March 5, 2019

HongLeong Bank

Global Markets Research

Daily Market Highlights

Key Takeaways

- US stocks ended lower on Monday as weak data outweighed initial optimism that the US and China were close to reaching a bilateral trade deal to resolve current trade dispute. **The unexpected fall in US construction spending in December spurred concerns over a downward revision to 4Q GDP growth** which came in to be 2.6% QOQ last week. The Dow, S&P 500 and NASDAQ came off early highs to lose 0.79%, 0.39% and 0.23% respectively. **Bonds rose across the curve** amidst falling equities as yield on US 10Y treasuries slipped 3bps to 2.72% while yield on 2Y notes fell 1bp to 2.54%. Crude oil continued to be supported by trade deal expectations, with both WTI and Brent went up to $56.59/barrel (+1.42%) and $65.55/barrel (+0.74%). Elsewhere, stocks saw mixed performances across Europe and Asia - trade headlines led markets to rally in China and Hong Kong.

➢ **Economic releases generally skewed to the negative side overnight.** US construction spending fell unexpectedly by 0.6% MOM in December, led by a 1.4% decline in residential construction spending. The Sentix Economic Indices for the Eurozone rose to 2.2 in March, but producer prices gained a modest 3.0% YOY in January. The Markit/CIPS UK Construction PMI fell to 49.5 while Australia AiG Performance of Services Index rose slightly to 44.5 in February. Singapore Purchasing Manager Index slipped for the sixth month to 50.4. **Malaysia exports rose at a slower pace of 3.1% YOY in January while imports gained 1.0% YOY.**

➢ **USD continues to rebound** as the DXY closed up 0.2% at 96.676, amid a see saw session in equities as markets continue to pay attention to equities. The DXY has closed and open above the 96.56 mark hence it confirms a bullish pattern towards 97.172 on technical on the short term. **Maintain a bullish view on USD** over the short term as US-China trade talks optimism seems to be dying down and investors start to grow weary. But over the medium term the USD is still showing negative signals.

➢ **MYR closed slightly weaker at 4.0760 against a stronger USD** and weighed down by continued receding risk appetite as we approach key US data later this week. **MYR is slightly bearish against USD** in anticipation of continued profit taking activities and a weaker equity market in general. The pair is likely to regain the 4.08 handle amidst lack of demand and weaker regionals against the USD.

➢ **SGD closed almost unchanged at 1.3548 against USD** but managed to strengthen against 6 G10s. **Maintain SGD bearishness against USD.** Short term volatility in equities and reduced risk appetite adding further weight to SGD. USDSGD looks like it is consolidating around the middle of the daily Bollinger Band at current levels but technical picture still looks bullish towards the 1.3600 handle.

Overnight Economic Data

Malaysia	↓
US	↓
Eurozone	→
UK	↓
Singapore	↓
Australia	↑

What's Coming Up Next

Major Data

➢ ISM Non-Manufacturing Index, New Home Sales
➢ Eurozone Retail Sales
➢ Hong Kong Retail Sales
➢ US, Eurozone, UK, Japan Markit Services PMI
➢ Hong Kong, Singapore Nikkei PMI

Major Events

➢ BNM Overnight Policy Rate Decision
➢ RBA Cash Rate Decision

Daily Supports – Resistances (spot prices)*

	S2	S1	Indicative	R1	R2	Outlook
EURUSD	1.1300	1.1320	1.1333	1.1345	1.1365	↘
GBPUSD	1.3116	1.3159	1.3175	1.3486	1.3200	↘
USDJPY	111.36	111.64	111.87	111.96	112.08	↘
AUDUSD	0.7068	0.7082	0.7085	0.7150	0.7175	↘
EURGBP	0.8586	0.8600	0.8602	0.8613	0.8629	↗
USDMYR	4.0670	4.0700	4.0710	4.0730	4.0745	↗
EURMYR	4.6287	4.6300	4.6320	4.6346	4.6380	↘
JPYMYR	3.6664	3.6686	3.6700	3.6737	3.6750	↘
GBPMYR	5.4121	5.4146	5.4209	5.4240	5.4280	↘
SGDMYR	3.0149	3.0174	3.0202	3.0217	3.0227	→
AUDMYR	2.9079	2.9100	2.9126	2.9135	2.9150	↘
NZDMYR	2.7805	2.7849	2.7864	2.7874	2.7900	↘
USDSGD	1.3528	1.3544	1.3550	1.3559	1.3569	↗
EURSGD	1.5344	1.5350	1.5358	1.5370	1.5376	↗
GBPSGD	1.7826	1.7846	1.7851	1.7662	1.7880	↘
AUDSGD	0.9585	0.9591	0.9597	0.9604	0.9607	↘

* 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	1,693.99	-0.40	0.20	CRB Index	181.09	-0.22	6.65
Dow Jones Ind.	25,819.65	-0.79	10.68	WTI oil ($/bbl)	56.59	1.42	24.62
S&P 500	2,792.81	-0.39	11.41	Brent oil ($/bbl)	65.55	0.74	21.84
FTSE 100	7,134.39	0.39	6.04	Gold (S/oz)	1,286.74	-0.52	8.10
Shanghai	3,027.58	1.12	21.40	CPO (RM/tonne)*	1,945.00	-0.15	-0.38
Hang Seng	28,959.59	0.51	12.05	Copper ($/tonne)	6,478.00	-0.48	8.60
STI	3,251.08	0.95	5.94	Rubber (sen/kg)	456.00	1.22	20.32

Source: Bloomberg

Economic Data				
	For	Actual	Last	Survey
MY Trade Balance MYR	Jan	11.5b	10.7b (revised)	9.1b
MY Exports YOY	Jan	3.1%	4.8%	1.4%
US Construction Spending MOM	Dec	-0.6%	0.8%	0.1%
EU Sentix Investor Confidence	Mar	-2.2	-3.7	-3.1
EU PPI YOY	Jan	3.0%	3.0%	2.9%
UK Markit/CIPS UK Construction PMI	Feb	49.5	50.6	50.5
SG Purchasing Managers Index	Feb	50.4	50.7	50.4
AU Building Approvals MOM	Jan	2.5%	-8.1% (revised)	1.0%
AU AiG Perf of Services Index	Feb	44.5	44.3	--

Source: Bloomberg

➢ Macroeconomics

- ***Fall in construction spending suggests potential 4QGDP downward revision:*** US construction spending fell 0.6% MOM in December (Nov: +0.8%), nearly reversing the gain made in the previous month, was way below consensus estimate of 0.1% increase. The spending contraction was mainly due a 1.4% MOM decline (Nov: +3.3%) in residential spending as non-residential spending came in flat. Residential investment was among the components of GDP computation and substantial fall in the final month of 2018 could lead to a downward adjustment to the advanced estimates (+2.6% QOQ and 3.1% YOY). Total construction spending for 2018 rose 4.1% YOY (2017:+4.5%) while private residential spending eked out a 3.3% gain (2017: +7.1%), paled in comparison to the above 10% levels seen in the period of 2012-2017 as the housing sector slowed down last year following the Fed's series of rate hikes.

- ***Eurozone investor confidence improved in March, factory inflation stayed tepid:*** The Sentix Economic Indices for the Eurozone rose to 2.2 in March (Feb: -3.7) indicating an improvement in investors' sentiments regarding the bloc's growth outlook as the expectations index rose to -10.3 (Feb: -17.3) but the index for current situation fell to 6.3 (Feb: 10.8). Separate release by the Eurostat meanwhile shows that the increase in producer prices index stayed modest at 3.0% YOY in January (Dec: +3.0%), well below the 4.0-4.9% recorded in July- Nov last year. Growth in producer prices for intermediate goods eased to 1.7% YOY (Dec: +2.2%) while that of energy softened further to 7.3% YOY (Dec: +7.7%) reaffirming that inflation remained tepid in the euro area.

- ***UK construction activity contracted in February:*** The Markit/CIPS UK Construction Total Index fell to 49.5 in February (Jan: 50.6), indicating that business activity fell in the construction sector. The downturn was led by the reductions in commercial buildings and civil engineering, as residential work was the best performing area last month, reflecting softer business spending on fixed assets such as industrial units, offices and retail space amidst Brexit anxieties.

- ***Australia services activities stayed in contractionary mode:*** The AiG Performance of Services Index rose slightly to 44.5 in February (Jan: 44.3), marking its second consecutive month below the 50.0 mark, indicating that overall services activities continued to contract last month. Demand in the sector appeared to be weakening as the sales index fell further to 37.8 (Jan: 39.3) while new orders plunged to 38.5 (Jan: 45.4). Wages growth remained tepid while selling prices also recorded another third successive month of fall. Separately, building approvals rebounded slightly by 2.5% MOM in January (Dec: -8.1% revised) following three months of decline. YOY, approvals fell 28.6% (Dec: -22.0%) as the property sector continued to soften in Australia.

- ***Singapore manufacturing activities growth softened, electronics sector weakened:*** Singapore Purchasing Manager Index slipped to 50.4 in February (Jan: 50.7), its sixth straight month of slower growth, as new orders and output growth weakened further. The electronic sector sub-index also ticked lower to 49.5 (Jan: 49.6) suggesting a further contraction of electronics industry amidst muted global demand.

- ***Malaysia exports kick started 2019 on a firm note:*** Exports continued to see modest gains going into 2019, growing at a more moderate pace of 3.1% YOY in January (Dec: +5.1% YOY revised) but was nonetheless better than expected. Continued weakness in both manufacturing and commodity exports contributed to the slower exports gain in January, confirming the effect of increasing global headwinds on domestic output and exports, aggravated by soft commodity prices particularly that of palm oil. Meanwhile, imports managed to arrest two straight months of decline and maintain a 1.0% YOY increase in January (Dec: +1.0%). Continuous expansion in imports of consumption goods came to the rescue, offsetting declines in capital and intermediate goods imports implying sustained domestic consumption in the run-up to the Lunar festive period. MOM, both exports and imports rebounded, rising 2.2% and 1.4% respectively, shrugging off the 1.6% and 5.4% MOM decline in December. The quicker exports growth vis-à-vis imports widened the trade surplus to RM11.5bn in January (Dec: RM10.7bn revised), its highest in three months. Looking ahead, there is no change to our view for modest low single-digit exports growth for the year although certain months may see intermittent spikes and declines. Amid mounting external challenges, sustainability of domestic demand will be key in supporting overall economic expansion, hopefully not too far off from the potential growth level. We are keeping to our full year 2019 growth forecast of 4.7% at this juncture.

Economic Calendar

Date	Country	Events	Reporting Period	Survey	Prior	Revised
05/03	**Malaysia**	**BNM Overnight Policy Rate**	**05 Mar**	**3.25%**	**3.25%**	**--**
05/03	**US**	**Markit US Services PMI**	**Feb F**	**56.2**	**54.2**	**--**
		ISM Non-Manufacturing Index	**Feb**	**57.4**	**56.7**	**--**
		New Home Sales MOM	**Dec**	**-8.7%**	**16.9%**	**--**
06/03		MBA Mortgage Applications	01 Mar	--	5.3%	--
		ADP Employment Change	Feb	190k	213k	--
		Trade Balance	Dec	-$57.9b	-$49.3b	--
05/03	**Eurozone**	**Markit Eurozone Services PMI**	**Feb F**	**52.3**	**51.2**	**--**
		Retail Sales MOM	**Jan**	**1.3%**	**-1.6%**	**--**
05/03	**UK**	**Markit/CIPS UK Services PMI**	**Feb**	**49.9**	**50.1**	**--**
05/03	**Japan**	**Nikkei Japan PMI Services**	**Feb**	**--**	**51.6**	**--**
05/03	**Hong Kong**	**Nikkei Hong Kong PMI**	**Feb**	**--**	**48.2**	**--**
		Retail Sales Value YOY	**Jan**	**1.1%**	**0.1%**	**--**
05/03	**China**	**Caixin China PMI Services**	**Feb**	**53.5**	**53.6**	**--**
05/03	**Singapore**	**Nikkei Singapore PMI**	**Feb**	**--**	**50.1**	**--**
05/03	**Australia**	**RBA Cash Rate Target**	**05 Mar**	**1.5%**	**1.5%**	**--**
06/03		GDP SA QOQ	4Q	0.5%	0.3%	--

Source: Bloomberg

	Last Price	DoD %	High	Low	YTD %
EURUSD	1.1340	-0.22	1.1395	1.1309	-1.15
GBPUSD	1.3180	-0.17	1.3273	1.3167	3.32
USDJPY	111.75	-0.13	112.01	111.64	1.93
AUDUSD	0.7092	0.18	0.7118	0.7075	0.57
EURGBP	0.8605	-0.02	0.8610	0.8558	-4.31
USDMYR	4.0760	0.04	4.0785	4.0675	-1.39
EURMYR	4.6234	-0.11	4.6370	4.6202	-2.26
JPYMYR	3.6444	0.11	3.6449	3.6327	-2.99
GBPMYR	5.3961	-0.03	5.3999	5.3826	1.97
SGDMYR	3.0099	-0.07	3.0115	3.0047	-0.90
AUDMYR	2.8851	-0.15	2.8923	2.8839	-1.15
NZDMYR	2.7742	-0.07	2.7795	2.7719	0.03
CHFMYR	4.0703	-0.03	4.0832	4.0681	-2.86
CNYMYR	0.6085	0.16	0.6090	0.6074	0.53
HKDMYR	0.5194	0.06	0.5196	0.5182	-1.69
USDSGD	1.3548	-0.03	1.3559	1.3528	-0.59
EURSGD	1.5362	-0.27	1.5435	1.5334	-1.74
GBPSGD	1.7859	-0.17	1.7975	1.7839	2.70
AUDSGD	0.9612	0.18	0.9637	0.9585	-0.02

Source: Bloomberg

➢Forex

MYR

- **MYR closed slightly weaker at 4.0760 against a stronger USD** and weighed down by continued receding risk appetite as we approach key US data later this week.
- **MYR is slightly bearish against USD** in anticipation of continued profit taking activities and a weaker equity market in general. The pair is likely to regain the 4.08 handle amidst lack of demand and weaker regionals against the USD.

USD

- **USD continues to rebound** as the DXY closed up 0.2% at 96.676, amid a see saw session in equities as markets continue to pay attention to equities. The DXY has closed and open above the 96.56 mark hence it confirms a bullish pattern towards 97.172 on technical on the short term.
- **Maintain a bullish view on USD** over the short term as US-China trade talks optimism seems to be dying down and investors start to grow weary. But over the medium term the USD is still showing negative signals.

EUR

- **EUR slipped 0.22% to 1.1340 against USD** amid softer market sentiment but ended mixed against the G10s.
- **We are mildly bearish on EURUSD on the short term** as investors start to profit take and turn cautious ahead of key US data. EURUSD remains in a bullish trend over the medium term so long as US-China talks continue to churn out positive outcomes.

GBP

- **GBP closed lower by 0.17% to 1.3180** against the USD on continued profit taking and overall USD strength, and fell against 5 G10s
- **We maintain bearish view on GBPUSD** on technical reasons. GBPUSD appears to be still hanging around the overbought zone although it is slowly making its way lower. A close and open below the 1.3094 mark will confirm the move lower and extend towards the 1.2737 area.

JPY

- **JPY strengthened 0.13% to 111.75 on equity weakness** and advanced against 7 G10s.
- **We turn mildly bullish on JPY** as equities has started to show sign of US-China talk optimism fatigue. We are also in March or Q1 close whereby it is also Japanese financial year end which usually triggers a bout of JPY buying as Japanese corporates repatriate their foreign currency holdings back home.

AUD

- **AUD closed 0.18% stronger against the USD at 0.7092** and climbed against 8 G10s.
- **AUD remains bearish against USD** in our view, anticipating downside pressure from easing risk appetite in the markets. Investor fatigue and a negative close in US equities will possibly add downside pressure on AUDUSD in the short term. Continued consolidation around recent ranges is expected as markets await more developments elsewhere. A close and open below 0.7070 will open the pair lower towards the stronger 0.7000 support.

SGD

- **SGD closed almost unchanged at 1.3545 against USD** but managed to strengthen against 6 G10s.
- **Maintain SGD bearishness against USD.** Short term volatility in equities and reduced risk appetite adding further weight to SGD. USDSGD looks like it is consolidating around the middle of the daily Bollinger Band at current levels but technical picture still looks bullish towards the 1.3600 handle.

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