May 17, 2018

HongLeong Bank

Global Markets Research

Daily Market Highlights

Key Takeaways

- **The Malaysian government announced the resetting of GST from 6% to 0% (not including the exempt category), taking effect 1-June-2018.** This came earlier than expected and the decision of resetting it to zero vs a complete abolishment is expected to cause the least disruption from the business perspectives in view of the infrastructure in place. **While this has brought cheers to consumers, it has also brought forth concerns on the government fiscal front** on how the revenue loss from GST would be compensated by other revenue streams. Assuming a pro-rated collection of approximately RM18bn in the first five months of the year, (RM44bn budgeted for the full year), there is a RM26bn gap that need to be filled, of which we estimate about RM10bn could be generated from higher crude oil prices of US$76-79/ barrel currently (50% higher vs US$52/barrel budgeted), but also potentially mitigate by reintroduction of petrol subsidy where the government said will no longer be subject to weekly review. The balance would most probably be coming from efficiency gains and plugging leakages and reintroduction of the SST. Hence, **prompt implementation of the SST will be key in ensuring revenue continuity and safeguarding fiscal deficit target in our view.**

- **On the global front, data flow was mixed.** Industrial production surprised on the upside but housing data disappointed in the US. Final CPI print showed inflation remained soft in the EU and would likely hold ECB back from withdrawing stimulus. On similar grounds, softer than expected increase in wages in Australia also reaffirmed benign price pressure that would keep RBA on hold. Japanese data was also mixed with uptick in industrial production offset by lower capex.

- **USD ended mixed against the G10s** though the DXY ended 0.19% higher at 93.39, buoyed by weakness in major components EUR, JPY and GBP as well firmer than expected US data, but not before reducing early gains. **Expect USD to be on the defensive today**, weighed down by a lack of catalysts to drive further gains and potential retreat in bond yields. DXY was again rejected by 93.50, which has dented the overall bullish trend. DXY must beat 93.50 and 93.80 for current uptrend to extend, otherwise, we suspect that it is just bidding time for bulls to be discouraged and set off a reversal lower.

- **MYR weakened 0.31% to 3.9683 against USD** that rallied in European trade but beat 6 G10s that were also on the defensive against the greenback. **We are neutral on MYR against USD** today; MYR gains may prevail on retreat in USD going into European trade but likely very mild. We maintain the view that continued failure to break the upper Bollinger (now at 3.9767) is to us a sign that bulls could not sustain further gains, thus, a reversal is likely going forward.

- **SGD** was also supported by firmer risk appetite in the markets to beat 6 G10s and **advanced 0.36% to 1.3398 against USD**. **Expect a firmer SGD against USD**, supported by firmer risk appetite in the markets and better than expected Singapore data. With upside momentum diminishing further, we expect USDSGD to retreat. Losing 1.3393 will likely trigger a decline to 1.3332 in the coming weeks.

Overnight Economic Data

US	→
Eurozone	→
Japan	→
China	↑
Australia	→
New Zealand	↓

What's Coming Up Next

Major Data

- Malaysia 1Q GDP
- US Initial jobless claims, Philadelphia Fed Business Output, Leading Index
- Eurozone Construction Output
- JP Core Machine Orders, Nationwide Department Sales
- HK Unemployment Rate
- SG Non-oil domestic exports
- AU Employment Change, Unemployment rate

Major Events

- Nil

Daily Supports – Resistances (spot prices)*

	S2	S1	Indicative	R1	R2	Outlook
EURUSD	1.1785	1.1800	1.1810	1.1823	1.1856	↗
USDJPY	110.00	110.27	110.37	110.45	110.63	↘
GBPUSD	1.3520	1.3535	1.3548	1.3572	1.3600	↗
AUDUSD	0.7490	0.7507	0.7520	0.7535	0.7565	↗
EURGBP	0.8702	0.8716	0.8721	0.8732	0.8739	↘
USDMYR	3.9620	3.9665	3.9692	3.9720	3.9750	→
EURMYR	4.6832	4.6855	4.6887	4.6909	4.6938	↗
JPYMYR	3.5938	3.5958	3.5975	3.6002	3.6015	↘
GBPMYR	5.3675	5.3709	5.3765	5.3843	5.3909	↗
SGDMYR	2.9581	2.9600	2.9609	2.9618	2.9630	↗
AUDMYR	2.9756	2.9801	2.9837	2.9872	2.9896	↗
NZDMYR	2.7317	2.7358	2.7384	2.7401	2.7477	↗
USDSGD	1.3378	1.3393	1.3404	1.3407	1.3420	↘
EURSGD	1.5800	1.5820	1.5837	1.5850	1.5893	↗
GBPSGD	1.8122	1.8151	1.8160	1.8178	1.8200	↗
AUDSGD	1.0046	1.0065	1.0079	1.0103	1.0137	↗

* 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	1858.26	0.5	3.4	CRB Index	203.76	0.15	5.1
Dow Jones Ind.	24768.93	0.3	0.2	WTI oil ($/bbl)	71.49	0.25	18.3
S&P 500	2722.46	0.4	1.8	Brent oil ($/bbl)	79.28	1.08	18.6
FTSE 100	7734.20	0.1	0.6	Gold (S/oz)	1290.73	0.02	-0.9
Shanghai	3169.57	-0.7	-4.2	CPO (RM/tonne)	2410.00	-0.10	0.8
Hang Seng	31110.20	-0.1	4.0	Copper ($/tonne)	6826.00	0.26	-5.8
STI	3533.05	-0.2	3.8	Rubber (sen/kg)	476.50	-1.04	3.0

Source: Bloomberg

Economic Data

	For	Actual	Last	Survey
US MBA Mortgage Applications	11 May	-2.7%	-0.4%	--
US Housing Starts MOM	Apr	-3.7%	3.6% (revised)	-0.7%
US Building Permits MOM	Apr	-1.8%	4.1% (revised)	-2.1%
US Industrial Production MOM	Apr	0.7%	0.7% (revised)	0.6%
US Capacity Utilization	Apr	78.0%	77.6% (revised)	78.4%
EU CPI YOY	Apr F	1.2%	1.3%	1.2%
JP Industrial Production YOY	Mar F	2.4%	2.2%	--
JP Core Machine Order YOY	Mar	-2.4%	2.4%	0.3%
CN New Home Prices MOM	Apr	0.57%	0.42%	--
AU Westpac Consumer Confidence SA MOM	May	-0.6%	-0.6%	--
AU Wage Price Index YOY	1Q	2.1%	2.1%	2.1%
NZ PPI Output QOQ	1Q	0.2%	1.0%	--

Source: Bloomberg

➢ Macroeconomics

- Industrial production in the US rose a solid 0.7% MOM in April (Mar: +0.7% revised) amidst a still strong domestic and global demand. Manufacturing output increased 0.5% MOM (Mar: +0.0%) while mining increased 1.1% MOM (Mar: +1.1%). The rise in output is underpinned by a strong domestic consumption as evident in higher retail sales signaling that the economy is gathering further momentum going into the second quarter of the 2018. Capacity utilization which measures how fully firms are using their resources edged up to 78.0% (Mar: 77.6% revised) but remain below its long run average suggesting ongoing slack in the economy.

- Demand for mortgages in the US dropped for the fourth consecutive week. The MBA mortgage applications dropped 2.7% for the week ended 11 May (Previous: -0.4%) due to higher interest rates. Housing starts decreased 3.7% MOM in April, which completely reversed the gain of 3.6% in the previous month. Single family homes which make up majority of the number rose a mere 0.1% MOM (Mar: -0.8%) following a decline in March. Building permits meanwhile dropped 1.8% MOM (Mar: +4.1% revised). Homebuilding became sluggish in recent month despite a robust housing market in the US as rising lumber prices prevent builders from tapping into a tight inventory environment.

- Final reading shows that headline inflation in the Eurozone matched flash estimates of 1.2% YOY (Mar: +1.3%) as expected. Similarly, core inflation which exclude energy and food prices matched the flash estimates to rise 0.7% YOY (Mar: +1.0%), the lowest since Mar-17. April print reflects a slowdown in inflation and reaffirm views that underlying inflation remained subdued and yet to show any convincing sign of upward movement. This, coupled with a slowdown in growth (the economy grew 0.4% QOQ in 1Q18 as reported yesterday) will continue to hold the ECB back from any potential withdrawal of its stimulus program.

- Wage growth in Australia missed estimate to increase 0.5% QOQ in 1Q18 (4Q17: +0.5% revised) further demonstrating that wage growth remains tepid after a strong start in the first two quarters of 2017 and prompting an initial sell-off in the Aussie dollar. Wage growth is a key indicator in RBA rates decision as higher wage growth often translate to a higher inflationary pressure. Inflation in Australia remained subdued at 1.9% YOY in March and is yet to reach the central bank's medium term average target of 2-3%. Meanwhile, consumer sentiments continue to weaken as indicated by the Westpac consumer confidence index which dropped 0.6% MOM in May (Apr: -0.6%).

- Industrial production in Japan ticked higher by 2.4% YOY in March (Feb: +1.6%). Manufacturing output increased 2.5% YOY (Feb: +1.7%) while mining, electricity and gas output edged up 2.2% YOY (Feb: +1.8%). In a separate release, Japan core machine order fell 2.4% YOY in March (Feb: +2.4%) signaling lower capex spending.

- New home prices in China rose the most in 10 months. Newly built commercial residential buildings prices across 70 cities in China rose 0.57% MOM in April (Mar: +0.42%).

- Producer prices in New Zealand posted its eighth quarterly gain to increase 0.2% QOQ in 1Q18 (4Q17: +1.0%). Dairy prices rebounded to increase 2.3% MOM (4Q17: -4.8%) following a decline in the previous quarter.

- At the local front, the government announced the resetting of GST from 6% to 0% (not including the exempt category), taking effect 1-June-2018. This came earlier than expected and the decision of resetting it to zero vs a complete abolishment is expected to cause the least disruption from the business perspective. This has however brought forth concerns on the government fiscal front on how the revenue loss from GST could be compensated by other revenue streams. Assuming a pro-rated collection of approximately RM18bn in the first five months of the year, (RM44bn budgeted for the full year), there is a RM26bn gap that need to be filled, of which we estimate about RM10bn could be generated from higher crude oil prices of US76-78/ barrel currently (US52/barrel budgeted). The balance would most probably be coming from efficiency gains and plugging leakages and reintroduction of the SST. Prompt implementation of the SST will be key in ensuring revenue continuity in our view.

Economic Calendar Release Date

Date	Country	Event	Reporting Period	Survey	Prior	Revised
17/05	**Malaysia**	**GDP YOY**	**1Q**	**5.6%**	**5.9%**	**--**
17/05	**US**	**Initial Jobless Claims**	**12 May**	**215k**	**211k**	**--**
		Philadelphia Fed Business Output	**May**	**21.0**	**23.2**	**--**
		Leading Index	**Apr**	**0.4%**	**0.3%**	**--**
17/05	**Eurozone**	**Construction Output MOM**	**Mar**	**--**	**-0.5%**	**--**
18/05		ECB Current Account SA	Mar	--	35.1b	--
		Trade Balance NSA	Mar	--	18.9b	--
18/05	Japan	Natl CPI YOY	Apr	0.7%	1.1%	--
17/05	**Hong Kong**	**Unemployment Rate SA**	**Apr**	**2.9%**	**2.9%**	**--**
17/05	**Singapore**	**Non-oil Domestic Exports YOY**	**Apr**	**7.3%**	**-2.7%**	**--**
17/05	**Australia**	**Employment Change**	**Apr**	**20.0k**	**4.9k**	**--**
		Unemployment Rate	**Apr**	**5.5%**	**5.5%**	**--**

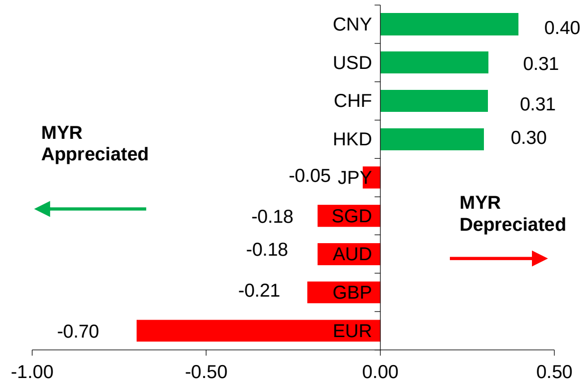
Source: Bloomberg

FX Table

Name	Last Price	DoD %	High	Low	YTD %
EURUSD	1.1808	-0.25	1.1854	1.1764	-1.6
USDJPY	110.40	0.05	110.41	110.04	-2.0
GBPUSD	1.3486	-0.12	1.3521	1.3456	0.3
AUDUSD	0.7516	0.59	0.7523	0.7447	-3.8
EURGBP	0.8753	-0.14	0.8783	0.8732	-1.8
USDMYR	3.9683	0.31	3.9685	3.9610	-1.9
EURMYR	4.6855	-0.70	4.6978	4.6765	-3.3
JPYMYR	3.5972	-0.05	3.6011	3.5893	0.0
GBPMYR	5.3460	-0.21	5.3602	5.3385	-1.6
SGDMYR	2.9539	-0.18	2.9561	2.9406	-2.3
AUDMYR	2.9663	-0.18	2.9708	2.9518	-5.7
NZDMYR	2.7297	-0.21	2.7317	2.7146	-4.9

Source: Bloomberg

MYR vs Major Counterparts (% DOD)



➢Forex

MYR

- **MYR weakened 0.31% to 3.9683 against USD** that rallied in European trade but beat 6 G10s that were also on the defensive against the greenback.
- **We are neutral on MYR against USD** today; MYR gains may prevail on retreat in USD going into European trade but likely very mild. We maintain the view that continued failure to break the upper Bollinger (now at 3.9767) is to us a sign that bulls could not sustain further gains, thus, a reversal is likely going forward.

USD

- **USD ended mixed against the G10s** though the DXY ended 0.19% higher at 93.39, buoyed by weakness in major components EUR, JPY and GBP as well firmer than expected US data, but not before reducing early gains.
- **Expect USD to be on the defensive today**, weighed down by a lack of catalysts to drive further gains and potential retreat in bond yields. DXY was again rejected by 93.50, which has dented the overall bullish trend. DXY must beat 93.50 and 93.80 for current uptrend to extend, otherwise, we suspect that it is just bidding time for bulls to be discouraged and set off a reversal lower.

EUR

- **EUR slipped 0.25% to 1.1808 against USD** and fell against all G10s amid signs of retreat in Eurozone CPI that is seen as to be a dampening factor to the ECB's inclination towards policy normalization.
- **We are slightly bullish on EUR today against USD**, as we suspect a mild rebound to form after recent losses. EURUSD is still in a minor bearish trend, but seeing how 1.1800 was recaptured despite after making early losses overnight, we suspect a mild rebound could be in the works today. Gains are likely limited to below 1.1856.

GBP

- **GBP** retreated against 6 G10s and **slipped 0.12% to 1.3486 against USD** as demand for refuge eased in Europe.
- **Continue to stay slightly bullish on GBP in line with our view of a softer USD**, as well as supported by improved Brexit sentiment amid reports that the UK is on track to stay within the EU Customs Union. Downside momentum continues to recede and we continue to expect a modest rebound. A climb to 1.3564 is possible within the coming week.

JPY

- **JPY** was weighed down by improved risk appetite in the markets, sliding against 5 G10s and **eased 0.05% to 110.40 against USD**.
- **We turn slightly bearish on JPY against USD** as refuge demand is expected to be dampened by renewed risk appetite in the markets. USDJPY remains on an upward direction and could be testing 110.85 – 110.90 next.

AUD

- **AUD** rallied on the back of firmer risk appetite and commodities, climbing against 8 G10s and **jumping 0.59% to 0.7516 against USD**.
- **We turn slightly bullish on AUD against USD**, supported by improving risk appetite in the markets. Caution that a dismal set of Australia labour market data will quickly eliminate overnight gains. Recapturing 0.7507 helps the bulls but unless 0.7565 can be broken, AUDUSD remains vulnerable to the downside and could potentially close below by early next week.

SGD

- **SGD** was also supported by firmer risk appetite in the markets to beat 6 G10s and **advanced 0.36% to 1.3398 against USD**.
- **Expect a firmer SGD against USD**, supported by firmer risk appetite in the markets and better than expected Singapore data. With upside momentum diminishing further, we expect USDSGD to retreat. Losing 1.3393 will likely trigger a decline to 1.3332 in the coming weeks.

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