July 25, 2018

Global Markets Research

Daily Market Highlights

Key Takeaways

- **Wall Street stocks ended higher overnight on solid earnings.** Nasdaq hit a fresh record intraday high as Google's parent company Alphabet's upbeat earnings brought about a ripple effect across the tech sectors but erased gains amidst profit taking to end virtually unchanged. WTI rebounded and extended higher to close at $68.52 per barrel following API report on inventory decline. Yield on US 10Y treasuries was held steady at 2.95%.

- **A preliminary release by IHS Markit indicates that both US manufacturing and services sectors continued to experience robust growth** – The flash manufacturing PMI rose to 55.5 in July while services PMI fell to 56.2 (a high level still). Richmond Fed Manufacturing Index fell marginally to 20.0 in July suggesting that manufacturing activities in the district remained solid. Both PMI as well Richmond Fed index reported higher input cost and difficulty in filling out positions with qualified workers. Elsewhere, **signs of a soft patch in the Eurozone re-emerged - the flash Eurozone Manufacturing PMI rose to 55.1 in July but new orders growth slowed while the Services PMI fell to 54.4**. In Japan, the July Nikkei Manufacturing PMI fell to a 20-month low of 51.6 while at the retail front, both supermarket and department store sales rebounded to increase 0.1% YOY and 3.1% YOY respectively. New Zealand trade data published this early morning shows that the country posted a trade deficit of NZ$113m on higher fuel imports while exports slowed on lower dairy shipments.

- **USD weakened against 7 G10s** while the DXY eased 0.02% to 94.61 after sliding through Asian / European sessions before paring losses in US morning from relatively positive US data. **Stay slightly bearish on USD** amid risk aversion ahead of trade talks between US President Trump and EU officials. A minor bearish trend prevails; we continue to see recent losses as an onset of a sustained decline to circa 93.92, below which exposes a potential move to 93.19.

- **MYR slipped 0.1% to 4.0660 against USD** but managed to pare early losses from a softer opening, and advanced against 6 G10s. **Expect a slightly bullish MYR against USD**, supported by continually firm risk appetite in the markets. A minor bearish trend has emerged, alongside negative momentum, both of which dictates a lower USDMYR going forward though we reckon the pace of declines will likely be modest. Expect a test at 4.0530 next.

- **SGD** ended mixed against the G10s but **strengthened 0.14% to 1.3634 against a soft USD**. **Stay slightly bullish on SGD against a soft USD**, supported further by improved risk appetite in the markets. USDSGD remains technically bearish after breaking below 1.3643. It is now tilted to the downside, with scope to test 1.3579 in the next leg lower, below which a drop to 1.3527 is expected.

Overnight Economic Data

US	➔
EU	➔
Japan	➔
New Zealand	↓

What's Coming Up Next

Major Data
- US MBA Mortgage Applications, New Home Sales
- Australia CPI

Major Events
- Nil

Daily Supports – Resistances (spot prices)*

	S2	S1	Indicative	R1	R2	Outlook
EURUSD	1.1662	1.1680	1.1686	1.1702	1.1723	↗
USDJPY	111.00	111.14	111.26	111.44	111.88	↘
GBPUSD	1.3103	1.3126	1.3150	1.3174	1.3200	↗
AUDUSD	0.7397	0.7411	0.7429	0.7434	0.7451	↗
EURGBP	0.8841	0.8865	0.8887	0.8900	0.8915	↘
USDMYR	4.0590	4.0600	4.0625	4.0640	4.0680	↘
EURMYR	4.7357	4.7427	4.7501	4.7528	4.7610	↗
JPYMYR	3.6500	3.6518	3.6547	3.6575	3.6600	↗
GBPMYR	5.3390	5.3410	5.3450	5.3472	5.3502	↗
SGDMYR	2.9749	2.9777	2.9793	2.9806	2.9824	↗
AUDMYR	3.0150	3.0175	3.0188	3.0213	3.0250	↗
NZDMYR	2.7596	2.7620	2.7636	2.7663	2.7694	↗
USDSGD	1.3618	1.3629	1.3640	1.3643	1.3667	↘
EURSGD	1.5919	1.5931	1.5943	1.5954	1.5963	↘
GBPSGD	1.7920	1.7937	1.7941	1.7969	1.8002	↗
AUDSGD	1.0105	1.0120	1.0135	1.0146	1.0156	↗

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

	Last Price	DoD %	YTD %
KLCI	1,762.93	0.28	-1.89
Dow Jones Ind.	25,241.94	0.79	2.11
S&P 500	2,820.40	0.48	5.49
FTSE 100	7,709.05	0.70	0.28
Shanghai	2,905.56	1.61	-12.14
Hang Seng	28,662.57	1.44	-4.20
STI	3,292.65	-0.03	-3.24

Name	Last Price	DoD %	YTD %
CRB Index	193.19	0.37	-0.35
WTI oil ($/bbl)	68.52	0.93	16.72
Brent oil ($/bbl)	73.44	0.52	9.83
Gold (S/oz)	1,224.52	0.00	8.10
CPO (RM/tonne)	2,162.00	-0.16	-9.54
Copper ($/tonne)	6,295.00	2.69	-13.14
Rubber (sen/kg)	414.50	0.12	-10.38

Source: Bloomberg

Economic Data

	For	Actual	Last	Survey
US FHFA House Price Index MOM	May	0.2%	0.2% (revised)	0.3%
US Markit Manufacturing PMI	Jul P	55.5	55.4	55.1
US Markit Services PMI	Jul P	56.2	56.5	56.5
US Richmond Fed Manufacturing Index	Jul	20.0	21.0 (revised)	18.0
EU Markit Manufacturing PMI	Jul P	55.1	54.9	54.7
EU Markit Services PMI	Jul P	54.4	55.2	55.1
JP Nikkei PMI Mfg	Jul P	51.6	53.0	--
JP Supermarket Sales YOY	Jun	0.1%	-2.3%	--
JP Nationwide Dept. Sales YOY	Jun	3.1%	-2.0%	--
JP Leading Index CI	May F	106.9	106.2	--
JP Coincident Index	May F	116.8	117.5	--
NZ Trade Balance NZD	Jun	-113m	208m (revised)	200m
NZ Exports NZD	Jun	4.91b	5.35b (revised)	5.06b

Source: Bloomberg

➢ Macroeconomics

- **US manufacturing, services sectors experienced continuous growth; steady growth in house prices:** The flash Markit US Manufacturing PMI rose to a two-month high of 55.5 in July (Jun: 55.4) while the Flash Markit US Services Business Activity Index fell to a three-month low of 56.2 (June: 56.5) but remained at a high level, as both sectors recorded relatively strong rates of growth in business activity. Persistently intense cost pressure attributed to increased fuel bills, higher staff salaries and rising raw material prices led to a sharp and accelerated increase in average prices charged by firms. Employments growth remained solid albeit growing at a slower pace in July as some firms reported that the lack of suitable workers in a tight labour market condition held back their hiring plans. Meanwhile in a separate release, Richmond Fed Manufacturing Index fell to 20 in July (Jun: 21 revised) indicating a slower expansion in the district manufacturing sector but overall activities remained solid. The survey reported slower employment growth as firms struggled to locate qualified workers to fill up positions. Meanwhile the gap between growth in prices paid and received are said to have narrowed. Firms are expecting growth in prices paid to slow while that of prices received to accelerate indicating further buildup of inflationary pressure in the economy ahead. Other release overnight was the FHFA house price index which rose 0.2% MOM in May (Apr: +0.2% revised) in line with general expectations that prices continued to be on an upward trajectory amidst lack of housing supply.

- ***Eurozone manufacturing sector rose, services sector slowed:*** The Flash Eurozone Manufacturing PMI rose to 55.1 in July (Jun: 54.9) indicating that manufacturing sector in euro area continued to expand at a faster pace. The rate of expansion for new orders growth however fell to a 23-month low suggesting that the economy may lose steam after a brief rebound in June, a sign that growth might slow down in 3Q. The Flash Eurozone Services PMI Activity Index meanwhile fell to 54.4 (Jun: 55.2) due to slower rise in new business. Input prices growth for both manufacturing sector eased but remained high as companies reported widespread hikes for fuel and other oil-related inputs as well as cost increases for metals such as tariffs. This also led to a slower rise in output prices.

- ***Japan manufacturing sector expanded at slowest pace since Nov 2016:*** The Nikkei Flash Japan Manufacturing PMI fell to a 20-month low of 51.6 in July (Jun: 53.0) indicating that the sector grew at a slower pace. Both input and output price inflation accelerated to multiyear high while business confidence is seen dipping noticeably.

- ***Japan supermarket and department store sales rebounded:*** Sales at supermarkets bounced back a marginal 0.1% YOY in June (May: -2.3%) following three consecutive months of decline led mainly by a rebound in food sales which increased 0.5% YOY (May: -1.2%). Other categories namely clothing household goods and services continued to see decline in demand albeit at a slower pace. Department store sales managed to reverse the losses in previous month rising 3.1% YOY in June (May: -2.0%). Sales in clothing rebounded 4.3% YOY (May: -5.9%) while that of accessories increased substantially by 6.0% YOY (May: +0.1%) and sundries & cosmetics by 9.5% YOY (May: +6.7%). Sales in household goods and food meanwhile continued to falter. Both data suggest that consumer demand remained rather mix in Japan as inflation stayed subdued rising a mere 0.7% YOY in June, well below the BOJ's target of 2.0%. Since yesterday, the BOJ is said to be tweaking its ultra-loose monetary policy soon in its upcoming meeting on 30 July leading global bond markets to rattle. In a separate release, leading index rose to 106.9 in May (Apr: 106.2) while coincident index fell to 116.8 in May (Apr: 117.5).

- ***New Zealand posted trade deficit again:*** Data published by Statistics New Zealand this morning shows that exports fell 8.3% MOM (May: +7.9%) to NZ$ 4.91b in June (May: NZ$5.35b revised) while imports edged lower by 2.4% (May: +7.9%) to NZ$5.0b (May: NZ$5.15b) and this swung the trade balance into a deficit of NZ$113m (May: NZ$208m surplus). On a yearly basis, exports rose at a slower pace by 4.6% YOY (May: +9.1%) as dairy shipment fell but supported by rise in exports of meat, logs, fruits. Imports quickened to increase 12.9% YOY (May: +6.3%) primarily on surge in fuel imports.

Economic Calendar

Date	Country	Events	Reporting Period	Survey	Prior	Revised
25/07	**US**	**MBA Mortgage Applications**	**Jul-20**	**--**	**-2.5%**	**--**
		New Home Sales MOM	**Jun**	**-3.1%**	**6.7%**	**--**
26/07		Wholesale Inventories MOM	Jun P	0.3%	0.6%	--
		Initial Jobless Claims	Jul-21	215k	207k	--
		Retail Inventories MOM	Jun	--	0.4%	0.4%
		Durable Goods Orders	Jun P	3.0%	-0.4%	--
		Cap Goods Orders Nondef Ex Air	Jun P	0.5%	0.3%	--
		Kansas City Fed Manf. Activity	Jul	25.0	28.0	--
26/07	Eurozone	ECB Main Refinancing Rate	Jul-26	0.0%	0.0%	--
26/07	Hong Kong	Exports YOY	Jun	7.9%	15.9%	--
		Trade Balance HKD	Jun	-52.0b	-43.2b	--
26/07	Singapore	Industrial Production YOY	Jun	3.3%	11.1%	--
25/07	**Australia**	**CPI YOY**	**2Q**	**2.2%**	**1.9%**	**--**

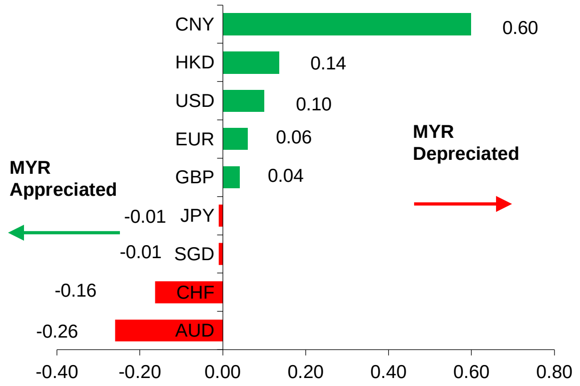
Source: Bloomberg

FX Table

Name	Last Price	DoD %	High	Low	YTD %
EURUSD	1.1687	-0.04	1.1717	1.1655	-2.6
USDJPY	111.20	-0.13	111.51	110.96	-1.3
GBPUSD	1.3145	0.34	1.3159	1.3072	-2.7
AUDUSD	0.7423	0.57	0.7434	0.7360	-4.8
EURGBP	0.8890	-0.37	0.8927	0.8885	0.1
USDMYR	4.0660	0.10	4.0675	4.0565	0.4
EURMYR	4.7540	0.06	4.7430	4.7267	-2.1
JPYMYR	3.6561	-0.01	3.6234	3.6076	1.6
GBPMYR	5.3337	0.04	5.2979	5.2807	-2.2
SGDMYR	2.9784	-0.01	2.9718	2.9591	-1.6
AUDMYR	3.0006	-0.26	2.9967	2.9764	-4.5
NZDMYR	2.7606	-0.22	2.7485	2.7333	-4.0

Source: Bloomberg

MYR vs Major Counterparts (% DOD)



➢Forex

MYR

- **MYR slipped 0.1% to 4.0660 against USD** but managed to pare early losses from a softer opening, and advanced against 6 G10s.
- **Expect a slightly bullish MYR against USD**, supported by continually firm risk appetite in the markets. A minor bearish trend has emerged, alongside negative momentum, both of which dictates a lower USDMYR going forward though we reckon the pace of declines will likely be modest. Expect a test at 4.0530 next.

USD

- **USD weakened against 7 G10s** while the DXY eased 0.02% to 94.61 after sliding through Asian / European sessions before paring losses in US morning from relatively positive US data.
- **Stay slightly bearish on USD** amid risk aversion ahead of trade talks between US President Trump and EU officials. A minor bearish trend prevails; we continue to see recent losses as an onset of a sustained decline to circa 93.92, below which exposes a potential move to 93.19.

EUR

- **EUR slipped 0.04% to 1.1687 against USD** and closed lower against 7 G10s, unable to sustain the rally in European morning as risk aversion prevails ahead of ECB policy meeting.
- **Continue to expect a slightly bullish EUR in anticipation of a continually soft USD**. Minor bullish trend still prevails, suggesting a potential break at 1.1723 soon, above which 1.1855 will be targeted. Caution that failure to do so latest by tomorrow will weaken the current upside bias and set a course for declines going forward.

GBP

- **GBP** was supported by improved sentiment amid increased expectations for a soft Brexit, beating 7 G10s and **climbing 0.34% to 1.3145 against USD**.
- **Expect a slightly bullish GBP on the back of a weak USD**, further supported by mildly positive Brexit sentiment. Upside strength is likely firmer while above 1.3126. We caution that a break above 1.3175 will trigger further gains to circa 1.3246.

JPY

- **JPY** ended mixed against the G10s as risk appetite in the markets improved, lifted by news of China's economic stimulus. **JPY strengthened 0.13% to 111.20 against a soft USD**.
- **Stay bullish on JPY against USD** in anticipation of further increase in refuge demand ahead of a meeting between Trump and EU officials. USDJPY broke below 111.44 yesterday and continues to imply a bearish bias. Expect further losses going forward, possibly targeting 110.61 in the next leg lower.

AUD

- **AUD** was buoyed by rising risk appetite in the markets as it bested all G10s and **jumped 0.57% to 0.7423 against USD**.
- **Continue to expect a bullish AUD against a soft USD**, but caution that downsides in Australia CPI could trigger sharp losses in early trade, resulting in thin gains overall. AUDUSD remains supported by rising positive momentum and continues to pose a threat to 0.7451, above which a bullish pattern will be completed, targeting as high as 0.7537.

SGD

- **SGD** ended mixed against the G10s but **strengthened 0.14% to 1.3634 against a soft USD**.
- **Stay slightly bullish on SGD against a soft USD**, supported further by improved risk appetite in the markets. USDSGD remains technically bearish after breaking below 1.3643. It is now tilted to the downside, with scope to test 1.3579 in the next leg lower, below which a drop to 1.3527 is expected.

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