains. In contrast, shipments to China recorded a faster growth. Imports meanwhile spiked 14.6% YOY (Jun: +2.5%) as domestic demand appeared to be strong but was also partly attributed to higher energy prices. The larger movement in imports thus led to a trade deficit of ¥231.2b (Jun: ¥721.4b).

- ***Australia wage growth remained subdued:*** Wage price index rose 0.6% QOQ in the second quarter of 2018 (1Q: +0.5%), on a yearly basis gain in the price index quickened to 2.1% YOY (1Q: +2.0% revised) as growth for 1Q was revised from 2.1% to 2.0%. With the concurrent 2.1% YOY increase in inflation in the same quarter, this means that real wages do not rise at all. The number reaffirms the RBA's expectations that wage growth remained subdued in the economy despite a strengthening labour market, but it is projected to rise albeit not to a huge extent after the 3.5% increase in minimum wages which kicked in on 1 July. Given the absence of higher wage growth, we believe the RBA will keep cash rate unchanged for the rest of 2018.
- ***China new home prices rose to 22-month high:*** New home prices rose 1.12% MOM in July (Jun: +1.11%), the fastest pace since October 2016. Prices are reported to have increased in 65 out of the 70 cities compared to 61 out of 70 cities in the June. A Reuters calculation shows that prices quickened on a yearly basis by 5.8% YOY in July (Jun: +5.0%) suggesting that the market remains resilient despite the government's effort to tighten regulations.

Economic Calendar						
Date	**Country**	**Events**	**Reporting Period**	**Survey**	**Prior**	**Revised**
17/08	Malaysia	GDP YOY	2Q	5.2%	5.4%	--
16/08	**US**	**Philadelphia Fed Business Outlook**	**Aug**	**22.0**	**25.7**	**--**
		Initial Jobless Claims	**Aug-11**	**215k**	**213k**	**--**
		Housing Starts MOM	**Jul**	**7.4%**	**-12.3%**	**--**
		Building Permits MOM	**Jul**	**1.4%**	**-2.2%**	**-0.7%**
17/08		Leading Index	Jul	0.4%	0.5%	--
		U. of Mich. Sentiment	Aug P	98.0	97.9	--
16/08	**Eurozone**	**Trade Balance SA**	**Jun**	**16.9b**	**16.9b**	**--**
17/08		ECB Current Account SA	Jun	--	22.4b	--
		CPI Core YOY	Jul F	1.1%	1.1%	--
		CPI YOY	Jul F	2.1%	2.0%	2.0%
16/08	**UK**	**Retail Sales Inc Auto Fuel MOM**	**Jul**	**0.2%**	**-0.5%**	**--**
17/08	Hong Kong	Unemployment Rate SA	Jul	2.8%	2.8%	--
17/08	Singapore	Non-oil Domestic Exports YOY	Jul	7.4%	1.1%	--
16/08	**Australia**	**Employment Change**	**Jul**	**15.0k**	**50.9k**	**--**
		Unemployment Rate	**Jul**	**5.4%**	**5.4%**	**--**
		Participation Rate	**Jul**	**65.7%**	**65.7%**	**--**

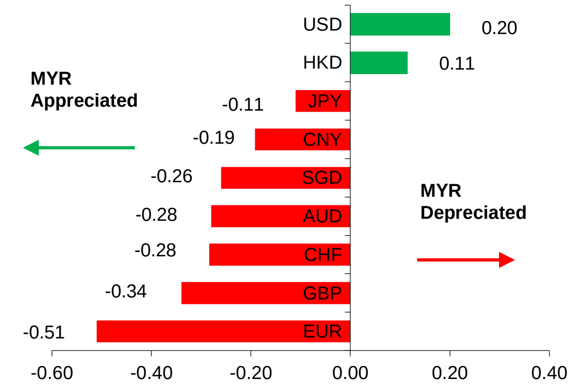
Source: Bloomberg

FX Table

Name	Last Price	DoD %	High	Low	YTD %
EURUSD	1.1345	0.01	1.1355	1.1301	-5.5
USDJPY	110.74	-0.37	111.43	110.43	-1.9
GBPUSD	1.2697	-0.20	1.2736	1.2662	-6.1
AUDUSD	0.7239	-0.06	0.7248	0.7203	-7.4
EURGBP	0.8935	0.21	0.8939	0.8901	0.6
USDMYR	4.1040	0.20	4.1040	4.0970	1.4
EURMYR	4.6476	-0.51	4.6560	4.6424	-4.0
JPYMYR	3.6862	-0.11	3.6899	3.6783	2.5
GBPMYR	5.2146	-0.34	5.2263	5.2057	-4.7
SGDMYR	2.9732	-0.26	2.9763	2.9704	-1.8
AUDMYR	2.9640	-0.28	2.9691	2.9546	-6.1
NZDMYR	2.6872	-0.47	2.6946	2.6855	-6.5

Source: Bloomberg

MYR vs Major Counterparts (% DOD)



➢Forex

MYR

- **MYR weakened 0.2% to 4.1040 against USD** as pressure on EMs continue to persist, but managed to advance against 9 G10s.
- **Stay neutral on MYR against USD** with inclination to mild losses given extended risk-off in the markets. USDMYR remains biased to the upside but we continue to note prevalence of price-momentum divergence that hint at potential reversal lower going forward.

USD

- **USD stayed firm as it advanced against 6 G10s** though on softer gains but dipped into a mild 0.04% loss at 96.69 as buying interest retreated on easing concerns in Turkey and contagion fears into Europe.
- **Expect US to hold firm** on the back of unresolved US-Turkey diplomatic issue that is likely to continue anchoring EM/Europe contagion fears. Recent DXY rally continues to expose it to technical pullback but given that a bullish trend prevails, losses are likely to stay above 96.50 before attempting a test at 97.00.

EUR

- **EUR inched 0.01% higher to 1.1345 against USD**, bouncing off intraday low to overturn early losses as contagion fears eased, and advanced against 6 G10s.
- **EUR is slightly bearish on the back of a still firm USD**. Technically, the scope for further bounces higher have diminished amid rising downside momentum. Bearish trend suggest a close below 1.1340 in the coming days, with scope to test 1.1300, or lower.

GBP

- **GBP fell 0.2% to 1.2697 against USD** and retreated against 6 G10s as refuge demand within European markets eased, while risk aversion arose ahead of another round of Brexit talks between the UK and EU.
- **We turn bearish on GBP against USD** on risk aversion heading into Brexit talks as well as bearish potential ahead of UK retail sales data. Downside bias persists after breaking below 1.2728 level thus we expect further losses in GBPUSD going forward. A test at 1.2662 is likely.

JPY

- **JPY** was still supported by prevailing risk-off sentiment, beating all G10s and **strengthening 0.37% to 110.74 against USD**.
- **We turn bullish on JPY against USD** as refuge demand remains firm amid unresolved US-Turkey diplomatic issue. Overnight decline has nullified a bullish trend. A bearish trend has re-emerged and again suggest a drop to 110 next.

AUD

- **AUD** recovered in European-US sessions, paring early losses to **close just 0.06% lower at 0.7239 against USD** and ended mixed against the G10s.
- **Maintain a slight bearish view on AUD against USD**; strong Australia employment data could rally AUD but we reckon that losses may still prevail as risk-off sentiment persists in the markets. We continue note the emergence of price-momentum divergence, which hints at a potential rebound in AUDUSD but it will likely be several days more of staying below 0.7243 as dictated by current bearish trend before this rebound can take place.

SGD

- **SGD** fell against 6 G10s and **slipped 0.17% to 1.3802 against a firm USD** on the back softer sentiment in US markets.
- **We turn bearish on SGD against USD** on the back of sustained risk-off sentiment in the markets. Bearish trend continue to prevail in USDSGD, tilting it upwards. Holding above 1.3800 exposes a move to 1.3820 in the next leg higher.

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