July 4, 2019

Global Markets Research

Daily Market Highlights

Key Takeaways

- **US stocks finished modestly higher overnight ahead of the Independence Day holiday as investors became even more assured that the Federal Reserves would cut rates after a slew of US data pointed to slower growth momentum in the economy**. The Dow added 179pts or 0.7% to notch its first record high in nine months after a four-day winning streak while the S&P500 and NASDAQ each posted a 0.8% gain. As of writing, futures continued to suggest a 100% chance of a rate cut on 31 July of which traders had again increased bets on a 50bps cut in the fed funds rate. Treasuries yield fell by 2-3bps along the curve amidst ongoing rate cut expectations -10Y UST yield slipped 2bps further below 2.0% at 1.95%. Crude oil prices retraced some Wednesday's losses- WTI picked up 1.9% to $57.34/barrel and Brent crude settled 2.3% higher at $63.82/barrel.

- **On the data front, US trade deficit rose to a five-month high** in May as imports rose more than exports following the escalation of US-China trade dispute in early May. **The ISM non-manufacturing PMI, the primary gauge of the country's services industry dropped nearly 2pts to 55.1,** signaling slower growth in the sector. On the manufacturing front, factory orders fell for the second month by 0.7% amidst softer demand conditions. Durable goods order slipped 1.3% as commercial aircrafts order declined. **Core capital orders appeared resilient**, registering a solid 0.5% gain. Job data were mixed but largely point to a slowdown in hiring **- the ADP private payroll figure which normally offers hints on Friday's official job data disappointed at 102k** while initial jobless claims fell by 8k to 221k last week. Elsewhere**, Eurozone services PMI was revised higher** to 53.6 in June, a clear sign of services sector resilience amidst strong labour market. **UK services sector however nearly stagnated** as PMI came in just a touch above 50.0. Down under, Australia trade surplus widened on the back of faster exports growth as imports pulled back.

- **The dollar index closed flat at 96.735** ahead of 4th July holiday. **We remain bearish on USD in the medium term** as the Fed is still expected to cut Fed funds rate at the end of this month, while any positive US-China trade headlines in this period could drive down the USD.

- **MYR closed 0.10% stronger at 4.1370** as the USD traded mixed ahead of 4th July holiday. **We remain neutral MYR over the short term** as risk sentiment has turned and shifted to profit taking and subsiding euphoria over US-China trade over the G20 meeting. However, we remain bullish MYR over the medium term over an expected Fed rate cut.

- **SGD closed flat** at 1.3562 against the USD amidst a lack of catalyst. **We remain neutral on the currency pair today** but remain bullish SGD in the medium term on expected USD weakness arising from Fed rate adjustment while positive US-China trade development would lend support to overall EM currencies, thus benefitting the SGD as well.

Overnight Economic Data

US	→
Eurozone	↑
UK	↓
Australia	↑

What's Coming Up Next

Major Data

- Malaysia Trade Report
- Eurozone Retail Sales
- Australia Retail Sales

Major Events

- Nil

Daily Supports – Resistances (spot prices)*

	S2	S1	Indicative	R1	R2	Outlook
EURUSD	1.1240	1.1270	1.1289	1.1300	1.1330	→
GBPUSD	1.2500	1.2545	1.2581	1.2630	1.2680	→
USDJPY	107.10	107.40	107.76	108.00	108.35	→
AUDUSD	0.6950	0.6980	0.7035	0.7045	0.7070	→
EURGBP	0.8925	0.8950	0.8974	0.8990	0.9030	→
USDMYR	4.1300	4.1350	4.1380	4.1400	4.1450	→
EURMYR	4.6450	4.6650	4.6710	4.6760	4.6800	→
JPYMYR	3.8185	3.8320	3.8405	3.8530	3.8740	→
GBPMYR	5.1850	5.2000	5.2065	5.2200	5.2450	↗
SGDMYR	3.0450	3.0500	3.0530	3.0550	3.0575	→
AUDMYR	2.8900	2.9000	2.9110	2.9150	2.9300	→
NZDMYR	2.7600	2.7680	2.7760	2.7700	2.7745	→
USDSGD	1.3500	1.3530	1.3560	1.3580	1.3600	→
EURSGD	1.5270	1.5290	1.5305	1.5350	1.5385	→
GBPSGD	1.7010	1.7050	1.7063	1.7100	1.7180	↗
AUDSGD	0.9450	0.9475	0.9539	0.9550	0.9575	→

* 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	1,690.05	-0.06	-0.03	CRB Index	180.48	1.48	6.29
Dow Jones Ind.	26,966.00	0.67	15.60	WTI oil ($/bbl)	57.34	1.94	26.27
S&P 500	2,995.82	0.77	19.51	Brent oil ($/bbl)	63.82	2.28	18.62
FTSE 100	7,609.32	0.66	13.10	Gold (S/oz)	1,418.78	0.01	10.46
Shanghai	3,015.26	-0.94	20.91	CPO (RM/tonne)	1,885.50	-0.66	-3.43
Hang Seng	28,855.14	-0.07	11.64	Copper ($/tonne)	5,918.00	0.53	-0.79
STI	3,367.80	-0.09	9.74	Rubber (sen/kg)	491.50	0.00	29.68

Source: Bloomberg

Economic Data				
	For	Actual	Last	Survey
US MBA Mortgage Applications	28 Jun	-0.1%	1.3%	--
US ADP Employment Change	Jun	102k	41k (revised)	140k
US Trade Balance	May	-$55.5b	-$51.2b	-$54.0b
US Initial Jobless Claims	29 Jun	221k	229k (revised)	223k
US Markit Services PMI	Jun F	51.5	50.9	50.7
US Factory Orders	May	-0.7%	-1.2% (revised)	-0.6%
US Durable Goods Orders	May F	-1.3%	-2.8%	-1.3%
US Cap Goods Orders Nondef Ex Air	May F	0.5%	-1.1% (revised)	--
US ISM Non-Manufacturing Index	Jun	55.1	56.9	56.0
EU Markit Services PMI	Jun F	53.6	52.9	53.4
UK Markit/CIPS Services PMI	Jun	50.2	51.0	51.0
AU Trade Balance	May	A$5,745m	A$4,871m	A$5,250m
AU Building Approvals MOM	May	0.7%	-4.7%	0.0%

Source: Bloomberg

Macroeconomics

- ***US services industry expanded at slower pace:*** The ISM Non-manufacturing PMI, the primary gauge of US services industry came in 1.8pts lower at 55.1 in June (May: 56.9) to signal a slower pace of growth in the overall sector. The slower upturn was a result of softer productions and new business. New exports order growth steadied while imports stayed at 50.0 neutral line. Notably, hiring appeared to have slowed in the services sector given the 3.1pts decline in the employment sub-index. Prices index was a bright spot as it recorded a 3.5pts increase. Separately, the final reading of IHS Markit Services PMI was revised higher from 50.7 to 51.5 in June (May: 50.9) as the index bounced off May's recent low to indicate a marginal increase in business activity across the services sector.

- ***US factory orders fell in May amidst softer demand; core capital orders appeared resilient:*** US headline factory orders fell 0.7% MOM in May (Apr: -1.2% revised) following a downward revision to April's number and marked its second month of decline. Looking at details, orders of durable goods (goods that could last more than three years) slipped 1.3% MOM (Apr: -2.8%) due to a large decline in the volatile commercial aircrafts segment. Excluding transportations (which consist of these commercial aircraft), durable orders rebounded by 0.4% MOM after falling for three months. The good news was that core capital orders (non-defense capital goods orders excluding aircraft), a popular gauge of US business capex picked up a solid 0.5% MOM (Apr: -1.1%). Core capital orders have been increasing since the start of the 2019 save for a decline in April, a sign of resilience in the economy as firms normally raised investment in anticipation of better growth prospect. That said, the overall fall in headline factory orders reflect a softer demand conditions in general, in line with the recent moderation in other manufacturing data.

- ***US labour market shows signs of a slowdown:*** The US private sector added 102k jobs in June (May: 41k revised) according to the ADP private payroll report, less than what a Bloomberg consensus had earlier called for, hinting a smaller gain Friday's official NFP job numbers. Yet initial jobless claims fell by 8k to a still historically low of 221k last week (previous: 229k revised). Nonetheless leading indicators generally point to a slower pace of hiring in the US job market as seen in the 3.1pts decline in the June ISM non-manufacturing employment index, which surpassed the minimal 0.8pts gain in the ISM manufacturing employment index.

- ***US trade deficit surged to five-month high as trade tensions escalated in May***: US international trade deficit rose to $55.5b in May (Apr: -$51.2b revised) mainly because exports rebounded by 2.0% MOM (Apr: -2.4%), smaller than the 3.3% MOM gain in imports (Apr: -2.2%). On a yearly basis, exports slipped for the second month by 1.3% YOY (Apr: -1.2%) while imports growth quickened to 3.3% YOY (Apr: +0.2%) as firms rushed to purchase goods from China in response to the escalation of US-China trade dispute in early May.

- ***Eurozone services sector still hold up amidst labour market strength***: The final reading of Markit Eurozone Services PMI was revised higher from 53.4 to 53.6 in June (May: 52.9) to indicate a faster expansion of the single currency area's services industry. The solid rise in the services PMI was in contrast with the consistently weak manufacturing reading and was driven by stronger increase in new business volume, reflecting a resilient labour market's role in supporting overall services demand.

- ***UK services sector growth nearly stagnated***: The Markit/CIPS UK Services PMI slipped to just a tad above the 50.0 neutral threshold in June at 50.2 (May: 51.0) to indicate a near stagnation in the country's services industry. June survey attributed the lower PMI reading to sluggish domestic economic conditions and greater risk aversion among clients due to ongoing Brexit uncertainties which in turn led to subdued activity in the sector.

- ***Australia recorded higher trade surplus in May***: Australia trade surplus rose to A$5.75b in May (Apr: 4.87b revised) on the back of faster exports growth. Exports rose 3.6% MOM in June (May: +1.6%) while imports pulled back to increase at a slower pace of 1.5% MOM (Apr: +2.3%). Shipments to China rose by a faster pace of 11.4% MOM (Apr: +7.5%), while shipments to Japan also rebounded by 6.7% MOM (Apr: -16.9%), partly reversing some of the decline in the previous month. Exports to South Korea also improved, recording a 10.6% MOM gain (Apr: +5.7%). Meanwhile, building approvals beat expectations to register a 0.7% MOM growth in May, leaving the YOY decline to decelerate to 19.6% (Apr: -23.4% revised), nonetheless overall building activities in Australia remained subdued amidst slower housing market.

Economic Calendar

Date	Country	Events	Reporting Period	Survey	Prior	Revised
04/07	**Malaysia**	**Exports YOY**	**May**	**2.2%**	**1.1%**	**--**
		Trade Balance MYR	**May**	**8.3b**	**10.9b**	**--**
05/07		Foreign Reserves	28 Jun	--	$102.6b	--
05/07	US	Change in Nonfarm Payrolls	Jun	160k	75k	--
		Unemployment Rate	Jun	3.6%	3.6%	--
		Average Hourly Earnings YOY	Jun	3.2%	3.1%	--
04/07	**Eurozone**	**Retail Sales MOM**	**May**	**0.3%**	**-0.4%**	**--**
05/07	Japan	Household Spending YOY	May	1.5%	1.3%	--
		Leading Index	May P	95.4	95.9	--
		Coincident Index	May P	103.1	102.1	--
04/07	**Australia**	**Retail Sales MOM**	**May**	**0.2%**	**-0.1%**	**--**

Source: Bloomberg

	Last Price	DoD %	High	Low	YTD %
EURUSD	1.1278	-0.06	1.1312	1.1269	-1.57
GBPUSD	1.2574	-0.15	1.2600	1.2557	-1.36
USDJPY	107.81	-0.06	107.92	107.53	-1.72
AUDUSD	0.7029	0.50	0.7039	0.6985	-0.23
EURGBP	0.8969	0.08	0.8990	0.8961	-0.20
USDMYR	4.1370	-0.10	4.1425	4.1355	0.08
EURMYR	4.6701	-0.26	4.6762	4.6647	-1.21
JPYMYR	3.8421	0.49	3.8503	3.8378	2.24
GBPMYR	5.2046	-0.30	5.2169	5.1960	-1.20
SGDMYR	3.0522	0.04	3.0549	3.0480	0.54
AUDMYR	2.9018	0.44	2.9030	2.8910	-0.73
NZDMYR	2.7690	0.43	2.7702	2.7615	-0.35
CHFMYR	4.1982	0.24	4.2083	4.1895	-0.02
CNYMYR	0.6014	-0.03	0.6019	0.6005	-0.63
HKDMYR	0.5307	0.11	0.5314	0.5303	0.47
USDSGD	1.3562	0.01	1.3575	1.3547	-0.48
EURSGD	1.5294	-0.07	1.5330	1.5290	-2.05
GBPSGD	1.7052	-0.15	1.7086	1.7029	-1.85
AUDSGD	0.9533	0.52	0.9546	0.9469	-0.70

Source: Bloomberg

➢Forex

MYR

- **MYR closed 0.10% stronger at 4.1370** as the USD traded mixed ahead of 4th July holiday.
- **We remain neutral MYR over the short term** as risk sentiment has turned and shifted to profit taking and subsiding euphoria over US-China trade over the G20 meeting. However, we remain bullish MYR over the medium term over an expected Fed rate cut.

USD

- **The dollar index closed flat at 96.735** ahead of 4th July holiday.
- **We remain bearish on USD in the medium term** as the Fed is still expected to cut Fed funds rate at the end of this month, while any positive US-China trade headlines in this period could drive down the USD.

EUR

- **EUR marginally lower by 0.06% against the USD at 1.1278.**
- **We turn neutral EUR today** as 4th July holidays are likely to create a subdued trading environment. We remain bullish on EUR over the medium term as the Fed is expected to cut rates this year while the ECB is likely to hold its key rates steady for the remainder of 2019.

GBP

- **GBP closed 0.15% lower at 1.2574, the 3rd trading session lower**.
- **We remain bearish on GBP** as dovish central bank comments and poor economic data will weigh GBP in the short term towards 1.2500 support. In the medium term, leadership and Brexit uncertainties would likely keep the sterling under pressure from now until 31 Oct.

JPY

- **JPY finished marginally stronger at 107.81** torn between weaker growth and rising stocks.
- **We remain bullish JPY on lower UST yields** and on broadly weaker dollar from upcoming Fed rate cuts.

AUD

- **AUD closed 0.50% stronger at 0.7029** against the USD after the RBA cut rate pushed the Aussie back to pre-cut levels.
- **We turn neutral on AUD** as it has already recovered to RBA pre-cut levels in anticipation of a Fed rate cut and ahead of 4th July anticipated holiday trading. We look towards elsewhere for directional cues as the data calendar is light.

SGD

- **SGD closed flat** at 1.3562 against the USD amidst a lack of catalyst.
- **We remain neutral on the currency pair today** but remain bullish SGD in the medium term on expected USD weakness arising from Fed rate adjustment while positive US-China trade development would lend support to overall EM currencies, thus benefitting the SGD as well.

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