Global Markets Research
Daily Market Highlights

Key Takeaways

- US stocks traded higher overnight led by **a rally in financials sector as Morgan Stanley reported an upbeat 2Q earnings**. **Fed Beige Book offers the usual leads on US economic outlook but manufacturers in all districts expressed concerns about tariffs.** Yield on US 10Y treasuries rose a marginal 1bp to 2.87% while yield on the benchmark UK 10Y gilt slid by 3bps to 1.23% following lower than expected CPI**. WTI continued to pare earlier-of-the-week losses to close higher at $68.76 per** barrel despite unexpected buildup in inventories as reported by the EIA.

- **US housing starts contracted substantially by 12.3% MOM while building permits fell** 2.2% MOM in June, both dragged down by bigger decline in multi-family units, consistent with leading indicators published earlier. Mortgage applications also fell by 2.5% last week. **UK CPI missed estimates, recording a growth of 2.4% YOY versus the estimated 2.6% YOY** as faster gains in energy prices was offset by slower increase in other categories. **Eurozone final HICP inflation rate matched flash reading of 2.0% YOY but core CPI was revised lower from 1.0% YOY to 0.9% YOY.** Elsewhere, Japan trade balance swung to a surplus in June while Australia leading index rose marginally in the same month**. Malaysia CPI pulled back sharply to increase 0.8% YOY in June,** below our forecast of 1.2% YOY as a result of zerorization of GST effective 1-June and reintroduction of petrol subsidy by stabilizing RON95 and diesel pump prices.

- **USD** rallied in early trade on the Fed's positive economic outlook but lost luster in US session to **close mixed against the G10s**. DXY retreated sharply from intraday high of 95.40 to settle for a 0.11% gain at 95.08. **We now expect a slightly bearish USD**. DXY is still bias to the upside while above 94.97 but our doubts on its ability to advance further increases amid signs of rejection at 95.24 – 95.52 region as witnessed overnight.

- **MYR weakened 0.31% to 4.0588 against USD** but managed to beat all other G10s that were also sliding against a firm greenback. **Expect a slightly bullish MYR against a softer overnight USD**, supported further by improved risk appetite in the markets. USDMYR remains in a minor bullish trend and a close above 4.0588 is likely going forward. But even so, risk of reversal still prevails as price and momentum diverges, which could trigger a potential decline to 4.0355.

- **SGD slipped 0.03% to 1.3652 against USD** but closed mixed against the G10s. **SGD is now slightly bullish against a soft USD**, supported by firmer risk appetite in the markets. USDSGD experienced another rejection circa 1.3690 – 1.3702 overnight, which dents likelihood of extended gains. Caution that another failure at this range, or a loss of 1.3643, will trigger further losses in USDSGD.

Overnight Economic Data

Malaysia	↓
US	↓
EU	→
UK	→
Japan	↑
Australia	↑

What's Coming Up Next

Major Data
- US Initial Jobless Claims, Philadelphia Fed Business Outlook, Leading Index
- UK Retail Sales Inc Auto Fuel
- Japan Machine Tool Orders
- Hong Kong Unemployment Rate
- Australia NAB Business Confidence, Employment Change, Unemployment Rate, Participation Rate

Major Events
- Nil

Daily Supports – Resistances (spot prices)*

	S2	S1	Indicative	R1	R2	Outlook
EURUSD	1.1600	1.1620	1.1651	1.1669	1.1680	↗
USDJPY	112.23	112.50	112.73	112.93	113.14	↘
GBPUSD	1.3050	1.3057	1.3076	1.3085	1.3100	↘
AUDUSD	0.7332	0.7366	0.7402	0.7413	0.7434	↗
EURGBP	0.8900	0.8904	0.8909	0.8915	0.8920	↗
USDMYR	4.0500	4.0512	4.0547	4.0580	4.0600	↘
EURMYR	4.7165	4.7228	4.7246	4.7266	4.7305	↗
JPYMYR	3.5933	3.5946	3.5960	3.6006	3.6063	→
GBPMYR	5.2977	5.3000	5.3038	5.3093	5.3203	↘
SGDMYR	2.9663	2.9696	2.9706	2.9718	2.9733	↗
AUDMYR	2.9952	3.0000	3.0034	3.0071	3.0122	↗
NZDMYR	2.7526	2.7557	2.7580	2.7591	2.7600	↗
USDSGD	1.3614	1.3643	1.3650	1.3668	1.3690	↘
EURSGD	1.5875	1.5900	1.5906	1.5929	1.5958	↘
GBPSGD	1.7811	1.7837	1.7854	1.7871	1.7887	↘
AUDSGD	1.0094	1.0103	1.0110	1.0116	1..0132	↗

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

hp	Last Price	DoD %	YTD %
KLCI	1,753.07	0.91	-2.43
Dow Jones Ind.	25,199.29	0.32	1.94
S&P 500	2,815.62	0.22	5.31
FTSE 100	7,676.28	0.65	-0.15
Shanghai	2,787.26	-0.39	-15.72
Hang Seng	28,117.42	-0.23	-6.02
STI	3,240.50	0.03	-4.77

Name	Last Price	DoD %	YTD %
CRB Index	191.47	0.20	-1.23
WTI oil ($/bbl)	68.76	1.00	13.80
Brent oil ($/bbl)	72.90	1.03	9.02
Gold (S/oz)	1,226.85	-0.06	8.10
CPO (RM/tonne)	2,156.00	-0.51	-9.79
Copper ($/tonne)	6,150.00	-0.03	-15.14
Rubber (sen/kg)	418.50	-1.18	-9.51

Source: Bloomberg

Economic Data

	For	Actual	Last	Survey
MA CPI YOY	Jun	0.8%	1.8%	1.3%
US MBA Mortgage Applications	Jul-13	-2.5%	2.5%	--
US Housing Starts MOM	Jun	-12.3%	4.8% (revised)	-2.2%
US Building Permits MOM	Jun	-2.2%	-4.6%	2.2%
EU Construction Output YOY	May	1.8%	1.2% (revised)	--
EU CPI Core YOY	Jun F	0.9%	1.1%	1.0%
EU CPI YOY	Jun F	2.0%	1.9%	2.0%
UK CPI YOY	Jun	2.4%	2.4%	2.6%
UK PPI Output NSA YOY	Jun	3.1%	3.0% (revised)	3.2%
JP Trade Balance	Jun	¥721.4b	-¥580.5b (revised)	-¥531.2b
JP Exports YOY	Jun	6.7%	8.1%	7.0%
AU Westpac Leading Index MOM	Jun	0.01%	-0.22%	

Source: Bloomberg

➢ Macroeconomics

- ***US housing starts, building permits fell, missed estimates:*** Housing starts contracted by 12.3% MOM in June (May: +4.8%) much more than what was expected , following an increase in the previous month, dragged by the considerable fall in the construction of multi-family units by 20.2% MOM (May: +6.7%). Single family unit starts fell as well by 9.1% MOM (May: +5.1%). Building permits edged lower by 2.2% MOM (May: -4.6% revised) also attributed to the fall in the authorisation of multi-family units by 8.7% MOM (-7.8% revised). The numbers are consistent with leading indicators published earlier whereby the construction sector saw fewer jobs added and slower wage growth in June. Rising input cost such as more expensive lumber prices continued to be the prevailing issues for homebuilders (particularly smaller ones) to manage as they struggled to locate buildable lands in order to keep up with higher demand from first time millennial buyers. Nonetheless, confidence seems to be held steady for now as indicated by yesterday's NAHB Housing Index which stay pat at 68.0. Mortgage applications meanwhile fell 2.5% for the week ended 9 July (previous: +2.5%). Average interest rate for a 30-year fixed rate loan stood at 4.77%.

- ***Fed Beige Books offered the usual leads on outlook, manufacturers voiced tariffs concerns:*** The Fed released its fifth Beige book of the year. Key highlights include the US economy continued to expand in recent weeks as 10 of the 12 districts reported 'moderate or modest' growth. Manufacturers in all districts expressed concerns about tariffs and many attributed higher prices and supply disruptions to trade policies. Prices increased in all districts at "modest to moderate' pace with key inputs including fuel, construction materials, freights and metals seeing further gains. All districts reported tight labour markets with many citing the inability to locate workers led to constrained growth. Last but not least, wage increases were said to be 'modest and moderate' as well on balance.

- ***UK inflation disappointed sending the pound into a jolt:*** CPI rose 2.4% YOY in June (May: +2.4%) lower than the estimated 2.6% as the faster increase in prices of energy (June +8.7% vs May +5.7%) and recreational & personal services (+3.2% vs +3.0%) was offset by slower growth in prices of food, alcohol & tobacco (+2.6% vs +2.8%), clothing & footwear (+0.3% vs +1.5%) and housing services (+0.8% vs +0.9%). Core CPI which stripped out energy and food, alcohol & tobacco also came in softer at 1.9% YOY (May: +2.1%). The pound tanked following the release of the data. Producer prices for final output missed estimates as well rising 3.1% YOY in the same month (May: +3.0% revised). June print reaffirmed views that inflation is gradually returning to the BOE inflation target of 2.0% as the effect of pound weakness on inflation has subsided in recent months. Nonetheless, we are of the view that the weaker inflation reading is unlikely to lead the BOE to back off from hiking interest rate (now at 0.5%) next month. As of writing, markets are pricing in an 82.1% chance of a rate hike in August.

- ***Eurozone inflation confirmed to be 2.0%, core inflation remained subdued***: The final reading of the HICP inflation rate was 2.0% YOY in June (May: +1.9%) as widely expected led mainly by the faster gains in cost of energy which accelerated by a whopping 8.0% YOY (May: +6.1%) as well as food, alcohol & tobacco which increase 2.7% YOY (May: +2.5%). Core inflation which does not take into account the above two categories was revised lower to 0.9% from 1.0% (May: +1.1%) further confirming that underlying inflation remained benign. In fact, services inflation grew at a much softer pace of 1.3% YOY (May: +1.6%) while non-energy industrial goods managed to eke out a 0.4% YOY growth (May: +0.3%). Prices rose at a faster pace across majority of the member countries except for Germany which saw softer price gains (June +2.1% vs May +2.2%) and France where prices were stable (+2.3% in May & June). The ECB has announced in June its plan to end its Asset Purchase Program (APP) in December this year after inflation hit its target of close to but below 2% in May. A subdued core inflation despite a higher headline reading suggest potentially more caution on the part of the central bank to scale back its accommodative policy. In a separate release, construction output rose 1.8% YOY in May (Apr: +1.2% revised) as output in building and civil engineering saw faster rate of expansion at 1.3% (Apr: +1.0%) and 3.3% (+2.2%) respectively.

- ***Japan trade balance swung to surplus:*** Japan recorded a trade surplus of ¥721.4b (-¥ 580.5b revised) in June as exports grew 6.7% YOY (May: +8.1%) while imports slowed considerably to increase 2.5% YOY (+14.0%).

- ***Australia leading index rose marginally:*** The Westpac Leading Economic Index, a gauge of growth for the next 6 to 9 months, increased 0.01% to 97.77 in June (May: 97.76).

- **Malaysia CPI pulled back sharply in June amid zero-rating of GST:** Consumer Price Index (CPI) rose at a much softer pace of 0.8% YOY in June (May: +1.8%), below our expectation of 1.2% YOY, and marked its lowest reading since Feb-2015. This was a result of zerorization of GST effective 1-June and reintroduction of petrol subsidy by stabilizing RON95 and diesel pump prices. Promotional activities and price discounts in the wake of festive celebrations could also have contributed to the bigger than expected pullback. Healthcare, hotels and restaurants were the only two categories where prices did not retreat as much as we had earlier anticipated. Prices across all categories with the exception of transport, reported softer price gains or price declines during the month. Leading the pack, the gain in food prices eased to 0.8% YOY in June (May: +2.2%) while housing costs tapered off to 1.5% YOY (May: +2.1%). Transport prices saw quicker gains for the 3rd straight month, increasing at a faster pace of 5.5% YOY in June (May: +3.8%) as both RON95 and diesel retail prices at the pump rose more quickly by 9.5% and 13.2% YOY respectively in June (May: +5.8% and +8.3%). Core CPI also pulled back sharply to increase a mere 0.1% YOY in June (May: +1.5%). This reaffirmed our view of softer headline CPI readings for the remaining months of the year, and even spilling over to 1H2019, in line with BNM's take even though this phenomenon will likely be transitory. We now foresee full year CPI to potentially come in 0.2ppt below our initial forecast of 0.9% YOY in 2018, its lowest since 2009. Downside risks to growth outlook and much softer inflationary pressure imply BNM will stay pat to keep overall growth and inflation outlook anchored while safeguarding undesirable capital outflows as yield differential between Malaysia and the US narrows.

Economic Calendar Release Date						
Date	**Country**	**Event**	**Reporting Period**	**Survey**	**Prior**	**Revised**
19/07	**US**	**Initial Jobless Claims**	**Jul-14**	**220k**	**214k**	**--**
		Philadelphia Fed Business Outlook	**Jul**	**21.5**	**19.9**	**--**
		Leading Index	**Jun**	**0.4%**	**0.2%**	**--**
20/07	Eurozone	ECB Current Account SA	May	--	28.4b	--
19/07	**UK**	**Retail Sales Inc Auto Fuel MOM**	**Jun**	**0.1%**	**1.3%**	**--**
20/07		Public Finances (PSNCR)	Jun	--	4.5b	--
19/07	**Japan**	**Machine Tool Orders YOY**	**Jun F**	**--**	**11.4%**	**--**
20/07		Natl CPI YOY	Jun	0.8%	0.7%	--
		Natl CPI Ex Fresh Food YOY	Jun	0.8%	0.7%	--
		All Industry Activity Index MOM	May	0.0%	1.0%	--
19/07	**Hong Kong**	**Unemployment Rate SA**	**Jun**	**2.8%**	**2.8%**	**--**
19/07	**Australia**	**NAB Business Confidence**	**2Q**	**--**	**7.0**	**--**
		Employment Change	**Jun**	**16.5k**	**12.0k**	**--**
		Unemployment Rate	**Jun**	**5.4%**	**5.4%**	**--**
		Participation Rate	**Jun**	**65.5%**	**65.5%**	**--**

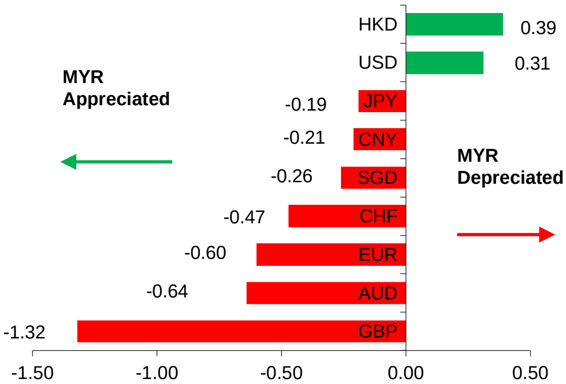
Source: Bloomberg

FX Table

Name	Last Price	DoD %	High	Low	YTD %
EURUSD	1.1639	-0.19	1.1665	1.1602	-3.0
USDJPY	112.86	-0.02	113.14	112.71	0.1
GBPUSD	1.3069	-0.35	1.312	1.3010	-3.2
AUDUSD	0.7398	0.12	0.7408	0.7343	-5.2
EURGBP	0.8905	0.16	0.8932	0.8874	0.3
USDMYR	4.0588	0.31	4.0608	4.0485	0.3
EURMYR	4.7176	-0.60	4.7305	4.7132	-2.5
JPYMYR	3.5933	-0.19	3.5933	3.5788	0.1
GBPMYR	5.2937	-1.32	5.3203	5.2833	-2.9
SGDMYR	2.9680	-0.26	2.9727	2.9618	-1.9
AUDMYR	2.9850	-0.64	2.9985	2.9819	-5.0
NZDMYR	2.7432	-0.76	2.7526	2.7380	-4.3

Source: Bloomberg

MYR vs Major Counterparts (% DOD)



Forex

MYR

- **MYR weakened 0.31% to 4.0588 against USD** but managed to beat all other G10s that were also sliding against a firm greenback.
- **Expect a slightly bullish MYR against a softer overnight USD**, supported further by improved risk appetite in the markets. USDMYR remains in a minor bullish trend and a close above 4.0588 is likely going forward. But even so, risk of reversal still prevails as price and momentum diverges, which could trigger a potential decline to 4.0355.

USD

- **USD** rallied in early trade on the Fed's positive economic outlook but lost luster in US session to **close mixed against the G10s**. DXY retreated sharply from intraday high of 95.40 to settle for a 0.11% gain at 95.08 in the absence of new positive catalysts to drive further gains.
- **We now expect a slightly bearish USD** as we anticipate waning positive effect from Fed's upbeat statement as well as lack of positive catalysts to drive further upside. DXY is still bias to the upside while above 94.97 but our doubts on the ability to advance further grows amid signs of rejection at 95.24 – 95.52 region as witnessed overnight. A rejection here will trigger losses to 94.04.

EUR

- **EUR** narrowed its sharp early losses to **settle 0.19% lower at 1.1639 against USD** and slipped against 6 G10s following a lack of upside surprise to Eurozone data.
- **Expect a slightly bullish EUR in line with our view of a softer USD**. We suspect that a modest rebound may be appropriate after recent declines. Gains, however, will be limited to below 1.1685 otherwise current bearish trend will be nullified and a test at 1.1723 is likely.

GBP

- **GBP** slumped against all G10s and **fell 0.35% to 1.3069 against USD**, but managed to narrow sharp early losses from disappointment in UK price reports that cast doubt on BOE's inclination to hike rates in the next meeting.
- **Stay slightly bearish on GBP against USD** as risk aversion is likely to extend ahead of UK data; after recent downsides, another UK data miss will trigger further losses. Bearish scenario continues to prevail in GBPUSD, though we expect losses will be limited to circa 1.3050. Breaking below this exposes a test at 1.3000.

JPY

- **JPY** beat 5 G10s and **inched 0.02% firmer to 112.86 against USD** amid support from retreat in European majors.
- **We now turn bullish on JPY against a soft USD**. Rejection by upper Bollinger and subsequent loss of upside momentum now suggest that a reversal may be near. Continued failure to beat 113.27 will weaken current upside bias and plot a decline to circa 112.05 going forward.

AUD

- **AUD** advanced against 7 G10s and **climbed 0.12% to 0.7398 against USD**, supported by firmer risk appetite in equities and commodities.
- **Expect a slightly firmer AUD against USD** amid improved risk appetite, but caution that disappointing Australia labour market data will trigger sharp losses. Technical viewpoint offers no solid view on AUDUSD's direction. Recapturing 0.7397 in early trade and receding downside momentum are good starts but until 0.7451 is broken, outlook remains uncertain and biased to losses.

SGD

- **SGD slipped 0.03% to 1.3652 against USD** but closed mixed against the G10s.
- **SGD is now slightly bullish against a soft USD**, supported by firmer risk appetite in the markets. USDSGD experienced another rejection circa 1.3690 – 1.3702 overnight, which dents likelihood of extended gains. Caution that another failure at this range, or a loss of 1.3643, will trigger further losses in USDSGD.

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