June 18, 2018

HongLeong Bank

Global Markets Research

Daily Market Highlights

Key Takeaways

- **US equity ended lower on Friday but well above sessions low as investors dismissed the latest escalation in US-China trade spat** when the Trump Administration announced a 25% tariff on $50bn worth of Chinese goods followed by a retaliation by the Chinese government on $50bn of US imports. All three main indices closed only marginally lower while 10Y US treasuries yield fell 2bps to 2.92%. WTI took a major hit dropping to $64.38 per barrel to reverse gains made in the first four trading days of the week ahead of OPEC meeting in Vienna where members are expected to discuss ramping up productions followed by Russian Energy Minister's remark that both Russia and Saudi Arabia were in principle supportive of an increase in supply. On Thursday, the ECB kept key interest rates unchanged but provided a timeline on ending its stimulus program. The BOJ maintained its ultra-loose monetary policy and downgraded its inflation assessment.

- **At the data front, US retail sales surged 0.8%** driven by higher auto and gasoline spending reaffirming strong domestic demand as the labour market continue to tighten – **latest report shows that both initial jobless claims and continuing claims fell. Industrial production unexpectedly dropped** 0.1% attributed to disruption to truck assemblies caused by a major fire at a parts supplier. **UK retail sales surpassed expectation to rise 1.3%.** Elsewhere, **data from China were softer than expected**– industrial productions slowed to increase 6.8% while retail sales pulled back sharply to increase 8.5%. **Australia jobs report fell short of expectations as well** – the economy added only 12k new jobs in May while participations rate fell as the labour force shrank.

- **The USD gained against 7 G10s** but losses against the EUR and GBP pushed the DXY to close 0.10% lower at 94.79. **DXY is expected to stay firm today** as a potential US-China trade war continues to haunt and dampen risk appetite. Technicals have turned bullish with closing above 94.03 and the Dollar Index looks set to push ahead towards 95.02 next.

- **MYR** ended on firmer grounds for the first time in three days, strengthening 0.23% to 3.9848 against the USD and advanced against all G10s as at last Thursday close. **We remain bearish on MYR on the back of a firmer USD** amid protracted concerns over trade tension and policy divergence between the US and other majors. Upside momentum in USDMYR continues to build up, indicating the pair remains on track to test 3.9952 soon after which the psychological 4.00 threshold will be tested.

- **SGD** fell against 8 G10s and weakened 0.45% **to 1.3510 against the USD**. **Expect a bearish SGD** in anticipation of a rebounding USD and subdued demand for EM currencies. Momentum in USDSGD has turned positive and is picking up, potentially testing 1.3591, but we reckon overbought could slow the pace of further advances until a more bullish case is strengthened by closing above 1.3546.

Overnight Economic Data	
US	→
UK	→
Eurozone	↓
China	↓
Australia	↓

What's Coming Up Next

Major Data

- US NAHB Housing Market Index
- UK Rightmove House Prices
- Japan Trade Balance, Exports
- New Zealand Performance of Services Index

Major Events

- Nil

Daily Supports – Resistances (spot prices)*

	S2	S1	Indicative	R1	R2	Outlook
EURUSD	1.1514	1.1561	1.1585	1.1611	1.1654	↘
USDJPY	110.03	110.35	110.55	110.77	110.94	↗
GBPUSD	1.3207	1.3245	1.3266	1.3302	1.3340	↘
AUDUSD	0.7373	0.7412	0.7427	0.7449	0.7471	↘
EURGBP	0.8699	0.8718	0.8732	0.8757	0.8771	↘
USDMYR	3.9920	3.9952	3.9980	3.9994	4.0015	↗
EURMYR	4.5948	4.6184	4.6326	4.6455	4.6514	↘
JPYMYR	3.6025	3.6064	3.6184	3.6231	3.6330	↘
GBPMYR	5.2879	5.2982	5.3054	5.3137	5.3219	↘
SGDMYR	2.9454	2.9521	2.9548	2.9571	2.9626	↘
AUDMYR	2.9579	2.9634	2.9707	2.9723	2.9812	↘
NZDMYR	2.7438	2.7567	2.7687	2.7762	2.7870	↘
USDSGD	1.3460	1.3493	1.3533	1.3563	1.3585	↗
EURSGD	1.5617	1.5641	1.5682	1.5697	1.5710	↗
GBPSGD	1.7868	1.7901	1.7958	1.7985	1.8012	↗
AUDSGD	1.0013	1.0045	1.0058	1.0075	1.0093	↘

* 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**	1761.78	-0.10	-1.95	CRB Index	196.24	-1.39	1.22
Dow Jones Ind.	25090.48	-0.34	1.50	WTI oil ($/bbl)	65.06	-2.74	7.68
S&P 500	2779.66	-0.10	3.97	Brent oil ($/bbl)	73.44	-3.29	9.39
FTSE 100	7633.91	-1.70	-0.70	Gold (S/oz)	1278.94	-1.79	-1.66
Shanghai	3021.90	-0.73	-8.63	CPO (RM/tonne) *	2317.00	-1.00	-3.05
Hang Seng	30309.49	-0.43	1.30	Copper ($/tonne)	7020.00	-2.19	-3.13
STI	3356.73	-1.05	-1.36	Rubber (sen/kg)**	428.50	-0.92	-7.35

Source: Bloomberg
**as at 13 June 2018*
***as at 14 June 2018*

Economic Data	For	Actual	Last	Survey
US Retail Sales Advance MOM	May	0.8%	0.4% (revised)	0.4%
US Initial Jobless Claims	09 Jun	218k	222k	223k
US Empire Manufacturing	Jun	25.0	20.1	19.0
US Industrial Production MOM	May	-0.1%	0.9% revised	0.2%
US Capacity Utilization	May	77.9%	78.1 revised	78.1%
US U. of Mich. Sentiment	Jun P	99.3	98.0	98.5
EU ECB Main Refinancing Rate	14 Jun	0.00%	0.00%	0.00%
EU CPI YOY	May F	1.9%	1.2%	1.9%
EU Trade Balance SA	Apr	€18.1b	€21.2b	--
UK Retail Sales Inc. Auto Fuel MOM	May	1.3%	1.8% (revised)	0.5%
JP BOJ Policy Balance Rate	15 Jun	-0.10%	-0.10%	-0.10%
CH Industrial Production YOY	May	6.8%	7.0%	7.0%
CH Retail Sales	May	8.5%	9.4%	9.6%
CN New Home Prices MOM	May	0.70%	0.57%	--
AU Employment Change	May	12.0k	18.3k (revised)	19.0k
AU Unemployment Rate	May	5.4%	5.6%	5.5%
AU Participation Rate	May	65.5%	65.6%	65.6%

Source: Bloomberg

➢ Macroeconomics

- ***Dovish ECB to keep interest rates steady at least until summer 2019; QE to end in December:*** The ECB left key interest rates unchanged as widely expected. Key points of Thursday's ECB statement are (1) subject to incoming data tapering of its Asset Purchase Program (APP) will begin after Sep-18 from its current purchase rate of €30bn to €15bn per month and will end at the end of Dec-18, (2) reinvestment of maturing principal purchased under APP to be maintained after the end of APP and (3) interest rates to remain unchanged *at least* through the summer of 2019. At a press conference, ECB president Mario Draghi said that the 2018 GDP growth is expected to be 2.1% versus 2.4% seen in March, underlying inflation to pick up towards the end of the year, and inflation to hover around the current level for the rest of the year (final reading confirmed inflation at 1.9% YOY in May). He reiterated that the soft patch (0.4% GDP growth) in 1Q18 came after a period of strong growth in 4Q17 (0.7% GDP growth). Latest economic indicators are weaker but remained broadly consistent with ongoing economic growth. Private consumptions are supported by ongoing employment gains. Moderation of growth was due to temporary factors, weaker external trade and uncertainty. The governing council hasn't discussed when to raise rates, tapering options and reinvestment policy. On political uncertainty, Draghi said that contagion from Italy was not significant and one shouldn't dramatize changes in government policies too much. In a separate release, the Eurozone trade seasonally adjusted trade surplus narrowed to €18.1b in Apr (Mar: €19.8b revised) as exports increased 0.3% MOM compared to faster growth in imports by 1.4% MOM.

- ***BOJ kept monetary policy lever unchanged, downgraded inflation assessment:*** The BOJ maintained its ultra-loose monetary policy on Friday, but cut its inflation view, citing that core CPI is in "the range of 0.5-1.0%" compared to the 1% in previous statement. Governor Haruhiko Kuroda said that the Japanese economy is expanding moderately and momentum towards 2% inflation target is still in place but core inflation has slowed down due to rising Yen. The central bank will continue to pursue aggressive monetary policy easing, and expect government to work on fiscal health. It remains committed to achieving 2% inflation target, there are still some distance to the target and it is too early to debate exiting easing policy now. The latest announcement illustrated major contrast in terms of policy direction between the BOJ and the Fed as well as the ECB which are on the gradual path of policy normalization.

- ***US Retail sales surged; jobless claims fell:*** Advanced estimate suggests that retail sales picked up at a faster pace to rise 0.8% MOM in May (Apr: +0.4% revised) while simultaneously April number was revised from 0.3% to 0.4%. May sales were driven by higher spending in motor vehicles by 0.5% MOM (Apr: +0.2%) and gasoline 2.0% (Apr: +1.0%), clothing 1.3% (Apr: +1.2%) and food services 1.3% (Apr: -0.35). May print reaffirmed solid domestic consumption as the labour market continues to tighten - Initial jobless claims fell to 218k for the week ended 09 June (previous: 222k) while continuous claims dropped to 1.697m for the week ended 01 June (previous: 1.746m revised).

- ***US Industrial production faltered on temporary factor:*** Industrial production meanwhile unexpectedly declined 0.1% MOM in May (Apr: +0.9 revised). Manufacturing production fell 0.7% (Apr: +0.6%) which the Federal Reserve attributed to disruption to truck assemblies caused by a major fire at a parts supplier. Mining rose 1.8% MOM (Apr: +1.0%) while utilities eased to increase 1.1% MOM (Apr: +3.2%). Capacity utilization fell as well to 77.9% (Apr: 78.1% revised). The softer manufacturing number was believed to be temporary as the New York Fed also released its Empire Manufacturing Index for June on Friday which surged to a record high of 25.0 (May: 20.1) signaling a still-strong momentum in the sector. Last but not least, preliminary reading of University of Michigan Sentiment Index inched up to 99.3 in June (May: 98.0) due to more favorable assessment of current financial conditions as expectations of overall economy dampened.

- ***UK retail sales beat expectations:*** Retail sales increased 1.3% MOM in May (Apr: +1.8%) while April figure was revised from 1.6% to 1.8% while the core reading, sales exclusive of fuel also edged up 1.3% MOM (Apr: +1.4% revised) attributed to higher spending in food and household goods ahead of the royal wedding in mid-May as well as a sustained period of good weather. On a yearly basis, sales volume rose 3.9% YOY in May (Apr: +1.4%), the highest in 13 months. The upbeat data came as inflation was held steady in the same month but slower wage growth has somewhat taken pressure off the BOE to hike interest rates.

- ***Softer China data signalled headwinds as industrial output, retail sales disappointed:*** Industrial production came in below expectation to increase 6.8% YOY in May (Apr: +7.0%) as rebound in mining (3.0% in May vs -0.2% in Apr) and faster gain in power supply (12.2% vs 8.8%) output was offset by slower gain in manufacturing (6.6% vs 7.4%). A cut in value added tax by the central government from 17% to 16% for manufacturing sector has failed to prop up growth in productions. Comparatively, the considerable pull back in retail sales is more alarming - sales increased 8.5% YOY (Apr: +9.4%) below consensus estimates of 9.6% led by slower spending in consumer goods as well as restaurant. Fixed assets (excluding rural) investment, a measure of capex grew 6.1% YTD YOY (Apr: +7.0%), its record low amidst ongoing deleveraging campaign by the central government - tightening credit conditions has led to slower loan growth in recent months. Latest release of new home prices also shows that new home prices were held steady (growing 0.7% MOM and 4.7% YOY). The weak data refrained the PBOC from increasing its 7-day open market reverse repo rate despite a 25bps hike of fed funds rate by the Fed on Thursday following. May prints reaffirmed views of an intrinsic slowdown in the economy but we expect growth to hold up for the rest of 2018 given still-resilient global demand.

- ***Australia jobs report fell short of expectations:*** Employment change came below expectation of 19k to a mere 12.0k in May (Apr: 18.3k revised) while number for the previous month was revised downwards from 22.6k to 18.3k. Unemployment rate fell to 5.4% (Apr: 5.6%) primarily due to the lower participation rate at 65.5% (Apr: 65.6%) as the labour force was seen shrinking by 14.8k (Number of unemployed persons actively looking for jobs went down by 26k). It is worth noting that the newly added jobs comprised wholly of part time jobs which increased by 32.6k (Apr: -9.7k) as number of full time jobs faltered by 20.6k (Apr: +28.0k) hence unlikely to place much upward pressure on wage growth.

Economic Calendar Release Date						
Date	**Country**	**Events**	**Reporting Period**	**Survey**	**Prior**	**Revised**
18/06	**US**	**NAHB Housing Market Index**	**Jun**	**70**	**70**	**--**
19/06		Housing Starts MoM	May	1.9%	-3.7%	--
		Building Permits MoM	May	-1.0%	-1.8%	-0.9%
19/06	Eurozone	ECB Current Account SA	Apr	--	32.0b	--
		Construction Output MoM	Apr	--	-0.3%	--
18/06	**UK**	**Rightmove House Prices MoM**	**Jun**	**--**	**0.8%**	**--**
18/06	**Japan**	**Trade Balance**	**May**	**-¥205.2b**	**¥626.0b**	**¥624.6b**
		Exports YoY	**May**	**7.5%**	**7.8%**	**--**
19/06	Australia	RBA June Meeting Minutes				
18/06	**New Zealand**	**Performance of Services Index**	**May**	**--**	**55.9**	**--**
19/06		Westpac Consumer Confidence	2Q	--	111.2	--

Source: Bloomberg

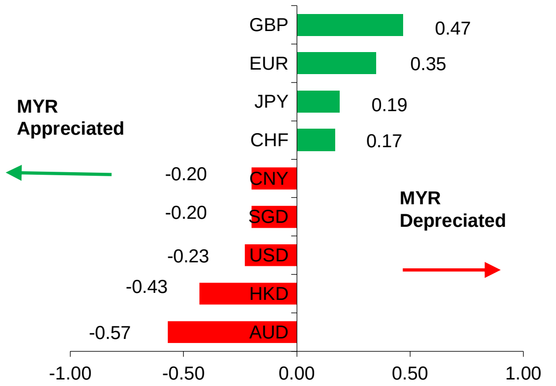
FX Table

Name	Last Price	DoD %	High	Low	YTD %
EURUSD	1.1610	0.36	1.1627	1.1543	-3.4
USDJPY	110.66	0.03	110.9	110.39	-1.8
GBPUSD	1.3278	0.12	1.3298	1.3212	-1.8
AUDUSD	0.7442	-0.48	0.748	0.7440	-4.7
EURGBP	0.8740	0.19	0.8756	0.8718	-1.6
USDMYR	3.9848	-0.23	3.9945	3.9825	-1.5
EURMYR	4.7121	0.35	4.7144	4.7032	-5.1
JPYMYR	3.6220	0.19	3.6269	3.6162	0.3
GBPMYR	5.3537	0.47	5.3556	5.3368	-3.4
SGDMYR	2.9852	-0.20	2.9920	2.9823	-2.2
AUDMYR	3.0122	-0.57	3.0258	3.0085	-5.7
NZDMYR	2.8031	-0.09	2.8087	2.8004	-3.2

Source: Bloomberg

Closing for MYR pairs @ 14-June

MYR vs Major Counterparts (% DOD)



➢Forex

MYR

- **MYR** ended on firmer grounds for the first time in three days, strengthening 0.23% to 3.9848 against the USD and advanced against all G10s as at last Thursday close.
- **We remain bearish on MYR on the back of a firmer USD** amid protracted concerns over trade tension and policy divergence between the US and other majors. Upside momentum in USDMYR continues to build up, indicating the pair remains on track to test 3.9952 soon after which the psychological 4.00 threshold will be tested.

USD

- **The USD gained against 7 G10s** but losses against the EUR and GBP pushed the DXY to close 0.10% lower at 94.79.
- **DXY is expected to stay firm today** as a potential US-China trade war continues to haunt and dampen risk appetite. Technicals have turned bullish with closing above 94.03 and the Dollar Index looks set to push ahead towards 95.02 next.

EUR

- **EUR rose 0.36% to 1.1610 against the USD,** boosted by short covering post ECB selloff. EUR was earlier battered down by dovish rhetoric that an ECB rate hike is not in the horizon in the next twelve months even though the central bank pledged to end QE in December. EUR also strengthened against 9 G10s.
- **EUR is now bearish against the USD in our view** in light of increasing policy divergence with the Fed. Closing below 1.1723 has established a bearish case in EURUSD which could set the course for the pair to head towards 1.1510 next.

GBP

- **GBP advanced 0.12% to 1.3278 against the USD** and was stronger against 8 G10s, underpinned by passing of a parliamentary vote on Brexit withdrawal bill.
- **GBP remains bearish against the USD**. GBPUSD has broken below 1.3311, setting the stage for the next downward move towards 1.3205.

JPY

- **JPY lost a marginal 0.03% against the USD to 110.66** but strengthened against 6 G10s, supported by refuge demand amid lingering trade tensions. Meanwhile, BOJ offered no fresh insights on its extended accommodative monetary stance.
- **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, after which 110.91 could be eyed.

AUD

- **AUD fell 0.48% to 0.7442 against a firmer USD**, its lowest in five weeks, and underperformed 8 G10s amid paring of demand for riskier commodity currencies.
- **Stay bearish on AUD against USD**, weighed down by absence of risk appetite in the markets. Bearish bias in AUDUSD is increasing following a break below 0.7507 and we now expect the pair to a test 0.7412 soon.

SGD

- **SGD** fell against 8 G10s and weakened 0.45% **to 1.3510 against the USD**.
- **Expect a bearish SGD** in anticipation of a rebounding USD and subdued demand for EM currencies. Momentum in USDSGD has turned positive and is picking up, potentially testing 1.3591, but we reckon overbought could slow the pace of further advances until a more bullish case is strengthened by closing above 1.3546.

Hong Leong Bank Berhad
Fixed Income & Economic Research, Global Markets
Level 8, Hong Leong Tower
6, Jalan Damanlela
Bukit Damansara
50490 Kuala Lumpur
Tel: 603-2081 1221
Fax: 603-2081 8936
Email: HLMarkets@hlbb.hongleong.com.my

DISCLAIMER

This report is for information purposes only and does not take into account the investment objectives, financial situation or particular needs of any particular recipient. The information contained herein does not constitute the provision of investment advice and is not intended as an offer or solicitation with respect to the purchase or sale of any of the financial instruments mentioned in this report and will not form the basis or a part of any contract or commitment whatsoever.

The information contained in this publication is derived from data obtained from sources believed by Hong Leong Bank Berhad (“HLBB”) to be reliable and in good faith, but no warranties or guarantees, representations are made by HLBB with regard to the accuracy, completeness or suitability of the data. Any opinions expressed reflect the current judgment of the authors of the report and do not necessarily represent the opinion of HLBB or any of the companies within the Hong Leong Bank Group (“HLB Group”). The opinions reflected herein may change without notice and the opinions do not necessarily correspond to the opinions of HLBB. HLBB does not have an obligation to amend, modify or update this report or to otherwise notify a reader or recipient thereof in the event that any matter stated herein, or any opinion, projection, forecast or estimate set forth herein, changes or subsequently becomes inaccurate.

HLB Group, their directors, employees and representatives do not have any responsibility or liability to any person or recipient (whether by reason of negligence, negligent misstatement or otherwise) arising from any statement, opinion or information, expressed or implied, arising out of, contained in or derived from or omission from the reports or matter. HLBB may, to the extent permitted by law, buy, sell or hold significantly long or short positions; act as investment and/or commercial bankers; be represented on the board of the issuers; and/or engage in ‘market making’ of securities mentioned herein. The past performance of financial instruments is not indicative of future results. Whilst every effort is made to ensure that statements of facts made in this report are accurate, all estimates, projections, forecasts, expressions of opinion and other subjective judgments contained in this report are based on assumptions considered to be reasonable as of the date of the document in which they are contained and must not be construed as a representation that the matters referred to therein will occur. Any projections or forecasts mentioned in this report may not be achieved due to multiple risk factors including without limitation market volatility, sector volatility, corporate actions, the unavailability of complete and accurate information. No assurance can be given that any opinion described herein would yield favorable investment results. Recipients who are not market professional or institutional investor customer of HLBB should seek the advice of their independent financial advisor prior to taking any investment decision based on the recommendations in this report.

HLBB may provide hyperlinks to websites of entities mentioned in this report, however the inclusion of a link does not imply that HLBB endorses, recommends or approves any material on the linked page or accessible from it. Such linked websites are accessed entirely at your own risk. HLBB does not accept responsibility whatsoever for any such material, nor for consequences of its use.

This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation. This report is for the use of the addressees only and may not be redistributed, reproduced or passed on to any other person or published, in part or in whole, for any purpose, without the prior, written consent of HLBB. The manner of distributing this report may be restricted by law or regulation in certain countries. Persons into whose possession this report may come are required to inform themselves about and to observe such restrictions. By accepting this report, a recipient hereof agrees to be bound by the foregoing limitations.