HongLeong Bank

September 5, 2019

Global Markets Research

Daily Market Highlights

Key Takeaways

- **US stocks rebounded overnight as risk sentiment recovered on upbeat Chinese services PMI and positive developments in Hong Kong and British politics.** Major US benchmarks posted solid gains around 0.9-1.3% as investors were relieved that Hong Kong's embattled Chief Executive Carrie Lam's move to withdraw a controversial extradition bill that had triggered weeks of political demonstrations had eased some domestic tensions. British lawmakers voted to prevent Boris Johnson from taking Britain out of the EU without a deal and rejected his bid to call for a snap election prior to the 31 Oct Brexit deadline. The yield curve steepened as yield on benchmark 2Y treasuries note slipped by 2bps to 1.43% as Fed rate cut loomed large following dovish Fed speaks while yield on 10Y UST picked up marginally to 1.47%. Gold prices rose 0.4% while crude oil prices surged by 4.2-4.3% to nearly reverse previous days' losses. **The Bank of Canada left its overnight lending rate unchanged at 1.75% and still refrained from signaling any willingness to cut rate. Fed Beige Book signaled a modest increase in US economic activities through August.**

- **Latest batch of Services PMI offered some reliefs that services sector across key economies stayed resilient in the face of softer demand, reflecting the strength of the labour market.** On a less than positive note, PMI for Hong Kong and Singapore fell deeper below the sub-50 territory, suggesting that both economies are heading into a technical recession in the third quarter. **Australia 2Q GDP growth steadied at 0.5% QOQ but softened to 1.4% YOY, its slowest in nearly a decade. Malaysia July exports surprised to the upside as it registered a 1.7% YOY growth, rebounding from June's decline.**

- **The dollar index slipped by 0.6% to 98.45,** its largest fall in nearly five weeks as the greenback continued to be pressured by weak ISM data while at the same time, risk-on mode prompted investors to rush back to riskier assets. **We are still bullish USD over the short term** led by GBP and EUR weakness on UK political uncertainties and an impending ECB stimulus package.

- **USDMYR finished 0.38% lower at 4.2045 on Wednesday** amidst broad-based USD weakness. **MYR is expected to continue benefitting today from the extended dollar weakness** as risk sentiment returned following positive news in Hong Kong and Britain. In the short term, we are still bullish USDMYR as USD/AXJ is expected to be supported by overall USD strength and CNH weakness.

- **SGD strengthened by 0.44% against the USD at 1.3844 amidst broad dollar weakness. We turn neutral on USDSGD today but remain bearish SGD over the short and medium terms** on unresolved US-China trade dispute and persistent Brexit uncertainties.

Overnight Economic Data

Malaysia	↑
US	→
EU	→
UK	↓
Japan	↑
China	↑
Hong Kong	↓
Singapore	↓
Australia	→

What's Coming Up Next

Major Data

- US ADP Payroll, Initial Jobless Claims, ISM & Markit Services PMI, Factory Orders
- Australia Trade Balance

Major Events

- Nil

Daily Supports – Resistances (spot prices)*

	S2	S1	Indicative	R1	R2	Outlook
EURUSD	1.1000	1.1020	1.1038	1.1045	1.1050	→
GBPUSD	1.2000	1.2155	1.2247	1.2315	1.2345	→
USDJPY	105.60	106.15	106.44	106.70	106.95	→
AUDUSD	0.6700	0.6750	0.6798	0.6810	0.6850	→
EURGBP	0.8945	0.8985	0.9005	0.9075	0.9130	→
USDMYR	4.1900	4.1950	4.1970	4.2000	4.2050	↘
EURMYR	4.6075	4.6200	4.6299	4.6400	4.6500	↘
JPYMYR	3.9335	3.9400	3.9430	3.9675	3.9800	↘
GBPMYR	5.0930	5.1135	5.1431	5.1635	5.1745	↘
SGDMYR	3.0250	3.0300	3.0317	3.0350	3.0400	↘
AUDMYR	2.8380	2.8450	2.8540	2.8630	2.8720	↘
NZDMYR	2.6620	2.6690	2.6718	2.6790	2.6880	→
USDSGD	1.3800	1.3825	1.3846	1.3860	1.3900	→
EURSGD	1.5220	1.5260	1.5276	1.5300	1.5320	→
GBPSGD	1.6800	1.6878	1.6950	1.7000	1.7075	→
AUDSGD	0.9370	0.9385	0.9414	0.9430	0.9450	→

* 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	1,599.89	0.53	-5.36	CRB Index	172.70	2.07	1.70
Dow Jones Ind.	26,355.47	0.91	12.98	WTI oil ($/bbl)	56.26	4.30	23.89
S&P 500	2,937.78	1.08	17.19	Brent oil ($/bbl)	60.70	4.19	12.83
FTSE 100	7,311.26	0.59	8.67	Gold (S/oz)	1,552.55	0.35	21.07
Shanghai	2,957.41	0.93	18.59	CPO (RM/tonne)	2,115.00	-1.28	8.32
Hang Seng	26,523.23	3.90	2.62	Copper ($/tonne)	5,748.00	2.46	-3.64
STI	3,130.57	1.29	2.01	Rubber (sen/kg)	440.00	1.38	16.09

Source: Bloomberg

Economic Data				
	For	Actual	Last	Survey
MA Exports YOY	Jul	1.7%	-3.4% (revised)	-2.5%
US MBA Mortgage Applications	30 Aug	-3.1%	-6.2%	--
US Trade Balance	Jul	-$54.0b	-$55.5b (revised)	-$53.4b
EU Markit Services PMI	Aug F	53.5	53.2	53.4
EU Retail Sales MOM	Jul	-0.6%	1.2% (revised)	-0.6%
UK Markit/CIPS Services PMI	Aug	50.6	51.4	51.0
JP Jibun Bank Japan PMI Services	Aug F	53.3	51.8	--
CN Caixin Services PMI	Aug	52.1	51.6	--
HK Markit Hong Kong PMI	Aug	40.8	43.8	--
SG Markit Singapore PMI	Aug	48.7	51.0	--
AU GDP SA QOQ	2Q	0.5%	0.4%	0.5%

Source: Bloomberg

Macroeconomic

- ***Fed Beige Book said US economy grew modestly; US trade deficit narrowed:*** The Federal Reserve Beige Book reported that the US economy grew at a modest pace through the end of August where majority of businesses appeared positive over near term outlook despite tariffs and trade related uncertainties. Consumer spending was mixed, home sales remained constrained, and manufacturing was down while agricultural conditions were weak. Firms reported that employment rose modestly in general but noted that hiring in the manufacturing sector was either flat or down. Wage growth was said to be "modest and moderate". Price increases were "modest" as well where the impact of tariffs on pricing appeared mixed. On a separate note, US trade deficit narrowed to $ 54.0b in July (Jun: -$55.5b) on faster exports growth, prior to the escalation of US-China trade war in August. Mortgage applications slipped for the third straight week by 3.1% last week as refinancing applications fell despite lower interest rates suggesting that borrowers are taking a wait-and-see approach in view of recent market volatilities.

- ***Eurozone services sector stayed solid:*** The IHS Markit Services PMI rose to 53.5 in August (Jul: 53.2) to signal a solid increase in business activities in the services sector. The stronger print last month was driven by a combination of higher new order and a reduction of outstanding work where Germany and Ireland were seen recording the strongest gains. Employment continued to grow but at a weaker rate while rising wages pushed up operating cost in general, a welcoming sign for inflation. On a separate note, retail sales declined by 0.6% MOM in July (Jun: +1.2% revised) after a surge in the previous month.

- ***UK services sector experienced softer growth:*** The IHS Markit/CIPS UK Services PMI slipped to 50.6 in August (Jul: 51.4), pointing to only a marginal expansion of the services sector. Despite PMI staying above the neutral 50.0 mark for the fifth consecutive month, the sector seems to struggle to sustain growth momentum as the reading has been moving sideways in general, highlighting weaker underlying demand conditions amidst persistent Brexit uncertainties.

- ***Japan services sector growth picked up momentum:*** The Jibun Bank Japan Services PMI rose to 53.3 in August (Jul: 51.8), its highest reading in nearly two years to signal a marked increase in services activities. The notable improvement points to a sharp pickup in growth momentum and was driven mainly by higher new businesses last month ahead of October sales tax hike.

- ***Sharp fall in Hong Kong PMI points to potential technical recession:*** The IHS Markit Hong Kong PMI plunged to 40.8 in August (Jul: 43.8), marking its worst reading since Feb-09, as US-China trade war and deepening domestic unrest continued to brew trouble for the economy. The deeper downturn last month was a result of falling new orders as Chinese demand continued to weaken while at the same time ongoing political demonstrations led visitors to shun the city and weighed on businesses in general. The deterioration in activities in both July and August suggests that the Hong Kong economy is in for a technical recession in the third quarter (GDP had contracted by 0.4% QOQ in 2Q) as trade uncertainties and domestic unrest are very likely to carry through to September.

- ***China services sector remained resilient:*** China Caixin Services PMI edged up to 52.1 in August (Jul: 51.6) to mark its strongest gain in services activity in three months, roughly in line with the marginal increase of the official NBS non-manufacturing PMI. The upturn was driven by higher new orders both from overseas and domestic sources as well as a renewed increase in employment, offering relief that the services sector remained resilient in the midst of broadly softer demand and persistent trade uncertainty.

- ***Singapore PMI dropped below 50, flagging technical recession risk:*** The IHS Markit Singapore PMI dropped to 48.7 in August (Jul: 51.0) to indicate a contraction in the private sector economy for the first time since February. The downturn was a result of sharper fall in output and new work amidst softer domestic and overseas demand conditions, pointing to a potential technical recession in the third quarter (SG GDP contracted by 3.3% QOQ in 2Q).

- ***Australia GDP growth slowest in nearly a decade***: Australia GDP rose 0.5% QOQ in the second quarter of 2019 (1Q: +0.5% revised), supported by positive contribution from consumption (+0.7pps) and exports (+0.3pps). Investment weakened in 2Q as it deducted 0.3pps from headline GDP. The annual rate clocked in at a mere 1.4% YOY (1Q: +1.7% revised), a pace last observed nearly ten years ago in 3Q09. The steady quarterly growth added to signs that momentum in the economy is sustained with the recent cuts in cash rate expected to feed through and support growth in household demand. The gradual recovery of the housing market driven by lower interest rates as well as more relaxed APRA rules is also likely to support consumption in 3Q. We expect the RBA to keep cash rate unchanged for the rest of 2019.

- ***Surprised rebound in Malaysia exports:*** Exports surprised for a 2nd straight month, but on the positive side this time as it navigated a rebound to increase 1.7% YOY in July (Jun: -3.4% YOY revised), as exports to major destinations namely Singapore and China rebounded, led by the E&E and LNG sectors. Contrary to the spike in exports, imports extended its decline for the second consecutive month, by 5.9% YOY in July (Jun: -9.8% YOY revised), helped by smaller declines across all import categories. MOM, exports halted two months of decline to jump 15.5% MOM (Jun: -9.5%) while imports also bounced back albeit at a lesser pace of 12.3% MOM (Jun: -12.6%). This widened the trade surplus to RM14.3bn in July (Jun: RM10.5bn revised), a 4-month high. While the pleasant surprise in July trade numbers did somewhat alleviate concerns of a steeper slowdown in exports, we remain skeptical if growth outlook could see meaningful improvement going forward given escalating trade tensions and its related spill over to the world and regional economies. We are therefore maintaining our view for subdued exports growth this year with full year real GDP growth unchanged at 4.7%. Still decent growth outlook and the earlier preemptive monetary policy easing in May shall allow BNM to adopt a wait and see approach in its monetary policy path despite mounting pressure from the global front. We therefore expect no change in the OPR in the upcoming September MPC meeting but will be closely watching its accompanying statement for cues of any potential move in November.

Economic Calendar						
Date	**Country**	**Events**	**Reporting Period**	**Survey**	**Prior**	**Revised**
06/09	Malaysia	Foreign Reserves	30 Aug	--	$103.1b	--
05/09	**US**	**ADP Employment Change**	**Aug**	**148k**	**156k**	**--**
		Initial Jobless Claims	**31 Aug**	**215k**	**215k**	**--**
		Markit US Services PMI	**Aug F**	**50.9**	**53.0**	**--**
		Factory Orders	**Jul**	**1.0%**	**0.6%**	**--**
		Durable Goods Orders	**Jul F**	**2.1%**	**1.8%**	**--**
		Cap Goods Orders Nondef Ex Air	**Jul F**	**--**	**0.9%**	**--**
		ISM Non-Manufacturing Index	**Aug**	**54.0**	**53.7**	**--**
06/09		Change in Nonfarm Payrolls	Aug	160k	164k	--
		Unemployment Rate	Aug	3.7%	3.7%	--
		Average Hourly Earnings YOY	Aug	3.0%	3.2%	--
06/09	Eurozone	GDP SA QOQ	2Q F	0.2%	0.2%	--
06/09	UK	Halifax House Prices MOM	Aug	0.2%	-0.2%	--
06/09	Japan	Household Spending YOY	Jul	0.8%	2.7%	--
		Labor Cash Earnings YOY	Jul	0.1%	0.4%	--
		Leading Index CI	Jul P	93.2	93.3	--
05/09	**Australia**	**Trade Balance**	**Jul**	**A$7,000m**	**A$8,036m**	**--**

Source: Bloomberg

	Last Price	DoD %	High	Low	YTD %
EURUSD	1.1035	0.56	1.1038	1.0969	-3.77
GBPUSD	1.2253	1.42	1.2258	1.2079	-3.93
USDJPY	106.39	0.42	106.44	105.83	-3.04
AUDUSD	0.6797	0.55	0.6801	0.6755	-3.58
EURGBP	0.9006	-0.83	0.9086	0.9002	0.18
USDMYR	4.2045	-0.38	4.2175	4.2025	1.72
EURMYR	4.6337	0.34	4.6349	4.6178	-1.98
JPYMYR	3.9583	-0.54	3.9834	3.9556	5.34
GBPMYR	5.1083	0.90	5.1144	5.0920	-3.02
SGDMYR	3.0314	0.00	3.0360	3.0289	-0.15
AUDMYR	2.8523	0.46	2.8589	2.8491	-2.42
NZDMYR	2.6712	0.59	2.6750	2.6633	-3.87
CHFMYR	4.2625	0.06	4.2750	4.2542	1.51
CNYMYR	0.5878	-0.06	0.5883	0.5873	-2.87
HKDMYR	0.5363	-0.35	0.5376	0.5361	1.53
USDSGD	1.3844	-0.44	1.3906	1.3841	1.56
EURSGD	1.5278	0.12	1.5278	1.5233	-2.27
GBPSGD	1.6963	0.98	1.6969	1.6792	-2.43
AUDSGD	0.9410	0.05	0.9425	0.9392	-2.06

Source: Bloomberg

➢Forex

MYR

- USDMYR finished 0.38% lower at 4.2045 on Wednesday amidst broad-based USD weakness.
- MYR is expected to continue benefitting today from the extended dollar weakness as risk sentiment returned following positive news in Hong Kong and Britain. In the short term, we are still bullish USDMYR as USD/AXJ is expected to be supported by overall USD strength and CNH weakness. In the medium term, we remain bearish USDMYR as unresolved US-China trade dispute and weak ISM manufacturing data might lead to a potential rate cut by the Fed this month.

USD

- The dollar index slipped by 0.6% to 98.45, its largest fall in nearly five weeks as the greenback continued to be pressured by weak ISM data while at the same time, risk-on mode prompted investors to rush back to riskier assets. USD weakened against nearly all the majors (save for JPY) and emerging markets currencies.
- **We are still bullish USD over the short term** led by GBP and EUR weakness on UK political uncertainties and an impending ECB stimulus package. **We are bearish USD over the medium term** as unresolved US-China trade dispute and weak ISM manufacturing data might lead to a potential rate cut by the Fed this month. Markets are still pricing in 100% chance of a cut in the fed funds rate in mid-September.

EUR

- EUR surged by 0.56% against the USD at 1.1035 to as broad-based USD weakness following weak ISM manufacturing continued to drive EUR recovery and lift the single currency for the second consecutive session.
- **We are neutral on EUR today** as the lack of catalysts and return of risk-on mode might see demand for EUR struggling to pick up. **In the medium term, we remain bearish EUR**, heading into next week's ECB meeting where the central bank is expected to introduce an aggressive stimulus package and potentially cut its already negative deposit rate to support growth and faltering inflation in the euro area.

GBP

- GBP surged by 1.42% against the greenback at 1.2253 as fear of a no-deal Brexit receded. GBP largely ignored BOE's governor Mark Carney's testimony before the Treasury Committee.
- We are neutral on GBP today but are still bearish GBP for the near future on persistent Brexit uncertainties as more unexpected Brexit headlines could still unfold and weigh down on the sterling.

JPY

- **JPY finished 0.42% weaker at 106.39 against the USD** as recovering risk sentiment weighed on demand for safe havens yen.
- **We are neutral on JPY today on the expected lack of catalysts and remain bullish JPY over both short and medium terms** on unresolved US-China trade dispute and persistent Brexit uncertainties.

AUD

- **AUD rose by 0.55% against the USD at 0.6797** on decent Australia and China data and broad-based greenback weakness.
- **We are neutral AUD today** ahead of Australia trade report and likely consolidation of recent gains. **In the medium term, we remain bearish AUD** amidst dismal global growth outlook as well as lower commodity prices which could weigh on AUD.

SGD

- **SGD strengthened by 0.44% against the USD at 1.3844 amidst broad dollar weakness.**
- **We turn neutral on USDSGD today but remain bearish SGD over the short and medium terms** on unresolved US-China trade dispute and persistent Brexit uncertainties.

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