March 6, 2019

Global Markets Research

Daily Market Highlights

Key Takeaways

- **US stocks slipped overnight following an indecisive session in the absence of any new trade talk development despite strong data showings.** Retailers' shares rose as Target and Kohl reported positive sales and earnings. **US treasuries were virtually unchanged** with yield on 10Y US government notes fell 0.5bp to 2.72%. Earlier, **China announced its 2019 growth target of 6.0-6.5% and pledged to support the slowing economy with more fiscal measures.** Stocks rallied in China with the Shanghai Composite index picking up a solid 0.88% gain. Asian benchmarks ended mixed elsewhere while European markets closed higher. Oil prices weakened as WTI fell to $56.56/barrel (-0.05%) while Brent crude ticked lower to $65.58/barrel (-0.14%). Earlier, **RBA left cash rate unchanged at 1.5% while BNM also held OPR steady at 3.25% but struck a more dovish tone, signaling the central bank's readiness to cut should downside risks continue to pick up.**

- **PMI readings generally point to solid services sector across the globe,** countering the weaker growth at the manufacturing front. US ISM non-manufacturing index bounced back to a three-month high and was accompanied by a concurrent gain in the Markit PMI. Services PMI for the Eurozone, UK and Japan all recorded modest pick-ups with the exception of China's Caixin reading. Notably, new home sales in the US rose 3.7% MOM in December, but the sizable revision to November's number suggests a trip to 4Q18 GDP growth. Retail sales in the Eurozone rose 1.3% MOM, nearly reversing all of previous month's fall. Hong Kong retail sales also rebounded to grow 7.1% YOY in January ahead of February's Lunar new year celebration.

- **USD** extended its rebound, **beating 9 G10s** following better than expected US data that bolstered rate hike prospects. The DXY pared some gains after jumping in US morning but was nonetheless 0.19% higher at 96.86. **Expect a bullish USD**, backed by rising expectations of more positive US data releases going forward after recent good performances, on top of optimism emanating from US-China trade talks. Breaking 96.84 overnight suggests that DXY is likely taking aim at 97.20 – 97.36 range. While it may push higher, we caution that risk of rejection is expected to increase heading towards the said range.

- **MYR dipped another 0.02% to 4.0770 against a firmer USD** but managed to advance against 8 G10s that were also relatively softer on receding risk appetite. **MYR is slightly bearish against a firm USD**, and in anticipation of pressure from receding risk appetite in the markets. A bullish trend is taking a firmer hold on USDMYR. Expect a climb back to circa 4.0920 – 4.0965 going forward, above which 4.1038 will be threatened.

- **SGD** advanced against 8 G10s on US-China trade talk optimism but **slipped 0.06% to 1.3556 against a firmer USD**. **SGD is still bearish against USD** in our view, weighed down by receding risk appetite in the markets. Technical outlook suggests that USDSGD continues to form a bullish chart pattern, which hints at a climb to circa 1.3614. Holding above 1.3545 gives USDSGD a bullish tilt.

Overnight Economic Data	
US	→
Eurozone	↑
UK	↑
Japan	↑
Hong Kong	↑
China	↓
Singapore	↓

What's Coming Up Next

Major Data

- US MBA Mortgage Applications, ADP Employment Change, Trade Balance
- Australia 4Q GDP

Major Events

- US Fed Beige Book

Daily Supports – Resistances (spot prices)*

	S2	S1	Indicative	R1	R2	Outlook
EURUSD	1.1276	1.1297	1.1305	1.1310	1.1329	↘
GBPUSD	1.3114	1.3136	1.3152	1.3159	1.3172	↘
USDJPY	111.64	111.81	111.86	112.01	112.09	↗
AUDUSD	0.7033	0.7041	0.7058	0.7068	0.7077	↘
EURGBP	0.8576	0.8586	0.8594	0.8601	0.8629	↗
USDMYR	4.0800	4.0810	4.0835	4.0855	4.0860	↗
EURMYR	4.6100	4.6115	4.6142	4.6160	4.6201	↘
JPYMYR	3.6485	3.6500	3.6523	3.6575	3.6616	↗
GBPMYR	5.3626	5.3650	5.3687	5.3714	5.3735	↘
SGDMYR	3.0075	3.0091	3.0102	3.0115	3.0132	→
AUDMYR	2.8785	2.8800	2.8828	2.8868	2.8896	↘
NZDMYR	2.7678	2.7700	2.7713	2.7755	2.7779	↘
USDSGD	1.3545	1.3559	1.3565	1.3574	1.3580	↗
EURSGD	1.5312	1.5323	1.5328	1.5336	1.5344	↘
GBPSGD	1.7777	1.7800	1.7836	1.7844	1.7878	↘
AUDSGD	0.9550	0.9563	0.9572	0.9587	0.9599	↘

* 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	1,685.62	-0.49	-0.29	CRB Index	181.90	0.44	7.12
Dow Jones Ind.	25,806.63	-0.05	10.63	WTI oil ($/bbl)	56.56	-0.05	24.55
S&P 500	2,789.65	-0.11	11.28	Brent oil ($/bbl)	65.58	-0.14	21.88
FTSE 100	7,183.43	0.69	6.77	Gold (S/oz)	1,288.01	0.10	8.10
Shanghai	3,054.25	0.88	22.47	CPO (RM/tonne)*	1,960.00	0.77	0.38
Hang Seng	28,961.60	0.01	12.06	Copper ($/tonne)	6,409.00	-1.07	7.44
STI	3,234.07	-0.52	5.39	Rubber (sen/kg)	456.00	-0.22	20.32

Source: Bloomberg

Macroeconomics

Economic Data				
	For	Actual	Last	Survey
MY BNM OPR	05 Mar	3.25%	3.25%	3.25%
AU RBA Cash Rate Target	05 Mar	1.5%	1.5%	1.5%
US Markit Services PMI	Feb F	56.0	54.2	56.2
US ISM Services Index	Feb	59.7	56.7	57.4
US New Home Sales MOM	Dec	3.7%	9.1% (revised)	-8.7%
EU Markit Services PMI	Feb F	52.8	51.2	52.3
EU Retail Sales MOM	Jan	1.3%	-1.4% (revised)	1.3%
UK Markit/CIPS Services PMI	Feb	51.3	50.1	49.9
JP Nikkei PMI Services	Feb	52.3	51.6	--
HK Nikkei PMI	Feb	48.4	48.2	--
HK Retail Sales Value YOY	Jan	7.1%	0.1%	1.1%
CN Caixin PMI Services	Feb	51.1	53.6	53.5
SG Nikkei PMI	Feb	49.8	50.1	--

Source: Bloomberg

- ***US ISM services index bounced back to 3-month high:*** The ISM Non-manufacturing index climbed by 3pts to a three-month high of 59.7 in February (Jan: 56.7) after slipping for two months suggesting that the services sector returned to the robust state seen in last year. The stronger-than-expected showing was led by a surge in production (+5pts), new orders (+7.5pts) as well as new exports order (+4.5pts). Firms continued hiring but at a slower pace (-2.6pts) this month while the fall in the prices index (-5.0pts) reaffirmed softening inflation. Similarly, the Markit Services PMI also rose to 56.0 in the same month (Jan: 54.2), its highest level in seven months. Both indexes countered weaker manufacturing readings, offering relief that US growth is still holding up despite generally softening demand conditions, with Fed's dovish interest rate outlook sending message that the current and upcoming domestic conditions could not withstand faster pace of rate hikes this year. Separately, new home sales increased by 3.7% MOM in December (Nov: +9.1% revised) following a large downward revision to November's hefty gain, suggesting a potential trim to the advance 4Q GDP estimate which came in at 2.6% QOQ.

- ***Eurozone services sector growth recorded modest improvement, retail sales recovered:*** The Eurozone Services Business Activity Index ticked up to 52.8 in February (Jan: 51.2) signaling a modest expansion in the euro area's services industry. All countries registered growth in activity, with overall new business growth saw modest increase. Hiring continued as well with many reported higher salaries being paid to workers leading to a sharper rise in overall operating costs. The stronger PMI indicates services sector resilience but the given that new business inflow trend remains weak, noticeable improvement in the sector seems unlikely in the coming months. Retail sales picked up 1.3% MOM in January (Dec: -1.4% revised), reversing nearly all of December's decline suggesting resilience in consumer demand.

- ***Modest pickup in UK services sector as Brexit uncertainties held back business growth:*** The Markit/CIPS UK Services PMI Business Activity Index inched up to 51.3 in February (Jan: 50.1) signaling a modest expansion in the services sector, as the subdued start seen in the beginning of the year extended further to last month. New work fell for the second month, subdued demand and concerns over near-term economic growth led business to delay hiring (employment numbers declined at the fastest rate for over seven years). Brexit related uncertainty remained the most prominent factor holding back business activity growth.

- ***China services sector slowed amidst softer exports order:*** The Chinese Services Business Activity Index fell to 51.1 in February (Jan: 53.6), signaling a marginal growth in China services industry and was in line with the weaker upturn recorded by the official NBS services PMI. February's subdued activity was due to slower new business with new exports orders growth also easing to a five-month low

- ***Stronger demand drove Japan services PMI:*** The headline Business Activity Index in the latest Nikkei Services PMI survey rose to 52.3 in February (Jan: 51.6) signaling a modest expansion in the service sector. The upturn was driven by a faster improvement in demand condition as new business rose at the quickest pace since May-13, suggesting that services sector stays resilient in Japan, in contrast with the struggling manufacturing sector.

- ***Hong Kong private economy stays weak amid soft Chinese demand, retail sales rebounded ahead of lunar new year:*** The Nikkei Hong Kong PMI ticked up slightly but remained weak at 48.4 in February (Jan: 48.2), pointing to continuous deterioration in Hong Kong's private sector health. Weak demand conditions underpinned the contraction with total new business intakes shrank further in February, due to a marked declines in exports to China. Output fell, purchasing activity was scaled back as well while employment declined. A separate release shows that retail sales in Hong Kong staged a major comeback to record a 7.1% YOY growth in January (Dec: +0.1%) ahead of the lunar new year celebration in early February as consumers returned for festivities shopping.. The largest increase in five months came after lacklustre sales in late 2018 and was led by a surge in sales of food, alcohol and tobacco (+13.0% vs +0.9%), clothing & footwear (+5.5% vs +0.7%) as well as jewelry, watches & clocks (+4.7% vs -5.2%). Sales across supermarkets and department stores rose substantially

- ***Singapore private sector economy deteriorated:*** The Nikkei Singapore PMI fell for the third month to a five-month low of 49.8 in February (Jan: 50.1), marking its first reading below the 50.0 mark since last September. The deterioration came in line with the weaker official PMI reading, reaffirming a slower growth in the country's private sector economy. New business growth approached near-stagnation with new orders from external markets declining for the third straight month, generally echoing the softer demand conditions elsewhere.

- ***RBA left cash rate unchanged, offering no hint on rate adjustment despite slightly dovish tone:*** RBA left cash rate unchanged at 1.5% as widely expected, pointing out the slower pace of growth has continued into 2019 and trade tensions remain a source of uncertainty. Global financial conditions remain accommodative and have eased recently after tightening around the turn of the year. The Australian labour market remains favourable with unemployment rate expected to fall from 5.0% to 4.75% over the next couple of years and this should lead to some further lift in wages growth over time but it cautioned that this is still expected to be a gradual process. Other indicators suggest growth slowed over 2H18 and the central scenario is for the Australian economy to grow around 3% in 2019. The main domestic uncertainty continues to be the strength of the household consumption in the context of weak growth in household income and falling house prices in certain cities. The adjustment in the Sydney and Melbourne housing markets continue, after an earlier run up in prices with conditions remain soft in both markets. Inflation remains low and stable – headline inflation to decline in near term due to lower oil prices while underlying inflation is expected to be 2% in 2019 and 2.25% in 2020. RBA strike a slightly dovish tone by acknowledging a slower second half but gave no hint that it is adjusting cash rate anytime soon given a stronger labour market and a potential pick-up in wage growth thus reaffirming our view that the central bank is likely to keep cash rate unchanged in the near term.

- ***BNM kept OPR unchanged but struck a more dovish tone:*** BNM maintained the Overnight Policy Rate (OPR) at 3.25% as expected but we noted a sense of dovishness in its latest policy statement, suggesting BNM is prepared to cut OPR as early as the next MPC meeting in May should downside risks continue to pick up. While its assessment on the slowing global economy and steady growth path of the Malaysian economy did not sway much from the last meeting, the MPC emphasized that there are downside risks in the economic and financial environment. Indeed, it highlighted the "materialization of downside risks" from unresolved trade tensions, heightened uncertainties in the global and domestic environment, as well as prolonged weakness in the commodity related sectors, in line with what we have cautioned in the our last report post January MPC meeting This offered a strong hint that it is acknowledging the shift in overall economic and financial conditions that potentially warrants an adjustment in its monetary policy. BNM is also turning less upbeat on inflation, commenting that average headline inflation is expected to be broadly stable compared to 2018, vs previous assessment that inflation is expected to trend moderately higher in 2019. This ties with our view that inflation is expected to remain flat at 1.0% YOY this year (2018: +1.0% YOY). The more dovish statement raised the odds of a 25bps OPR cut as early as the May MPC meeting. The shift in the Fed guidance to a more gradual policy normalization path to probably just one hike at its very best this year (and probably none at all), coupled with recent appreciation in the MYR could be among other key factors prompted the shift in policy tone at the March meeting.

Economic Calendar

Date	Country	Events	Reporting Period	Survey	Prior	Revised
07/03	Malaysia	Foreign Reserves	28 Feb	--	$102.3b	--
06/03	**US**	**MBA Mortgage Applications**	**01 Mar**	**--**	**5.3%**	**--**
		ADP Employment Change	**Feb**	**190k**	**213k**	**--**
		Trade Balance	**Dec**	**-$57.9b**	**-$49.3b**	**--**
07/03		U.S. Federal Reserve Releases Beige Book				
		Initial Jobless Claims	02 Mar	225k	225k	--
		Unit Labor Costs	4Q F	1.7%	0.9%	--
07/03	Eurozone	GDP SA QOQ	4Q F	0.2%	0.2%	--
		ECB Main Refinancing Rate	07 Mar	0.0%	0.0%	--
07/03	UK	Halifax House Prices MoM	Feb	0.0%	-2.9%	--
07/03	Japan	Coincident Index	Jan P	98.9	101.8	--
		Leading Index CI	Jan P	96.1	97.5	--
06/03	**Australia**	**GDP SA QOQ**	**4Q**	**0.3%**	**0.3%**	**--**

Source: Bloomberg

	Last Price	DoD %	High	Low	YTD %
EURUSD	1.1308	-0.28	1.1341	1.1290	-1.40
GBPUSD	1.3178	-0.02	1.3199	1.3098	3.17
USDJPY	111.89	0.13	112.14	111.72	1.95
AUDUSD	0.7084	-0.11	0.7097	0.7059	0.52
EURGBP	0.8581	-0.28	0.8646	0.8577	-4.40
USDMYR	4.0770	0.02	4.0790	4.0755	-1.34
EURMYR	4.6182	-0.11	4.6230	4.6135	-2.46
JPYMYR	3.6414	-0.08	3.6471	3.6405	-2.95
GBPMYR	5.3724	-0.44	5.3760	5.3609	1.86
SGDMYR	3.0089	-0.03	3.0103	3.0075	-0.93
AUDMYR	2.8858	0.02	2.8909	2.8817	-1.13
NZDMYR	2.7699	-0.16	2.7808	2.7678	-0.21
CHFMYR	4.0733	0.07	4.0813	4.0705	-3.32
CNYMYR	0.6081	-0.05	0.6086	0.6079	0.48
HKDMYR	0.5192	-0.04	0.5196	0.5192	-1.65
USDSGD	1.3556	0.06	1.3570	1.3542	-0.51
EURSGD	1.5329	-0.21	1.5366	1.5318	-1.91
GBPSGD	1.7865	0.03	1.7878	1.7761	2.63
AUDSGD	0.9604	-0.08	0.9612	0.9579	0.03

Source: Bloomberg

➢Forex

MYR

- **MYR dipped another 0.02% to 4.0770 against a firmer USD** but managed to advance against 8 G10s that were also relatively softer on receding risk appetite.
- **MYR is slightly bearish against a firm USD**, and in anticipation of pressure from receding risk appetite in the markets. A bullish trend is taking a firmer hold on USDMYR. Expect a climb back to circa 4.0920 – 4.0965 going forward, above which 4.1038 will be threatened.

USD

- **USD** extended its rebound, **beating 9 G10s** following better than expected US data that bolstered rate hike prospects. The DXY pared some gains after jumping in US morning but was nonetheless 0.19% higher at 96.86.
- **Expect a bullish USD**, backed by rising expectations of more positive US data releases going forward after recent good performances, on top of optimism emanating from US-China trade talks. Breaking 96.84 overnight suggests that DXY is likely taking aim at 97.20 – 97.36 range. While it may push higher, we caution that risk of rejection is expected to increase heading towards the said range.

EUR

- **EUR** was unable to capitalize on improved Eurozone data as its **performance was overshadowed by a firm USD, down 0.28% to 1.1308**. EUR slipped against 6 G10s.
- **Stay bearish on EUR in anticipation of a firm USD**. A bearish trend is becoming more entrenched and EURUSD is likely headed towards 1.1264 – 1.1276 range. Breaking below this will set a course for 1.1234, but we doubt EURUSD will stay below 1.1276 for long.

GBP

- **GBP dipped 0.02% to 1.3178 against a firm USD** but managed to erase more losses in US session and advanced against 8 G10s.
- **GBP is bearish on the back of a firm USD** but may outperform if Brexit sentiment improves. Receding upward momentum and downside break of 1.3160 point to further losses in GBPUSD. We set sights on a drop to circa 1.3047 – 1.3061 in the next leg lower, but caution that some modest bounces may take place in due course.

JPY

- **JPY** was supported by relatively soft sentiment in the markets, climbing against 6 G10s but **weakened 0.13% to 111.89 against a firm USD**.
- **Maintain a bearish view on JPY on the back of a firm USD**. USDJPY remains tilted to the upside and likely to push above 112.00 soon, with scope to test 112.25.

AUD

- **AUD** climbed against 7 G10s, lifted by firm prospects of a positive outcome to US-China trade talks but **fell 0.11% to 0.7084 against a firmer USD**.
- **Expect a bearish AUD against USD**, pressured by softer than expected Australian GDP figure, which raises the prospect of a dovish tilt from RBA, as well as continued recede in market sentiment. AUDUSD has broken below 0.7068 and we reckon that this is an extension of current bearish trend that is looking for 0.7019 – 0.7033. Also, AUDUSD may be completing a bearish chart pattern, which if true, puts it on track towards circa 0.6920.

SGD

- **SGD** advanced against 8 G10s on US-China trade talk optimism but **slipped 0.06% to 1.3556 against a firmer USD**.
- **SGD is still bearish against USD** in our view, weighed down by receding risk appetite in the markets. Technical outlook suggests that USDSGD continues to form a bullish chart pattern, which hints at a climb to circa 1.3614. Holding above 1.3545 gives USDSGD a bullish tilt.

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