December 20, 2018

Global Markets Research
Daily Market Highlights

Key Takeaways

- **US stocks plummeted after the Fed raised the fed funds rate by a quarter of percentage point and cut next year's median forecast for rate hikes from three to two**, while simultaneously trimmed its median GDP and inflation projections for 2018 and 2019. Minor changes were noted in the FOMC statement where the committee now judges that "some" further gradual increases in the fed fund rates were consistent with the expansion of the economy and appeared to be more cautious as it added that it will "continue to monitor global economic and financial developments and assess their implications for the economic outlook". 2Y treasuries yield spiked initially only to give up the gains and ended 1bp higher at 2.65% while the 10Y yield plunged by 6bps to 2.75%. Crude oil prices rebounded after the EIA reported a decline in US crude inventories – **WTI inched up to $47.20/barrel (+2.08%) while Brent settled at $57.24/barrel (+1.74%)**.

- At the data front, **US existing home sales beat expectation to increase 1.9% MOM in November while mortgage applications fell 5.8% last week**. **UK November CPI eased** to 2.3% YOY while **core CPI also softened** to 1.8% YOY. **New Zealand economic growth moderated** to 0.3% QOQ in 3Q while **its trade deficit narrowed in November**. **Australia added more jobs than expected while its labour force expanded**, a healthy sign for the economy. **Malaysia CPI rose 0.2% YOY** in the same month easing from the 0.6% YOY in the previous month.

- **USD rallied strongly in late US trading to beat 6 G10s** while the DXY surged after FOMC decision was not as dovish as anticipated on top of increased refuge demand amid tumbling equities, paring early losses but still closed 0.07% lower at 97.10. **We maintain a slightly bearish view on USD**, expecting downside pressure to prevail following a less hawkish rate hike with markets speculating possibility of less room for policy tightening. DXY expectedly fell to 96.66 but rebounded thereafter. We maintain that, amid firmer downward momentum, a bearish bias still lingers and will likely take DXY lower going forward.

- **MYR slipped 0.12% to 4.1790 against USD** and retreated against 6 G10s as risk aversion extends in the markets heading into FOMC policy decision. **MYR is likely neutral against USD** with room for minor gains as we expect the greenback to retreat following a less hawkish FOMC rate hike. Technically, we note that upside bias continues to weaken and caution that USDMYR could be on its way to completing a bearish chart pattern. Expect a potential test at 4.1690 – 4.1700 soon.

Overnight Economic Data

Malaysia	↓
US	→
UK	↓
Australia	↑
New Zealand	↓

What's Coming Up Next

Major Data

- US Philadelphia Fed Business Outlook, Initial Jobless Claims, Leading Index
- UK Retail Sales
- Japan All Industry Activity Index, Machine Tool Orders, Convenience Store Sales
- Hong Kong Composite CPI

Major Events

- BOE and BOJ policy rate decisions

Daily Supports – Resistances (spot prices)*

	S2	S1	Indicative	R1	R2	Outlook
EURUSD	1.1367	1.1377	1.1384	1.1388	1.1404	↗
GBPUSD	1.2583	1.2598	1.2622	1.2643	1.2692	↗
USDJPY	112.00	112.31	112.47	112.53	112.73	↘
AUDUSD	0.7085	0.7097	0.7110	0.7120	0.7151	↘
EURGBP	0.9000	0.9008	0.9018	0.9025	0.9041	↘
USDMYR	4.1800	4.1835	4.1845	4.1860	4.1890	→
EURMYR	4.7589	4.7612	4.7641	4.7694	4.7720	↗
JPYMYR	3.7100	3.7150	3.7184	3.7222	3.7250	↗
GBPMYR	5.2716	5.2797	5.2815	5.2853	5.2907	↗
SGDMYR	3.0448	3.0470	3.0498	3.0512	3.0522	→
AUDMYR	2.9700	2.9736	2.9787	2.9808	2.9850	↘
NZDMYR	2.8294	2.8338	2.8365	2.8413	2.8488	↘
USDSGD	1.3710	1.3719	1.3722	1.3727	1..3737	↘
EURSGD	1.5598	1.5607	1.5619	1.5626	1.5642	↗
GBPSGD	1.7284	1.7300	1.7317	1.7338	1.7350	↗
AUDSGD	0.9755	0.9761	0.9765	0.9780	0.9800	↘

* 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	1,655.66	1.24	-7.86	CRB Index	176.21	1.03	-9.11
Dow Jones Ind.	23,323.66	-1.49	-5.65	WTI oil ($/bbl)	47.20	2.08	-21.88
S&P 500	2,506.96	-1.54	-6.23	Brent oil ($/bbl)	57.24	1.74	-15.48
FTSE 100	6,765.94	0.96	-11.99	Gold (S/oz)	1,243.08	-0.51	8.10
Shanghai	2,549.56	-1.05	-22.91	CPO (RM/tonne)	1,832.00	1.55	-23.35
Hang Seng	25,865.39	0.20	-13.55	Copper ($/tonne)	5,970.00	-2.50	-17.62
STI	3,058.65	0.43	-10.12	Rubber (sen/kg)	379.50	-0.13	-17.95

Source: Bloomberg

Economic Data				
	For	Actual	Last	Survey
MA CPI YOY	Nov	0.2%	0.6%	0.4%
US MBA Mortgage Applications	Dec-14	-5.8%	1.6%	--
US Existing Home Sales MOM	Nov	1.9%	1.4%	-0.4%
US FOMC Fed Funds Rate	19 Dec	2.25%-2.5%	2.0-2.25%	2.25%-2.5%
UK CPI YOY	Nov	2.3%	2.4%	2.3%
UK CPI Core YOY	Nov	1.8%	1.9%	1.8%
UK CBI Trends Total Orders	Dec	8.0	10.0	6.0
AU Employment Change	Nov	37.0k	32.8k	20.0k
AU Unemployment Rate	Nov	5.1%	5.0%	5.0%
AU Participation Rate	Nov	65.7%	65.5% (revised)	65.6%
NZ Trade Balance NZD	Nov	-861m	-1317m (revised)	-880m
NZ Exports NZD	Nov	4.94b	4.82b (revised)	4.98b
NZ GDP SA QOQ	3Q	0.3%	1.0%	0.6%

Source: Bloomberg

Macroeconomics

- ***The Fed delivered fourth hike, but see only two hikes in 2019:*** The Fed raised the target range of the Fed Fund Rate by 25bps to 2.25% to 2.50% as widely expected. The newly released dot plot shows that the median projection for rate hikes were cut from three to two in 2019 and from two to one in 2020 as outlook for growth and inflation softened. The central bank has also trimmed its median forecast for growth from 3.1% to 3.0% YOY in 2018 and from 2.5% to 2.3% in 2019. Core PCE was also revised from 2.0% to 1.9% in 2018 and to stay at its target of 2.0% in 2019. Outlook for the labour market remained unchanged as unemployment rate is expected to be at 3.7% this year and decline to 2.5% in 2019. There was some minor tweak to the FOMC statement where the Fed now judges that that "*some*" further gradual increases in the Fed Fund Rate were consistent with the expansion of the economy and appeared to be more cautious on the external front, adding that it will "*continue to monitor global economic and financial developments and assess their implications for the economic outlook*". In a post-meeting press conference, Fed Chair Jerome Powell said that most members expect economy to perform well in the coming year and negative changes have not altered the outlook fundamentally, a "modestly" lower path of Fed Funds Rate should support the economy. Fiscal stimulus was larger near the start of 2018 and more front-end loaded than anticipated, monetary policy will provide a smaller boost to the economy in 2019. Policy at this point does not need to be accommodative. On inflation, inflation trend allows the Fed to be more patient going forward and the committee doesn't want inflation to overshoot. On the labour market, wage growth are expected to continue and labour force participation could be higher than initially thought. With regards to president Trump's continuous opinion on the Fed's tightening policy, he said that politics did not play any role in discussion and decision.

- ***US existing home sales defied expectations to increase further, mortgage applications fell sharply:*** Existing home sales surprisingly increased by 1.9% MOM in November (Oct: +1.4%), a Bloomberg estimate had earlier projected sales to fall by 0.4% MOM. The unexpected growth was driven by higher gain in sales of single family units, which made up 88% of total sales, while sales of condos/co-ops eased in the month. November print was the second consecutive monthly gain following six months of decline since April this year. That said, we continued to foresee sales to resume its downward direction going into 2019 due to the lack of affordability in a rising rates environment. The latest MBA mortgage report supported this view- mortgage applications fell by 5.8% last week (previous: +1.6%), after three weeks of increases as applications for purchases and refinancing both declined. The average fixed rate for a 30-year fixed rate loan fell slightly to 4.94% (previous: 4.96%) but still comparatively higher than the rate of 4.16% a year ago.

- ***Lower auto fuel price drove down UK inflation:*** Price pressure in the UK eased further as CPI rose 2.3% YOY in November (Oct: +2.4%) a level last since in March 2017 driven mainly by the sharp fall in oil prices which dragged down the cost of auto fuel. The faster gain in prices of food, alcohol and tobacco (+1.0% vs +1.8%) was offset by the slower increase of prices of energy +8.7% vs +10.4%). Cost of housing saw steady gain of 0.6% YOY while clothing and footwear continued to record fall in prices albeit to a lesser extent compared to the previous month. Underlying inflation also experienced slower gain as core CPI which excludes food, alcohol & tobacco as well as energy rose 1.8% YOY (Oct: +1.9%). Consistent with CPI, producer prices eased as well, increasing 3.1% YOY in the same month (Oct: +3.3%). The BOE has forecasted consumer inflation to fall to 2.5% YOY in the fourth quarter of 2018 according to its November Inflation Report but the recent drop in oil prices suggests that headline CPI is unlikely to gain such a momentum despite strengthening wage growth. The central bank is expected to keep its Bank rate at 0.75% in its MPC meeting today. In a separate release, the CBI Trend Total Orders, an indicator of British manufacturing sector fell to 8.0 in December (Nov: 10.0) driven mainly by a fall in finished stocks as exports orders, output volume both surged this month, a positive sign for the economy.

- ***New Zealand economic growth moderated to nearly 5-year low in 3Q:*** New Zealand 3Q GDP growth clocked in at a modest 0.3% QOQ (2Q: +1.0%) as reported by Stat NZ this morning, its slowest pace in almost five years, easing from the elevated level seen in 2Q. On a yearly basis, GDP increased by 2.6% YOY (2Q: +3.2% revised). On a quarterly basis, the rebound in mining output provided a lift to the primary industry (+2.2% vs -0.1%). The goods-producing industries faltered (-1.0% vs +1.5%) as manufacturing, utilities and construction all experienced contractions. The services industry (+0.5% vs +1.0%) managed to hold up, but has moderated as well. Growth had slowed despite low interest rate and rising wage growth, the weaker print could also lead to further deteriorations of consumer and business confidence in our view, further strengthening the case for the RBNZ to leave the OCR unchanged in 2019. In a separate release, New Zealand exports increased by 7.1% YOY in November (Oct: +5.7%) while imports contracted by 0.6% YOY (Oct: +13.7%) bringing the trade deficit to narrow to NZD861m (Oct: -NZD1.32b).

- ***Australia labour market saw further strengthening:*** The Australian economy added more jobs than expected as new unemployment came in at 37k in November (Oct: +28.7k). The sharp gain was driven mostly by the increase in part-time jobs (+43.4k vs -10.8k) while full-time jobs experienced a minor decline (-6.4k vs +39.5k). Unemployment rate went up to 5.1% (Oct: +5.0%) mainly due to the expansion of the labour force given that participation rate rose to 65.7% (Oct: 65.5%), a welcoming sign for the economy as the labour market strengthened further.

- ***Malaysia November CPI eased, price outlook remained benign:*** Consumer Price Index (CPI) increased at a slower pace in November, easing to 0.2% YOY from 0.6% in October, reinforcing the notion that prices from reintroduction of SST continue to be well-contained. The softer headline CPI is attributed to more moderate gains in prices of food and housing / utilities, as well as decline in prices of transport. Contrastingly, core CPI ticked higher for the 3rd straight month (Nov: +0.5% YOY vs Oct: +0.4%), but still remained subdued compared to the period prior to May this year. We are maintaining our view that CPI will return to a downward trajectory in the next few months before bouncing up in 2Q of 2019. A more pronounced pick-up is expected in the middle of next year when the low base effect following the zerorization of GST in June last year provides a bigger lift to CPI readings. Even then, overall inflationary outlook will likely remain very benign at below 2.0% in 2019, picking up only marginally from the estimated 0.8% this year. The proposed reintroduction of Automatic Pricing Mechanism for retail petrol, movement in global crude oil and commodity prices, as well as the MYR exchange rate, will be other factors influencing inflation going into next year.

Economic Calendar						
Date	**Country**	**Events**	**Reporting Period**	**Survey**	**Prior**	**Revised**
21/12	Malaysia	Foreign Reserves	Dec-14	--	$102.0b	--
20/12	**US**	**Philadelphia Fed Business Outlook**	**Dec**	**15.0**	**12.9**	**--**
		Initial Jobless Claims	**Dec-15**	**215k**	**206k**	**--**
		Leading Index	**Nov**	**0.0%**	**0.1%**	**--**
21/12		GDP Annualized QOQ	3Q T	3.5%	3.5%	--
		Durable Goods Orders	Nov P	1.6%	-4.3%	--
		Cap Goods Orders Nondef Ex Air	Nov P	0.2%	0.0%	--
		Personal Income	Nov	0.3%	0.5%	--
		Personal Spending	Nov	0.3%	0.6%	--
		PCE Deflator YOY	Nov	1.8%	2.0%	--
		PCE Core YOY	Nov	1.9%	2.0%	--
		U. of Mich. Sentiment	Dec F	97.5	97.5	--
21/12	Eurozone	Consumer Confidence	Dec A	-4.3	-3.9	--
20/12	**UK**	**Retail Sales Inc Auto Fuel MOM**	**Nov**	**0.3%**	**-0.5%**	**--**
		Bank of England Bank Rate	**Dec-20**	**0.75%**	**0.75%**	**--**
21/12		GfK Consumer Confidence	Dec	-14.0	-13.0	--
		Lloyds Business Barometer	Dec	--	24.0	--
		GDP QOQ	3Q F	0.6%	0.6%	--
20/12	**Japan**	**All Industry Activity Index MOM**	**Oct**	**2.0%**	**-0.9%**	**--**
		Machine Tool Orders YOY	**Nov F**	**--**	**-16.8%**	**--**
		Convenience Store Sales YOY	**Nov**	**--**	**-1.5%**	**--**
		BOJ Policy Balance Rate	**Dec-20**	**-0.1%**	**-0.1%**	**--**
21/12		Natl CPI YOY	Nov	0.8%	1.4%	--
		Natl CPI Ex Fresh Food YOY	Nov	1.0%	1.0%	--
		Supermarket Sales YOY	Nov	--	-0.7%	--
		Nationwide Dept Sales YOY	Nov	--	1.6%	--
20/12	**Hong Kong**	**CPI Composite YOY**	**Nov**	**2.5%**	**2.7%**	**--**
21/12	New Zealand	ANZ Consumer Confidence Index	Dec	--	118.6	--

Source: Bloomberg

➢Forex

	Last Price	DoD %	High	Low	YTD %
EURUSD	1.1376	0.13	1.1439	1.1360	-5.18
GBPUSD	1.2610	-0.23	1.2679	1.2607	-6.61
USDJPY	112.48	-0.04	112.67	112.09	-0.28
AUDUSD	0.7109	-1.00	0.7201	0.7088	-8.90
EURGBP	0.9021	0.35	0.9041	0.8983	1.56
USDMYR	4.1790	0.12	4.1835	4.1755	3.27
EURMYR	4.7594	0.23	4.7694	4.7480	-1.83
JPYMYR	3.7196	0.15	3.7252	3.7094	3.46
GBPMYR	5.2889	0.17	5.3015	5.2811	-3.20
SGDMYR	3.0529	0.21	3.0551	3.0466	0.79
AUDMYR	3.0063	0.06	3.0110	3.0005	-4.92
NZDMYR	2.8670	-0.17	2.8719	2.8598	-0.44
CHFMYR	4.2151	0.13	4.2196	4.2053	1.59
CNYMYR	0.6061	0.08	0.6070	0.6059	-2.52
HKDMYR	0.5341	-0.02	0.5347	0.5338	3.13
USDSGD	1.3725	0.16	1.3731	1.3679	2.69
EURSGD	1.5612	0.28	1.5660	1.5567	-2.70
GBPSGD	1.7307	-0.08	1.7356	1.7270	-4.19
AUDSGD	0.9756	-0.86	0.9860	0.9730	-6.53

Source: Bloomberg

MYR

- **MYR slipped 0.12% to 4.1790 against USD** and retreated against 6 G10s as risk aversion extends in the markets heading into FOMC policy decision.
- **MYR is likely neutral against USD** with room for minor gains as we expect the greenback to retreat following a less hawkish FOMC rate hike. Technically, we note that upside bias continues to weaken and caution that USDMYR could be on its way to completing a bearish chart pattern. Expect a potential test at 4.1690 – 4.1700 soon.

USD

- **USD rallied strongly in late US trading to beat 6 G10s** while the DXY surged after FOMC decision was not as dovish as anticipated on top of increased refuge demand amid tumbling equities, paring early losses but still closed 0.07% lower at 97.10.
- **We maintain a slightly bearish view on USD**, expecting downside pressure to prevail following a less hawkish rate hike with markets speculating possibility of less room for policy tightening. DXY expectedly fell to 96.66 but rebounded thereafter. We maintain that, amid firmer downward momentum, a bearish bias still lingers and will likely take DXY lower going forward.

EUR

- **EUR climbed 0.13% to 1.1376 against USD** but not before defending early gains from a plunge post-FOMC decision. EUR ended higher against 7 G10s.
- **We expect a slightly bullish EUR to the extent of a soft USD**. Even though upside bias prevails, we caution that yesterday's strong rejection near 1.1440 is a sign that bullish strength may be waning. We expect EURUSD to still challenge 1.1434 next but another failure could trigger a decline to 1.1323.

GBP

- **GBP fell 0.23% to 1.2610 against USD** and softened against 5 G10s, weighed down by improved sentiment in European markets and lingering Brexit uncertainties.
- **Maintain a slightly bullish GBP in line with our view of a soft USD**. Caution that GBP remains highly sensitive to Brexit headlines and could quickly swing into gains / losses. Technical outlook remains constructive for GBPUSD, with improved upward momentum that suggests a test at 1.2692 next. In any case, technical viewpoint will still play a secondary role to fundamental factors in driving GBPUSD.

JPY

- **JPY inched 0.04% firmer to 112.48 against USD** and strengthened against 6 G10s, supported by increased refuge demand after equities tumbled post-FOMC decision.
- **Stay bullish on JPY against USD** amid likelihood of extended sell-off in the markets and in the greenback after FOMC policy decision. USDJPY remains in bearish trend and we continue to set sights on a drop to 111.63 soon.

AUD

- **AUD plunged 1.0% to 0.7109 against USD** and tumbled against 8 G10s as risk-off intensified after FOMC policy decision.
- **Continue to expect a bearish AUD against USD** in anticipation of continued risk-off in the markets. Bearish trend has solidified, thus expect AUDUSD to remains subdued going forward, with scope to test 0.7085 in the next leg lower. Below this, AUDUSD is set to revisit 0.7020 – 0.7040.

SGD

- **SGD weakened 0.16% to 1.3725 against USD** but ended mixed against the G10s.
- **We keep a slightly bullish view on SGD in anticipation of a soft USD**. A bearish trend continues to prevail in USDSGD after extended losses. It is now likely to challenge 1.3678 soon, below which a drop to 1.3656 is expected.

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