November 6, 2019

HongLeong Bank

Global Markets Research

Daily Market Highlights

Key Takeaways

- **US stocks ended little changed overnight following a rally in the previous session as investors await more trade-related development** concerning the signing of US-China deal. The S&P 500 retreated slightly by 0.1%, the Dow rose 0.1% and NASDAQ was flat but stocks remained at all-time highs. Treasuries continued to fall as investors ditched safe havens assets amidst growing trade optimism leading benchmark UST yields to gain 4-8bps. **10Y UST yield picked up 8bps in a single day to 1.86%. Dollar extended further gain,** strengthening against most of its major counterparts, aided by the solid gain in the ISM non-manufacturing index, a key services sector gauge. **Oil prices went up by 1.2-1.3% on trade optimism. Earlier, the RBA left cash rate unchanged at 0.75% and BNM maintained OPR at 3.0% and continued to strike a neutral tone.** *(Please refer separate report on OPR for more details)*

- On the data front, **US ISM Non-manufacturing Index added 2pts to register a solid 54.7 reading** but the Markit PMI slipped lower to a tad above 50.0. The US also recorded a smaller deficit of $52.5b, aided by the first petroleum surplus since 1978. Elsewhere, Eurozone PPI fell 1.2% YOY, its second back-to-back decline. UK services PMI is right at 50.0 neutral level, **China Caixin Services PMI slipped a little,** Hong Kong PMI plunged below 40 while Singapore PMI stays below 50.0. **New Zealand job report turned out to be a huge disappointment, opening door for an RBNZ rate cut next week.**

- **Dollar extended further gain, strengthening against most of its major counterparts**, aided by the solid gain in the ISM non-manufacturing index, a key services sector gauge. The dollar index rose 0.49% to 97.98. **We are bullish on USD today** expecting the overnight dollar strength to extend into today's Asian session amidst rising prospect that the US and China could sign a trade deal this month.

- **MYR tracked higher Chinese yuan and other regional currencies to extend further gain against the USD** on Tuesday amidst ongoing trade optimism. MYR rose 0.47% to 4.1310, its strongest level since late July this year when the Fed made its first rate cut this year. **We are slightly bearish on MYR today**, expecting the strength in the local unit to retreat slightly taking cue from overnight dollar strength. **We maintain our bearish view on MYR in the medium term** as we are still bullish on USD over better US data in 4Q and the Fed's clear signal that it would not ease policy further this year.

- **SGD finished 0.05% higher against the USD at 1.3583** on broad dollar strength. **We are neutral to slightly bearish on SGD today as SGD, expecting USD strength to extend into the Asian session**. **We are bearish SGD** in the medium term, expecting a stronger USD as the Fed sent a clear signal that it would not ease further this year as well as weaker Singapore fundamentals.

Overnight Economic Data

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

What's Coming Up Next

Major Data

- US MBA Mortgage Applications
- Eurozone Markit Services PMI and Retail Sales
- Japan Jibun Bank Japan PMI Services

Major Events

- Nil

Daily Supports – Resistances (spot prices)*

	S2	S1	Indicative	R1	R2	Outlook
EURUSD	1.1020	1.1050	1.1070	1.1100	1.1120	↘
GBPUSD	1.2800	1.2840	1.2876	1.2880	1.2900	↘
USDJPY	108.60	108.80	109.12	109.30	109.50	↗
AUDUSD	0.6850	0.6880	0.6887	0.6900	0.6930	↘
EURGBP	0.8550	0.8575	0.8598	0.8630	0.8650	→
USDMYR	4.1250	4.1300	4.1333	4.1350	4.1400	↗
EURMYR	4.5650	4.5700	4.5757	4.5800	4.5850	↘
JPYMYR	3.7700	3.7800	3.7881	3.8000	3.8200	↘
GBPMYR	5.3000	5.3100	5.3230	5.3500	5.3700	→
SGDMYR	3.0380	3.0400	3.0412	3.0450	3.0500	↗
AUDMYR	2.8400	2.8450	2.8479	2.8500	2.8550	↘
NZDMYR	2.6200	2.6300	2.6326	2.6400	2.6500	↘
USDSGD	1.3530	1.3550	1.3591	1.3600	1.3620	↗
EURSGD	1.5000	1.5030	1.5046	1.5070	1.5100	→
GBPSGD	1.7450	1.7480	1.7501	1.7545	1.7600	→
AUDSGD	0.9335	0.9350	0.9360	0.9380	0.9400	→

* 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	1,606.74	0.20	-4.96	CRB Index	182.09	0.55	7.24
Dow Jones Ind.	27,492.63	0.11	17.86	WTI oil ($/bbl)	57.23	1.22	26.03
S&P 500	3,074.62	-0.12	22.65	Brent oil ($/bbl)	62.96	1.34	17.03
FTSE 100	7,388.08	0.25	9.81	Gold (S/oz)	1,483.61	-1.74	15.73
Shanghai	2,991.56	0.54	19.96	CPO (RM/tonne)	2,357.50	-0.17	20.74
Hang Seng	27,683.40	0.49	7.11	Copper ($/tonne)	5,877.00	0.46	-1.48
STI	3,248.63	0.38	5.86	Rubber (sen/kg)	435.50	0.93	14.91

Source: Bloomberg

Economic Data				
	For	Actual	Last	Survey
MA BNM Overnight Policy Rate	Nov-05	3.0%	3.0%	3.0%
AU RBA Cash Rate Target	Nov-05	0.75%	0.75%	0.75%
US Trade Balance	Sep	-$52.5b	-$55.0b	-$52.4b
US Markit Services PMI	Oct F	50.6	50.9	51.0
US ISM Services Index	Oct	54.7	52.6	53.5
EU PPI YOY	Sep	-1.2%	-0.8%	-1.2%
UK Markit/CIPS Services PMI	Oct	50.0	49.5	49.7
CN Caixin Services PMI	Oct	51.1	51.3	51.1
HK Markit PMI	Oct	39.3	41.5	--
SG Markit PMI	Oct	47.4	48.3	--
NZ Employment Change QOQ	3Q	0.2%	0.6% (revised)	0.2%
NZ Unemployment Rate	3Q	4.2%	3.9%	4.1%
NZ Pvt Wages Inc Overtime QOQ	3Q	0.6%	0.8%	0.6%

Source: Bloomberg

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➢ Macroeconomics

- ***No change in OPR and neutral policy tone***: BNM kept the Overnight Policy Rate (OPR) unchanged at 3.00% as expected, and maintained a neutral policy tone suggesting there is no immediate plan to adjust OPR in the near term given still resilient growth domestically. BNM reiterated that the global economy is expanding at a more moderate pace. However, the central bank opined that the slowdown is becoming more synchronized across both the advanced and emerging economies, a tad more cautious compared to the previous statement. As for the Malaysian economy, BNM commented that 3Q real GDP would continue to see moderate expansion. It further assessed that overall growth will stay within projections in 2019, and continue to be sustained going into 2020, while inflation is expected to average higher but remains modest. In a nutshell, we believe BNM has no plan to revise its monetary policy in the near future, hence our house view for no change in OPR, given resiliency in the domestic economy, with support from the earlier preemptive 25bps cut in May and expansionary fiscal measures by the government. That said, increasing downside risks to global growth stemming from protracted trade disputes and geopolitical development could still prompt BNM to act should such risks escalate and spill over to the home front. At this juncture, BNM continue to reiterate that the stance of monetary policy remains accommodative and supportive of economic activity.

- ***RBA kept cash rate steady, opened door for easing if needed:*** The RBA left cash rate unchanged at a record low of 0.75% as widely expected and still leaves the door opened for further easing if needed. The central bank said that the outlook for Australian economy is little changed from three months ago and a "gentle turning point" appears to have been reached. The economy is expected to grow 2.25% in 2019, and inflation is expected to gradually pick up and be close to 2% in 2020 and 2021. The low level of interest rates, recent tax cuts, ongoing spending on infrastructure, the upswing in housing prices in some markets and a brighter outlook for the resources sector are expected to support growth. The main source of domestic uncertainty remains the outlook for consumption. RBA concluded that the easing of monetary policy since June is supporting employment and income growth in Australia as well as a return of inflation to its medium-term target range. It will continue to monitor development, including that of the labour market and is "prepared to ease monetary policy further if needed". Taking into account the more RBA's optimistic albeit still dovish language and barring from any escalation in the current US-China trade dispute, we expect the RBA to keep cash rate steady at its December meeting this year.

- ***Solid US ISM Non-manufacturing reading highlights services sector strength:*** The ISM Non-manufacturing index added 2pts to register a solid 54.7 reading in October (Sep: 52.6), reflecting upbeat outlook for the services sector leading up to the holiday season and a firm sign that a strong labour market will continue to support the industry in general. The gain in headline index was led by the higher activity/production, new orders and employment. On a separate note, the IHS Markit Services PMI however slipped to 50.6 in October (Sep: 50.9) to indicate a slowdown in services activity.

- ***US trade deficit shrank to five-month low, recorded first petroleum surplus since 1978:*** US trade deficit slipped to a five-month low of $52.5b in September (Aug: -$55.0b) as the Trump Administration continued its bid to shrink the deficit by waging a trade war on several front. Trade deficit shrank due to larger decrease in imports (-1.7% MOM vs +0.5% MOM) compared to that of exports (-0.9% MOM vs +0.2% MOM). YOY, imports decreased 2.8% (Aug: +0.1%) while exports resumed further decline of 1.8% (Aug: 0.0%), its fifth contraction within a period of six month. The goods trade deficit with China slipped a little to $28b (Aug: -$28.9b). Notably, the nation also recorded its first petroleum surplus ($252m vs -$268m) since 1978 turning itself from a long time net importer to exporter in September.

- ***Eurozone factory gate inflation pulled back in September:*** Producer prices index rose by a mere 0.1% MOM in September (Aug: -0.5%) to indicate the lack of price momentum in Eurozone factories amidst an ongoing downturn. YOY, PPI slipped further for the second consecutive month by 1.2% (Aug: -0.8%), pointing to continuous deflation in the Eurozone.

- ***UK services PMI rebounded from contraction:*** The IHS/CIPS Markit Services PMI rose to the neutral level of 50.0 in October (Sep: 49.5) to indicate no change in services activities last month and marked its rebound from a brief period of contraction in September.

- ***Hong Kong PMI slipped below 40, mired in downturn:*** The IHS Markit Hong Kong PMI fell to 39.3 in October (Sep: 41.5) to signal its worst deterioration in the private sector economy since Nov-08. The severely poor headline reading was led by the fastest decline in business activity in 21 years, reflecting Hong Kong's deeper plunge into an ongoing downturn as a result of domestic political unrests and weak external trade.

- ***China Caixin Manufacturing PMI slipped in October:*** The Caixin China General Services PMI slipped to 51.1 in October (Sep: 51.3), marking its slowest increase in services activity for eight months, driven by softer growth in new work and employment. The private print was largely in line with the minimal movement in the official NBS reading, reflecting moderating expansion in the services sector.

- ***Singapore Markit PMI contracted for third month:*** The IHS Markit Singapore PMI fell to 47.4 in October (Sep: 48.3) to mark the third month of back-to-back contraction in the city-state's private sector economy. Leading the decline in the headline PMI were the sharper drop in both output and new orders amidst struggling domestic economy and challenging export conditions.

- ***Disappointing New Zealand job report opened door for RBNZ rate cut:*** Hiring slowed in New Zealand as employment rose a mere 0.2% QOQ in the third quarter (2Q: +0.6% revised), following a downwardly revised growth rate in 2Q. Unemployment rate rose to 4.2% in the same period (2Q: +3.9%) partly because the participation rate rose slightly. Wage growth also slowed as seen in the gain in the headline private sector wages that include overtime payment (+0.6% QOQ vs +0.8% QOQ). Average hourly earnings also recorded a much softer 0.6% QOQ growth, a marked pull-back from the 1.1% in 2Q. The New Zealand job report turned out to be a huge setback amidst weak business sentiment, opening door for an RBNZ rate cut next week.

Economic Calendar						
Date	**Country**	**Events**	**Reporting Period**	**Survey**	**Prior**	**Revised**
07/11	Malaysia	Foreign Reserves	Oct-31	--	$103.3b	--
06/11	**US**	**MBA Mortgage Applications**	**Nov-01**	**--**	**0.6%**	**--**
07/11		Initial Jobless Claims	Nov-02	215k	218k	--
06/11	**Eurozone**	**Markit Eurozone Services PMI**	**Oct F**	**51.8**	**51.6**	**--**
		Retail Sales MOM	**Sep**	**0.0%**	**0.3%**	**--**
07/11	UK	Bank of England Bank Rate	Nov-07	0.75%	0.75%	--
06/11	**Japan**	**Jibun Bank Japan PMI Services**	**Oct F**	**--**	**52.8**	**--**
07/11	Australia	Trade Balance	Sep	A$5,050m	A$5,926m	--

Source: Bloomberg

	Last Price	DoD %	High	Low	YTD %
EURUSD	1.1075	-0.48	1.1140	1.1064	-3.43
GBPUSD	1.2884	0.00	1.2917	1.2859	1.02
USDJPY	109.16	0.53	109.24	108.56	-0.48
AUDUSD	0.6893	0.13	0.6928	0.6877	-2.21
EURGBP	0.8596	-0.49	0.8645	0.8585	-4.39
USDMYR	4.1310	-0.47	4.1550	4.1300	-0.06
EURMYR	4.5976	-0.79	4.6224	4.5954	-2.74
JPYMYR	3.7951	-0.98	3.8222	3.7947	0.99
GBPMYR	5.3233	-0.88	5.3535	5.3233	1.06
SGDMYR	3.0447	-0.52	3.0587	3.0447	0.29
AUDMYR	2.8602	-0.41	2.8679	2.8549	-2.15
NZDMYR	2.6541	-0.96	2.6631	2.6527	-4.48
CHFMYR	4.1719	-0.81	4.2031	4.1715	-0.65
CNYMYR	0.5906	-0.08	0.5916	0.5906	-2.41
HKDMYR	0.5273	-0.51	0.5303	0.5273	-0.17
USDSGD	1.3583	-0.05	1.3594	1.3558	-0.30
EURSGD	1.5043	-0.53	1.5127	1.5032	-3.72
GBPSGD	1.7501	-0.08	1.7526	1.7471	0.71
AUDSGD	0.9363	0.07	0.9396	0.9342	-2.50

Source: Bloomberg

➢Forex

MYR

- **MYR tracked higher Chinese yuan and other regional currencies to extend further gain against the USD** on Tuesday amidst ongoing trade optimism. MYR rose 0.47% to 4.1310, its strongest level since late July this year when the Fed made its first rate cut this year.
- **We are slightly bearish on MYR today**, expecting the strength in the local unit to retreat slightly taking cue from overnight dollar strength. **We maintain our bearish view on MYR in the medium term** as we are still bullish on USD over better US data in 4Q and the Fed's clear signal that it would not ease policy further this year.

USD

- **Dollar extended further gain, strengthening against most of its major counterparts**, aided by the solid gain in the ISM non-manufacturing index, a key services sector gauge. The dollar index rose 0.49% to 97.98.
- **We are bullish on USD today** expecting the overnight dollar strength to extend into today's Asian session amidst rising prospect that the US and China could sign a trade deal this month. The medium term outlook is bullish for now expecting a stronger USD as the Fed sent a clear signal that it would not ease further this year.

EUR

- **EUR finished 0.48% lower against the USD at 1.1075** as the dollar was boosted by better than expected ISM Non-manufacturing Index.
- **We are slightly bearish on EUR today expecting dollar strength to persist in the short term** amidst rising prospect that the US and China could sign a trade deal this month. **In the medium term, outlook remains bearish** as the ECB restarts APP this month.

GBP

- **GBP retraced intraday gain to finish unchanged against the USD at 1.2884** amidst broad dollar strength.
- **We are bearish on GBP today as it breached below the 1.2880 support level** to open door for further weakening amidst broad-based dollar strength and a lack of Brexit headlines. **Medium term outlook is still bearish** but is mainly driven by headlines surrounding Brexit and UK upcoming ballots.

JPY

- **JPY slipped against the USD for the third back-to-back session by 0.53% to 109.16** amidst higher UST yields in an ongoing risk-on environment.
- **We are bearish on JPY** expecting investors to continue exiting safe havens amidst rising prospect that the US and China could sign a trade deal this month. **We remain bullish JPY over the medium term** on narrowing yield differentials between the dollar, alongside lingering Brexit concerns and have not ruled out the risk of trade war escalation.

AUD

- **AUD erased RBA-inspired intraday gain to finish only mildly higher by 0.13% against the USD at 0.6893.**
- **We are neutral to slightly bearish on AUD today** on broad dollar strength but expecting the AUD to be supported by growing trade optimism. **Medium term outlook is slightly bullish** as the RBA is expected to stay put in December's meeting, barring any trade-war escalation.

SGD

- **SGD finished 0.05% higher against the USD at 1.3583** on broad dollar strength.
- **We are neutral to slightly bearish on SGD today as SGD, expecting USD strength to extend into the Asian session**. **We are bearish SGD** in the medium term, expecting a stronger USD as the Fed sent a clear signal that it would not ease further this year as well as weaker Singapore fundamentals.

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