August 1, 2019

HongLeong Bank

Global Markets Research

Daily Market Highlights

Key Takeaways

- US stocks sold off overnight after the Federal Reserve cut the Fed funds rate by 25 basis points as widely expected and to markets' disappointments, hinted that it may not make any further downward adjustments. While the FOMC statement signaled that the Fed stood ready to ease policy if necessary, **Fed Chair Jerome Powell made it clear in his post-meeting press conference that Wednesday's cut was "not the beginning of a long series of rate cuts" and referred it as a "mid-cycle adjustment to policy",** effectively downplaying expectations for more easing in the months to come. **It has also announced decision to stop the reduction of its balance sheet on 1 Aug, two months earlier than initially planned. All major indexes ended in the red as Fed upset markets with what was widely perceived as a hawkish rate cut. In addition, US-China trade talks failed to show any progress.** Treasuries yield curve flattened as the yield on 2Y notes, a proxy for US short term rates outlook rose by 2bps to 1.87% while 10Y UST yield slipped by 4bps to 2.02%. Crude oil prices extended further gains as US crude inventories fell – WTI picked up 0.9% to $58.58/barrel and Brent settled 0.7% higher at $65.17/barrel.

- **US data were mixed.** July ADP payroll came in slightly better than expected at 156k, but 2Q employment cost index (ECI) gained at a slower pace of 0.6% QOQ. The MNI Chicago Business Barometer fell sharply further below 50 to 44.4 in July. **Eurozone advanced 2Q GDP growth slowed to 0.2% QOQ, headline HICP inflation eased to 1.1% YOY in July.** Nationwide said that its house price index rose 0.3% MOM. In Asia, Hong Kong advance 2Q GDP growth printed a steady 0.6% YOY growth, **China NBS manufacturing PMI stayed at sub-50 reading for the third month while its services PMI fell slightly** but remained comfortably above the 50.0. Down under, **Australia 2Q CPI gained at an accelerated pace of 0.6% QOQ, offering a relief for the RBA**, Australia manufacturing PMI also rose back above the 50.0. In New Zealand, the ANZ Business Confidence Index slipped further to -44%.

- **The dollar index 0.53% higher at 98.565,** a new YTD high as markets repositions for a less dovish Fed. **We are bullish USD in the short term** as market readjusts position in the short term. **We are neutral USD** in the medium term as we await further US economic data to gauge overall US economic health and any US-China trade talk outcomes.

- **MYR closed almost unchanged at 4.1265** as markets braced for FOMC. **We are bullish USDMYR** intraday as markets scramble to reposition against a less dovish than expected Fed. In the medium term, we look towards the health of the US economy and US-China trade outcomes for further guidance.

- **SGD closed 0.28% weaker against the USD** at 1.3743 as market repositions for a less than dovish Fed. **We are bearish SGD today but remain bullish SGD in** the medium term as narrowing yield differential will likely support SGD strength against USD. We also look towards US-China trade talks and the possibility of any trade resolution for medium term guidance.

Overnight Economic Data

US	→
Eurozone	↓
UK	↓
Hong Kong	→
China	↓
Australia	↑
New Zealand	↓

What's Coming Up Next

Major Data

- Manufacturing PMIs for Malaysia, US, Eurozone, UK, Japan, China and Vietnam
- US Initial Jobless Claims, ISM Manf. PMI, Construction Spending
- Hong Kong Retail sales

Major Events

- Bank of England Bank Rate Decision

Daily Supports – Resistances (spot prices)*

	S2	S1	Indicative	R1	R2	Outlook
EURUSD	1.0970	1.1000	1.1037	1.1060	1.1100	↘
GBPUSD	1.2000	1.2050	1.2108	1.2150	1.2200	↘
USDJPY	108.50	108.80	109.27	109.50	109.75	↗
AUDUSD	0.6800	0.6820	0.6833	0.6850	0.6875	↘
EURGBP	0.9070	0.9100	0.9119	0.9150	0.9175	→
USDMYR	4.1350	4.1400	4.1480	4.1500	4.1550	↗
EURMYR	4.5400	4.5550	4.5795	4.5950	4.6150	↘
JPYMYR	3.7700	3.7850	3.7969	3.8100	3.8250	↘
GBPMYR	4.9850	5.0000	5.0224	5.0350	5.0500	↘
SGDMYR	3.0070	3.0100	3.0136	3.0150	3.0200	→
AUDMYR	2.8200	2.8300	2.8345	2.8450	2.8600	↘
NZDMYR	2.7000	2.7100	2.7134	2.7350	2.7500	↘
USDSGD	1.3700	1.3725	1.3766	1.3775	1.3800	↗
EURSGD	1.5150	1.5170	1.5204	1.5230	1.5250	↘
GBPSGD	1.6400	1.6550	1.6669	1.6800	1.6950	→
AUDSGD	0.9375	0.9400	0.9413	0.9450	0.9475	↘

* 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	1,634.87	-0.48	-3.30	CRB Index	178.53	0.10	5.14
Dow Jones Ind.	26,864.27	-1.23	15.16	WTI oil ($/bbl)	58.58	0.91	29.00
S&P 500	2,980.38	-1.09	18.89	Brent oil ($/bbl)	65.17	0.70	20.91
FTSE 100	7,586.78	-0.78	12.76	Gold (S/oz)	1,413.78	-1.20	10.26
Shanghai	2,932.51	-0.67	17.59	CPO (RM/tonne)	1,927.50	-0.05	-1.28
Hang Seng	27,777.75	-1.31	7.48	Copper ($/tonne)	5,927.00	-0.35	-0.64
STI	3,300.75	-1.49	7.56	Rubber (sen/kg)	459.00	-1.08	21.11

Source: Bloomberg

Economic Data	For	Actual	Last	Survey
US MBA Mortgage Applications	Jul-26	-1.4%	-1.9%	--
US ADP Employment Change	Jul	156k	112k (revised)	150k
US Employment Cost Index	2Q	0.6%	0.7%	0.7%
US MNI Chicago PMI	Jul	44.4	49.7	51.0
US FOMC Rate Decision	Jul-31	2.0-2.25%	2.25-2.5%	2.0-2.25%
EU Unemployment Rate	Jun	7.5%	7.6% (revised)	7.5%
EU GDP SA QOQ	2Q A	0.2%	0.4 %	0.2%
EU CPI Core YOY	Jul A	0.9%	1.1%	1.0%
EU CPI Estimate YOY	Jul	1.1	1.3%	1.1%
UK Nationwide House Price Index YOY	Jul	0.3%	0.5%	0.1%
HK GDP YOY	2Q A	0.6%	0.6%	1.5%
CH Manufacturing PMI	Jul	49.7	49.4	49.6
CH Non-manufacturing PMI	Jul	53.7	54.2	54.0
AU CPI YOY	2Q	1.6%	1.3%	1.5%
AU AiG Performance of Manufacturing Index	Jul	51.3	49.4	--
NZ ANZ Business Confidence	Jul	-44.0	-38.1	--

Source: Bloomberg

➢ Macroeconomics

- ***Fed made hawkish rate cut, signaled no more easing:*** The Federal Reserve cut the Fed funds rate target range by 25 basis points to 2.0-2.25% as widely expected and to markets' disappointments, hinted that it may not make any further downward adjustments. In the FOMC statement, the Fed said that the cut was granted in light of the implications of global developments for the economic outlook and muted inflation. Uncertainties about the outlook remained. While the statement mentioned that it would continue to monitor incoming data and "act as appropriate" to sustain economic expansion, signaling its willingness to ease policy if necessary, Fed Chair Jerome Powell made it clear in his post-meeting press conference that Wednesday's cut was "not the beginning of a long series of rate cuts" and referred it as a "mid-cycle adjustment to policy", effectively downplaying expectations for more easing in the months to come. Powell said that only real economic weakness would warrant more cuts in the fed funds rate and the committee did not see this happening. The Fed has also announced decision to stop the reduction of its balance sheet on 1 Aug, two months earlier than initially planned. Wednesday move by the Fed was widely perceived as a hawkish insurance cut, disappointing markets. We maintain our view that the Fed would keep the fed funds rate unchanged for the rest of 2019.

- ***US private sector added decent number of jobs in July; wage growth slowed in 2Q:*** The US job market continued to display strength as the private sector added a decent 156k jobs in July (Jun: 112k revised) according to the ADP job report. July's gain was also accompanied by an upward revision of 10k to Jun's payroll, a welcoming sign prior to Friday's official nonfarm payroll number. Meanwhile, the employment cost index rose at a slower pace of 0.6% QOQ in the second quarter (1Q: +0.7%), as worker pay rose steadily but gains in benefits eased. On an annual basis, employment cost rose 2.7% YOY (1Q: +2.9%), a slowdown as well, firming up views that inflation likely stays muted in the US economy. Other key US release was the MNI Chicago Business Barometer which fell sharply further below 50 to 44.4 in July (Jun: 49.7) as productions and employment contracted. Mortgage applications slipped for the fifth running week by 1.4% last week (previous: -1.9%).

- ***Eurozone economic growth slowed in second quarter:*** The advance reading of Eurozone 2Q GDP growth clocked in at an expected rate of 0.2% QOQ (1Q: +0.4%), leaving the annual growth rate at 1.1% YOY (1Q: +1.2%), its slowest since late 2013 and confirming that the Euro area economy is struggling to expand amidst slower overseas demand. Inflation stayed subdued as well with the headline HICP inflation rate for July easing to 1.1% YOY in July (Jun: +1.3%). The core reading also fell to 0.9% YOY (Jun: +1.1%), a sure sign that higher wages cost are not being passed through to consumers. On the contrary, the labour market stayed tight and strong as unemployment rate fell to 7.5% in June (Jul: 7.6% revised), from the newly revised 7.6% in May. Weaker 2Q GDP growth together with faltering inflation now build even stronger case for the ECB to adjust its monetary policy either in the form of cutting rates or restarting QE this year.

- ***Nationwide said UK house prices remained subdued in July:*** The Nationwide house price index rose 0.3% MOM in July (Jun: +0.1%) but the annual rate of growth was slower at 0.3% YOY (Jun: +0.5%) and remained below 1% for the eighth consecutive month. Nationwide said house prices remained subdued in the UK but overall recent housing data have turned out rather mixed with new buyer's enquiries showing signs of picking up but key consumer confidence indicators stayed subdued. The number of property transactions however pointed to a slowdown but mortgages approvals appeared stable.

- ***Hong Kong economic growth stayed weak in second quarter***: Hong Kong advance second quarter GDP unexpectedly fell 0.3% QOQ (1Q: +1.3%), leaving the annual growth rate at a steady 0.6% YOY (1Q: +0.6%), markedly below consensus call of 1.5%. Looking at preliminary details, the slower annual gain was mainly a result of a sharp decline in investment (-12.1% vs -7.0%), as well as a fall in goods exports (-5.4% vs -3.7%) which offset a faster albeit still subdued gain of household spending (+1.2% vs +0.4%). Government spending rose at a decent but slower pace of 4.0% YOY (1Q: +4.5%), while exports of services also grew by a mere 0.2% YOY (1Q: +0.8%). Hong Kong economy is among the main victims succumbing to slower domestic demand in China as well as ongoing trade tensions as shipment of goods to overseas continue to fall, hampering its external trade sector.

- ***China factories in downturn; services growth eased:*** The official NBS manufacturing PMI continued to record sub-50 reading for the third running month albeit at a slightly better level of 49.7 in July (June: 49.4), pointing to continuous downturn in the country's troubled manufacturing sector amidst weak domestic and overseas demand. The similar reading for non-manufacturing, a gauge of services sector condition also fell to 53.7 in the same month (Jun: 54.2), but was still comfortably above the 50.0 neutral line, extending the currently dominating worldwide phenomena where manufacturing is seen weakening while services sector appears to be solid.

- ***Australia CPI accelerated in 2Q, a relief for RBA:*** Australia CPI rose 0.6% QOQ in the second quarter of 2019 (1Q: 0.0%) after stagnating in the first quarter, driven mainly by the significant rises in costs of automotive fuel (+10.2%), medical & hospital services (+2.6%), international holiday travel & accommodation (+2.7%) and tobacco (+2.4%). On an annual basis, CPI inflation accelerated to 1.6% YOY in 2Q (1Q: +1.3%), but remained largely subdued due to the falls in a number of administered prices, but this regardless was a relief for the RBA which is now not in a rushing state for any further rate cuts. Another good news was the rebound in Australia manufacturing PMI back above the 50.0 neutral threshold. The AiG Performance of Manufacturing Index rose back up to 51.3 in July (Jun: 49.4) on higher new orders, employment and exports.

- ***New Zealand business outlook turned bleaker in July:*** Business confidence turned decisively dismal this month as reported by the ANZ New Zealand Business Outlook survey for July. The headline business confidence index fell 6pts to net -44.0% in July (Jun: -38.1%) as Kiwi firms saw bleaker outlook for exports, investment, employment, profit and notably both residential and commercial construction. Businesses turned increasingly pessimistic despite recent rate cut by RBNZ, building an even stronger case for the central bank to introduce other policy measures. It has recently responded to a request from Bloomberg news, disclosing that it is at a very early stage of refreshing its unconventional monetary policy".

Economic Calendar

Date	Country	Events	Reporting Period	Survey	Prior	Revised
01/08	**Malaysia**	**Markit Malaysia Manufacturing PMI**	**Jul**	**--**	**47.8**	**--**
02/08		Exports YOY	Jun	1.9%	2.5%	--
		Trade Balance MYR	Jun	8.44b	9.08b	--
01/08	**US**	**Initial Jobless Claims**	**Jul-27**	**214k**	**206k**	**--**
		Markit US Manufacturing PMI	**Jul F**	**50.0**	**50.6**	**--**
		ISM Manufacturing	**Jul**	**52.0**	**51.7**	**--**
		Construction Spending MOM	**Jun**	**0.3%**	**-0.8%**	**--**
02/08		Change in Nonfarm Payrolls	Jul	165k	224k	--
		Unemployment Rate	Jul	3.6%	3.7%	--
		Average Hourly Earnings YOY	Jul	3.1%	3.1%	--
		Trade Balance	Jun	-$54.2b	-$55.5b	--
		Factory Orders	Jun	0.7%	-0.7%	--
		Cap Goods Orders Nondef Ex Air	Jun F	--	0.3%	--
		U. of Mich. Sentiment	Jul F	98.5	98.4	--
01/08	**Eurozone**	**Markit Eurozone Manufacturing PMI**	**Jul F**	**46.4**	**47.6**	**--**
02/08		PPI YOY	Jun	0.8%	1.6%	--
		Retail Sales MOM	Jun	0.3%	-0.3%	--
01/08	**UK**	**Markit UK PMI Manufacturing**	**Jul**	**47.6**	**48.0**	**--**
		Bank of England Bank Rate	**Aug-01**	**0.75%**	**0.75%**	**--**
02/08		Markit/CIPS UK Construction PMI	Jul	46.0	43.1	--
01/08	**Japan**	**Jibun Bank Japan Manufacturing PMI**	**Jul F**	**--**	**49.3**	**--**
01/08	**China**	**Caixin China Manufacturing PMI**	**Jul**	**49.5**	**49.4**	**--**
01/08	**Hong Kong**	**Retail Sales Value YOY**	**Jun**	**-1.9%**	**-1.3%**	**--**
02/08	Singapore	Purchasing Managers Index	Jul	49.6	49.6	--
02/08	**Australia**	Retail Sales MOM	Jun	0.3%	0.1%	--
02/08	New Zealand	ANZ Consumer Confidence Index	Jul	--	122.6	--
01/08	**Vietnam**	**Markit Vietnam Manufacturing PMI**	**Jul**	**--**	**52.5**	**--**

Source: Bloomberg

	Last Price	DoD %	High	Low	YTD %
EURUSD	1.1076	-0.71	1.1162	1.1060	-3.40
GBPUSD	1.2159	0.06	1.2250	1.2134	-4.70
USDJPY	108.78	0.16	109.00	108.49	-0.83
AUDUSD	0.6845	-0.39	0.6899	0.6832	-2.85
EURGBP	0.9111	-0.75	0.9183	0.9089	1.37
USDMYR	4.1265	-0.01	4.1305	4.1240	-0.17
EURMYR	4.5994	0.18	4.6089	4.5985	-2.71
JPYMYR	3.8036	0.16	3.8052	3.7983	1.22
GBPMYR	5.0212	-1.26	5.0280	5.0121	-4.68
SGDMYR	3.0155	0.25	3.0159	3.0082	-0.67
AUDMYR	2.8470	-0.08	2.8484	2.8333	-2.60
NZDMYR	2.7290	-0.21	2.7308	2.7198	-1.79
CHFMYR	4.1686	0.19	4.1718	4.1645	-0.73
CNYMYR	0.5999	0.22	0.6000	0.5994	-0.89
HKDMYR	0.5276	-0.02	0.5278	0.5271	-0.11
USDSGD	1.3743	0.28	1.3747	1.3679	0.81
EURSGD	1.5221	-0.44	1.5296	1.5198	-2.62
GBPSGD	1.6706	0.32	1.6764	1.6638	-3.92
AUDSGD	0.9407	-0.12	0.9448	0.9385	-2.06

Source: Bloomberg

➢Forex

MYR

- **MYR closed almost unchanged at 4.1265** as markets braced for FOMC.
- **We are bullish USDMYR** intraday as markets scramble to reposition against a less dovish than expected Fed. In the medium term, we look towards the health of the US economy and US-China trade outcomes for further guidance.

USD

- **The dollar index 0.53% higher at 98.565,** a new YTD high as markets repositions for a less dovish Fed.
- **We are bullish USD in the short term** as market readjusts position in the short term. **We are neutral USD** in the medium term as we await further US economic data to gauge overall US economic health and any US-China trade talk outcomes.

EUR

- **EUR closes 0.71% weaker against the USD at 1.1076**.
- **We are bearish EUR today** as markets will readjust positioning to better reflect a less dovish than expected Fed. In the medium term, we look towards the overall health of the US economy and any action from major global central banks for guidance.

GBP

- **GBP closed marginally stronger by 0.06% at 1.2159** against a broadly stronger USD.
- **We remain bearish GBP over the short and medium term** as the prospects of a no-deal Brexit remain high with little new developments especially against a backdrop of overall USD strength.

JPY

- **JPY finished 0.16% weaker at 108.78** as the pair was being subjected to push and pull factors in the form of higher UST 2y yields vs a falling US equity market.
- **We are bearish JPY today** as market repositions to better reflect a less dovish than expected Fed. **We remain bullish JPY** in the medium term as falling equity markets and yield differentials will likely support the currency.

AUD

- **AUD closed 0.39% weaker at 0.6845** as the pair continues to lose ground on overall risk aversion and USD strength.
- **We maintain bearish AUD today** as risk aversion and market repositioning will likely persist in the short term. **We are neutral AUD** in the medium term, as we look towards major global central bank action and US-China trade talks for guidance.

SGD

- **SGD closed 0.28% weaker against the USD** at 1.3743 as market repositions for a less than dovish Fed.
- **We are bearish SGD today but remain bullish SGD in** the medium term as narrowing yield differential will likely support SGD strength against USD. We also look towards US-China trade talks and the possibility of any trade resolution for medium term guidance.

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