October 26, 2018

Hong Leong Bank

Global Markets Research

Daily Market Highlights

Key Takeaways

- **US stocks staged a rebound overnight as upbeat third quarter earnings temporarily alleviated ongoing concerns over slower global economic growth.** Microsoft's strong earnings lifted the tech sector, and alongside positive results from Tesla, American Airline and Twitter helped improve overall risk sentiments. **Earlier, European equities managed to recover as well while Asian equities were rather mixed.** Bond slipped, yield on 10Y treasuries rose 1bp to 3.12%. Crude oil prices stabilized – WTI rose 0.76% to $67.33/barrel while Brent went up by 0.95% to $76.89/barrel. **The ECB has left key rates unchanged last night and reiterated its intention to end its asset purchase program in December.**

- **US data were mixed** – Advance goods trade deficit widened further by 0.8% MOM to $76b in September. Firms' inventories investment growth was rather lacklustre in September - the advance **wholesale inventories rose a mere 0.3% MOM** while retail inventories went up by 0.1% MOM. The preliminary **durable goods orders came in softer at 0.8% MOM**, core capital orders fell 0.1% MOM. **Initial jobless rose 5k to 215k last week**, Kansas City Fed Manufacturing Index fell to 8.0 in October while September pending home sales rebounded to gain 0.5% MOM. Elsewhere, **Hong Kong exports growth came in at a much slower 4.5% YOY in September** while imports also rose a mere 4.8% YOY leading the trade deficit to narrow to HK$47.7b.

- **USD strengthened against 7 G10s** while DXY overturned early losses with a jump in US morning post-ECB press conference to close 0.25% higher at 96.67. **Stay bearish on DXY** as we continue to anticipate of a technical pullback after recent rally, and room for further losses if US GDP data disappoints. We reckon that an extended rally has increased the risk of a pullback, more so as DXY remains trapped within 96.53 – 96.66, a range that risks a rejection lower.

- **MYR slipped 0.07% to 4.1695 against USD** as risk aversion in the markets continue to dampen buying interest. MYR fell against 7 G10s. **MYR is now slightly bearish against USD**, pressured by likelihood of extended risk-off in the markets, more so heading into the week's close. USDMYR remains tilted to the upside and is now eyeing a move towards 4.1740 – 4.1750. Chance for a return to a bearish bias diminishes further.

- **SGD** was similarly spurred by improved risk appetite in the markets as it beat 7 G10s and **pipped USD by 0.01% to close at 1.3811. Stay slightly bullish on SGD in line with our view of a softer USD**. Technical outlook has deteriorated and USDSGD remains tilted towards the downside and on a path towards 1.3750 – 1.3760.

Overnight Economic Data	
US	➔
Hong Kong	↓

What's Coming Up Next

Major Data

- Malaysia CPI
- US 3Q GDP, U. of Mich. Consumer Sentiment
- China Industrial Profits
- Singapore Industrial Production

Major Events

- Nil

Daily Supports – Resistances (spot prices)*

	S2	S1	Indicative	R1	R2	Outlook
EURUSD	1.1356	1.1367	1.1372	1.1380	1.1392	↗
USDJPY	1.2798	1.2810	1.2820	1.2830	1.2850	↘
GBPUSD	112.07	112.17	112.32	112.50	112.74	↘
AUDUSD	0.7056	0.7063	0.7075	0.7098	0.7108	↘
EURGBP	0.8820	0.8840	0.8848	0.8857	0.8860	↗
USDMYR	4.1710	4.1715	4.1735	4.1740	4.1750	↗
EURMYR	4.7402	4.7420	4.7454	4.7497	4.7543	↘
JPYMYR	3.7100	3.7125	3.7154	3.7172	3.7200	➔
GBPMYR	5.3437	5.3481	5.3504	5.3555	5.3580	↘
SGDMYR	3.0180	3.0194	3.0211	3.0214	3.0240	➔
AUDMYR	2.9480	2.9502	2.9534	2.9552	2.9587	➔
NZDMYR	2.7161	2.7200	2.7220	2.7239	2.7250	➔
USDSGD	1.3798	1.3809	1.3814	1.3818	1.3827	↘
EURSGD	1.5686	1.5695	1.5710	1.5715	1.5734	↘
GBPSGD	1.7669	1.7700	1.7711	1.7720	1.7750	↘
AUDSGD	0.9762	0.9769	0.9775	0.9785	0.9791	↘

* at time of writing

↗ = above 0.1% gain; ↘ = above 0.1% loss; ➔ = less than 0.1% gain / loss

	Last Price	DoD %	YTD %
KLCI	1,686.59	-0.20	-6.13
Dow Jones Ind.	24,984.55	1.63	1.07
S&P 500	2,705.57	1.86	1.20
FTSE 100	7,004.10	0.59	-8.89
Shanghai	2,603.80	0.02	-21.27
Hang Seng	24,994.46	-1.01	-16.46
STI	3,012.84	-0.63	-11.46

Name	Last Price	DoD %	YTD %
CRB Index	194.79	0.17	0.48
WTI oil ($/bbl)	67.33	0.76	11.44
Brent oil ($/bbl)	76.89	0.95	14.98
Gold (S/oz)	1,232.17	-0.13	8.10
CPO (RM/tonne)	2,062.50	-0.98	-13.70
Copper ($/tonne)	6,226.00	0.76	-14.09
Rubber (sen/kg)	397.50	0.13	-14.05

Source: Bloomberg

Economic Data

	For	Actual	Last	Survey
US Advance Goods Trade Balance	Sep	-$76.0b	-$75.8b	-$75.1b
US Wholesale Inventories MOM	Sep P	0.3%	0.9% (revised)	0.5%
US Retail Inventories MOM	Sep	0.1%	0.6% (revised)	--
US Durable Goods Orders	Sep P	0.8%	4.6% (revised)	-1.5%
US Cap Goods Orders Nondef Ex Air	Sep P	-0.1%	-0.2% (revised)	0.5%
US Initial Jobless Claims	Oct-20	215k	210k	215k
US Pending Home Sales MOM	Sep	0.5%	-1.9% (revised)	0.0%
US Kansas City Fed Manf. Activity	Oct	8.0	13.0	14.0
EU ECB Main Refinancing Rate	Oct-25	0.00%	0.00%	0.00%
HK Exports YOY	Sep	4.5%	13.1%	8.6%
HK Imports YOY	Sep	4.8%	16.4%	10.5%
HK Trade Balance HKD	Sep	-47.7b	-52.1b	-58.0b

Source: Bloomberg

Macroeconomics

- ***ECB left key rates unchanged, acknowledged weaker momentum but no change to baseline:*** The ECB left its key rates unchanged as widely expected and maintained the same language in its monetary policy statement - (1) Interest rates are expected to stay at the current level at least through the summer of 2019, (2) The ECB will continue to make net purchases under its APP program at the new monthly pace of €15b until the end of December 2018 and (3) The ECB intends to reinvest the principal payments from maturing securities purchased under the APP for an extended period of time. President Draghi's introductory statement also remained somewhat similar to the previous statement, except for the mentioning of incoming information being "somewhat weaker than expected" but remains overall consistent with the ECB's baseline scenario of an ongoing broad-based economic expansion. Draghi acknowledged a weaker momentum in growth but reiterated (as in previous press conferences) that normalization was expected after a period of exports-driven strong growth in the late 2017 quarters, while at the same time cited multiple "country specific" or "idiosyncratic" factors at play such as the impact of Germany's car sector, stalemate between the US and China, Brexit as well as the stabilization of the emerging markets. He maintained that survey indicators result were still above long-term average, consumption was strong supported by tighter labour market and rising wages and that (weaker momentum) was not enough for the ECB to change baseline scenario. But of course, December's projection will be taken into consideration in its assessment. Outlook regarding inflation remained the same where headline inflation was expected to hover around current level over the coming months, underlying inflation remained muted but was expected to pick up. Domestic cost pressures were strengthening due to high capacity utilization, tightening labour market and rising wage growth. Draghi said that the ECB had no reasons to doubt inflation, rising wages was driven by higher negotiated wages which was a "comforting" sign. The ECB hasn't discussed about the reinvestment policy (to be discussed in the next i.e. last meeting of the year) nor was there any discussion about extending QE but overall monetary policy will remain accommodative. Multiple questions on Italy were posted where Draghi said that he was "confident that an agreement would be found" and Italy was a "fiscal discussion". When asked about central banks facing political pressures, he said that central bank independence was "precious" as it was essential for policy effectiveness.

- ***US advance goods trade deficit widened, wholesale and retail inventories lacklustre:*** The Census Bureau released the advance reading of international goods trade statistics alongside wholesale and retail inventories data yesterday. Goods trade deficit widened further by 0.8% MOM to $76b in September (Aug: $75.5b) as exports rebounded to increase 1.8% MOM (Aug: -1.3%) while imports rose 1.5% MOM (Aug: +0.8%). The rebound in exports was driven by a rebound in industrial supplies (+5.9% vs -5.2%), automotive vehicles (+1.0% vs -2.1%) and stronger consumer goods (+2.2% vs +0.2%) as shipments of food, feeds and beverages continued to post decline (-8.9% vs -9.2%) given that firms have front loaded these goods in earlier months to avoid further Chinese tariffs. Exports of consumer goods meanwhile slowed incredibly to post a mere 0.8% MOM (Aug: +10.3%). Domestic demand continued to hold up mainly attributed to the faster increase in imports of capital goods (+3.6% vs -0.8%) and consumer goods (+3.6% vs +1.6%) while demand for foreign auto vehicles fell 1.9% MOM (Aug: +3.3%). Firms' inventories investment growth was rather lacklustre in September - the advance wholesale inventories rose a mere 0.3% MOM in September (Aug: +0.9% revised) due to a fall in non-durable inventories. Retail inventories meanwhile went up by 0.1% (Aug: +0.6% revised) mainly driven by the gain (albeit weaker) in motor vehicles and parts. Excluding this component, retail inventories fell 0.1% MOM (Aug: -0.1%).

- ***US durable goods order slowed on volatile aircrafts orders; capex remained weak despite tax cut:*** The preliminary reading of US durable goods orders came in softer at 0.8% MOM (Aug: +4.6% revised) following a strong growth in the previous month mainly due to the contraction in the volatile aircrafts (Boeing) orders (-17.5% vs +63.7%). Excluding transportations, durable goods order growth slowed to 0.1% MOM (Aug: +0.3% revised). Core capital goods, a barometer of firms' capital expenditure (measured in non-defence capital orders excluding aircrafts) fell 0.1% MOM (Aug: -0.2%) suggesting that firms are not increasing their capital investment despite enjoying tax cut from the Trump Administration. Other data released in the US include initial jobless claims which rose 5k to 215k for the week ended 20 October (previous: 210k) bringing the four-week moving average to hold steady at 211.8k, suggesting that the job market remained tight in the US. Kansas City Fed Manufacturing Index fell to 8.0 in October (Sep: 13.0) due to slower production and new orders. Pending home sales rebounded to gain 0.5% MOM (Aug: -1.9% revised) following two months of decline but we doubt that the momentum could be preserved as US housing market begins to soften.

- ***Hong Kong trade report disappointed, underscoring weakness in Chinese demand:*** Hong Kong exports growth came in at a much slower 4.5% YOY in September (Aug: +13.1%) while imports also rose a mere 4.8% YOY (Aug: +16.4%) which led the trade deficit to narrow to HK$47.7b (Aug: -52.1b). Shipment to China, its largest trading partner grew a modest 4.5% YOY (Aug: +13.6%), reflecting softer Chinese demand following two strong months where firms in the Mainland ramped up purchases from Hong Kong (for higher productions) in order to beat trade tariffs deadlines.

Economic Calendar

Date	Country	Events	Reporting Period	Survey	Prior	Revised
26/10	**Malaysia**	**CPI YOY**	**Sep**	**0.6%**	**0.2%**	**--**
26/10	**US**	**GDP Annualized QOQ**	**3Q A**	**3.3%**	**4.2%**	**--**
		U. of Mich. Sentiment	**Oct F**	**99.0**	**99.0**	**--**
29/10		Personal Income	Sep	0.4%	0.3%	--
		Personal Spending	Sep	0.4%	0.3%	--
		PCE Deflator YOY	Sep	2.0%	2.2%	--
		PCE Core YOY	Sep	2.0%	2.0%	--
		Dallas Fed Manf. Activity	Oct	29.0	28.1	--
29/10	UK	Mortgage Approvals	Sep	64.8k	66.4k	--
29/10	Japan	Retail Trade YOY	Sep	2.1%	2.7%	--
		Dept. Store, Supermarket Sales	Sep	0.1%	-0.1%	--
27/10	**China**	**Industrial Profits YOY**	**Sep**	**--**	**9.2%**	**--**
26/10	**Singapore**	**Industrial Production YOY**	**Sep**	**3.5%**	**3.3%**	**--**

Source: Bloomberg

➢Forex

	Last Price	DoD %	High	Low	YTD %
EURUSD	1.1375	-0.15	1.1432	1.1356	-5.25
GBPUSD	1.2817	-0.50	1.2919	1.2798	-5.14
USDJPY	112.42	0.14	112.67	111.82	-0.28
AUDUSD	0.7080	0.28	0.7099	0.7057	-9.35
EURGBP	0.8874	0.34	0.8883	0.8832	-0.08
USDMYR	4.1695	0.07	4.1735	4.1670	3.04
EURMYR	4.7572	0.01	4.7655	4.7499	-1.88
JPYMYR	3.7161	0.36	3.7269	3.7130	3.37
GBPMYR	5.3845	-0.04	5.3907	5.3694	-1.45
SGDMYR	3.0234	0.13	3.0243	3.0164	-0.18
AUDMYR	2.9504	0.02	2.9548	2.9433	-6.69
NZDMYR	2.7209	-0.18	2.7222	2.7120	-5.52
CHFMYR	4.1813	0.11	4.1902	4.1782	0.78
CNYMYR	0.6004	0.06	0.6011	0.6002	-3.44
HKDMYR	0.5322	0.21	0.5325	0.5315	2.76
USDSGD	1.3811	-0.01	1.3818	1.3787	3.35
EURSGD	1.5710	-0.15	1.5764	1.5686	-2.14
GBPSGD	1.7702	-0.49	1.7833	1.7678	-2.06
AUDSGD	0.9779	0.26	0.9789	0.9744	-6.38

Source: Bloomberg

MYR

- **MYR slipped 0.07% to 4.1695 against USD** as risk aversion in the markets continue to dampen buying interest. MYR fell against 7 G10s.
- **MYR is now slightly bearish against USD**, pressured by likelihood of extended risk-off in the markets, more so heading into the week's close. USDMYR remains tilted to the upside and is now eyeing a move towards 4.1740 – 4.1750. Chance for a return to a bearish bias diminishes further.

USD

- **USD strengthened against 7 G10s** while DXY overturned early losses with a jump in US morning post-ECB press conference to close 0.25% higher at 96.67.
- **Stay bearish on DXY** as we continue to anticipate of a technical pullback after recent rally, and room for further losses if US GDP data disappoints. We reckon that an extended rally has increased the risk of a pullback, more so as DXY remains trapped within 96.53 – 96.66, a range that risks a rejection lower.

EUR

- **EUR retreated 0.15% to 1.1375 against USD** after tumbling post-ECB press conference that did little to shore up buying interest despite firm comments on the Eurozone economy from ECB President Draghi. EUR fell against 7 G10s.
- **EUR remains slightly bullish on EUR against USD** as we expect a technical rebound after recent slump. Expect more room for gains if US data disappoints. We continue to note that EURUSD is trending through a bullish chart pattern but may take some time to complete. Until then, we expect EURUSD losses to be contained above 1.1340 – 1.1350.

GBP

- **GBP tumbled 0.5% to 1.2817 against USD** and fell against all G10s amid news that EU-UK Brexit talks will be put on hold due to a lack of consensus from the UK on the way to proceed in negotiations with regards to the Irish border.
- **GBP is bearish against USD**, pressured by renewed jitters that EU-UK negotiation headed for failure, resulting in a no-deal Brexit. GBPUSD remains caught in a bearish trend but we suspect losses from current level may be more restrained as it approaches 1.2790 – 1.2800 strong support range. Caution that losing this exposes a move to 1.2700.

JPY

- **JPY** retreated against 6 G10s and **weakened 0.14% to 112.42 against USD** as equities rebounded, damping demand for refuge.
- **We stay bullish on JPY against USD** in anticipation of extended sell-off in the markets that supports refuge demand. Despite overnight rebound, a bearish bias still prevails and we expect USDJPY to lose 112.00 going forward and target 111.80.

AUD

- **AUD climbed 0.28% to 0.7080 against USD** and advanced against all G10s, lifted by rebound in risk appetite in the markets.
- **AUD remains slightly bearish in our view**, weighed down by risk aversion in the markets, but could register mild gains if greenback weakness emerges. Bearish trend still prevails thus AUDUSD is still prone to a return to 0.7044 – 0.7056. Rebounds, if any, are expected to be capped below 0.7080 today, and below 0.7090 on Monday.

SGD

- **SGD** was similarly spurred by improved risk appetite in the markets as it beat 7 G10s and **pipped USD by 0.01% to close at 1.3811**.
- **Stay slightly bullish on SGD in line with our view of a softer USD**. Technical outlook has deteriorated and USDSGD remains tilted towards the downside and on a path towards 1.3750 – 1.3760.

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