July 8, 2019

Global Markets Research

Daily Market Highlights

Key Takeaways

- **Markets were dealt with a blow from better than expected nonfarm job gains which dented the case for aggressive and probably sequential Fed rate cut. We are of the view that this positive job data will do little to swing the case of a 25bps cut in July, which still appears real but it would mean further reduction may not be warranted, at least not at this juncture**. Indeed, market implied probability of a 25bps cut in at the July FOMC meeting jumped to 98.5% post data releases (from 74.5% prior) and odds of a 50bps cut were trimmed significantly to almost nil at 1.5% now (prior 25.5%). However, odds of three rate cuts by end-2019 still stands, with implied probability of such scenario now only slightly lower at 37% (prior 40%). **The three major US benchmark stock indices ended last Friday in the red e**ven though they managed to narrow early session losses. Safe haven gold and **UST were sold off across the curve, with the 10-year treasuries yields back up by 9bps to 2.04%, its highest in two weeks**. European markets closed down earlier ahead of the data release while Asian markets were mixed.

- **The latest data bag was mixed. US headline job number at 224k surprised on the upside but other accompanying details were a tad softer** with wage growth steadying at 3.1% YOY and downward revision in last two months' gains. Jobless rate inched higher to 3.7% but arguably due to a rise in participation rate. **Japan data pointed to softer growth outlook ahead** amid slower exports and sluggish capex plans. **House prices ticked higher in the UK** but that was a result of lower listing for sale amid Brexit uncertainties instead of an improvement in fundamentals. **Back home, foreign reserves rose \$0.1bn to \$102.7bn as at end-June,** remaining above the psychological \$100bn threshold.

- **The dollar index closed 0.54% stronger at 97.247** as the USD rebounded led by higher UST yields on lower rate cut expectations. **We remain bearish on USD in the medium term** as the Fed is still expected to cut rates at the end of this month, while any positive US-China trade headlines in this period could drive down the USD.

- **MYR closed marginally weaker at 4.1355** in subdued trading ahead of important NFP release. **We turn bearish MYR over the short term** as market expectations of a series of rate cut expectations begin to dim and market begins repositioning for the shorter term.

- **SGD closed weaker by 0.26%** at 1.3596 against the USD in line with broad USD strength. **We turn bearish SGD** over the short term as market reprices a one-and done insurance cut vs a series of cuts by the Fed. In the more medium term, Fed speak and US-China trade talk outcomes are likely to drive direction for the pair.

Overnight Economic Data	
Malaysia	→
US	→
UK	↑
Japan	↓

What's Coming Up Next

Major Data

- EU Sentix investor confidence
- Japan Eco Watcher surveys

Major Events

- Nil

Daily Supports – Resistances (spot prices)*

	S2	S1	Indicative	R1	R2	Outlook
EURUSD	1.1170	1.1200	1.1227	1.1250	1.1280	↘
GBPUSD	1.2470	1.2500	1.2530	1.2580	1.2630	↘
USDJPY	108.00	108.25	108.47	108.80	109.00	↗
AUDUSD	0.6950	0.6975	0.6983	0.7000	0.7025	→
EURGBP	0.8925	0.8950	0.8961	0.8990	0.9030	→
USDMYR	4.1350	4.1400	4.1460	4.1500	4.1550	↗
EURMYR	4.6300	4.6450	4.6543	4.6700	4.6800	↘
JPYMYR	3.8000	3.8185	3.8225	3.8350	3.8500	↘
GBPMYR	5.1600	5.1850	5.1945	5.2100	5.2250	↘
SGDMYR	3.0425	3.0450	3.0475	3.0500	3.0525	→
AUDMYR	2.8800	2.8900	2.8945	2.9000	2.9150	↘
NZDMYR	2.7300	2.7400	2.7509	2.7600	2.7700	↘
USDSGD	1.3550	1.3570	1.3607	1.3630	1.3650	↗
EURSGD	1.5225	1.5250	1.5277	1.5300	1.5325	↘
GBPSGD	1.6970	1.7010	1.7053	1.7100	1.7150	↘
AUDSGD	0.9450	0.9475	0.9504	0.9525	0.9550	↘

* 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	1,682.53	-0.29	-0.48	CRB Index	180.78	0.17	6.46
Dow Jones Ind.	26,922.12	-0.16	15.41	WTI oil (\$/bbl)	57.51	0.30	26.27
S&P 500	2,990.41	-0.18	19.29	Brent oil (\$/bbl)	64.23	1.47	36.65
FTSE 100	7,553.14	-0.66	12.26	Gold (S/oz)	1,399.45	-1.17	8.86
Shanghai	3,011.06	0.19	20.74	CPO (RM/tonne)	1,882.50	0.75	-3.59
Hang Seng	28,774.83	-0.07	11.33	Copper (\$/tonne)	5,902.00	-0.30	-1.06
STI	3,366.81	-0.16	9.71	Rubber (sen/kg)	489.50	0.10	29.16

Source: Bloomberg

Economic Data				
	For	**Actual**	**Last**	**Survey**
MY foreign reserves	Jun-28	$102.7b	$102.6b	--
US nonfarm payroll change	Jun	224k	72K (revised)	160k
US jobless rate	Jun	3.7%	3.6%	3.6%
US average hourly earnings YOY	Jun	3.1%	3.1%	3.2%
UK Halifax house prices YOY	Jun	5.7%	5.2%	5.7%
JP BOP trade balance	May P	-¥650.9b	-¥98.2b	-¥758.9b
JP core machine orders YOY	May	-3.7%	2.5%	-3.6%
JP leading index	May P	95.2	95.9	95.4
JP coincident index	May P	103.2	102.1	103.1

Source: Bloomberg

Macroeconomics

- ***US nonfarm job data signaled continuous growth in the labour market:*** US nonfarm sector added more than expected jobs of 224k in June, beating consensus estimate for a 160k gain led by broad-based job creation spanning from services to construction and even manufacturing sectors, signaling a still firm labour market. Despite the pleasant surprise in the headline number, other accompanying details were a tad softer than expected. May's already dismal gain was revised lower by 3k to 72k while to-month net revision showed an 11k reduction. Wage growth failed to pick up and stagnated at 3.1% YOY instead as it grew slower than expected by 0.2% MOM in June (May: +3.1% YOY and +0.3% MOM revised). Unemployment rate ticked 0.1ppt higher to 3.7% (May: 3.6%) but arguably attributed by an increase in participation rate by the same quantum to 62.9% (May: 62.8%). While the bigger than expected job gains dampened expectations for the aggressive rate cuts modus operandi by the Fed, it did not change expectations for a July rate cut where its implied probability rose to 98.5% post-data releases (from 74.5% prior). We maintain our view that serial rate cuts are not warranted, at least for now, given still decent US data.

- ***UK house prices posted faster gain in June:*** Halifax house prices rose at a faster pace of 5.7% YOY in the three months to Jun as expected (May: +5.2% YOY). QOQ, prices rose 2.4% in 2Q reflecting surprised resiliency in and was against general believes of a weakening housing market in the UK. Halifax attributed this to the lower listing of properties for sale in lieu of Brexit uncertainties, hence the pick-up in price gain should not be viewed as a fundamental strength of the sector.

- ***Japan leading index, trade and core machine orders point to softer growth outlook ahead:*** Leading index pulled back more than expected to 95.2 in May (Apr: 95.9), its lowest in 6.5 years suggesting the Japanese economy will likely continue losing strength in the next 6 months. On a less downbeat note, coincident index climbed higher to 103.2 in May (Apr: 102.1) as current conditions remained positive as evident in recent improvement in retail sales and capex-related data. This was however nullified by the decline in this morning's core machine orders, a leading indicator of future capital spending, which fell 3.7% YOY and a whopping 7.8% MOM in May (Apr: +2.5% YOY and +5.2% MOM). In a separate release, trade deficit widened albeit less than expected to ¥650.9bn in May (Apr: -¥98.2bn) on the back of a 7.4% MOM decline in exports and 1.3% MOM increase in imports, in line with recent trend of slowing exports while imports were boosted by purchases ahead of the October sales tax hike in our view. This should exert pressure on overall economic growth in the near term.

- ***Malaysia foreign reserves rose further as at end-June:*** Foreign reserves continued to inch higher albeit at a tepid $0.1bn, to $102.7bn as at end-June, still sizeable and above the $100bn psychological threshold. At the current level, the reserves position is sufficient to finance 7.3 months of retained imports and is 1.2x the short term external debt.

Economic Calendar						
Date	**Country**	**Events**	**Reporting Period**	**Survey**	**Prior**	**Revised**
09/07	Malaysia	BNM OPR	9 Jul	3.00%	3.00%	--
09/07	US	NFIB small biz confidence	Jun	103.3	105.0	--
08/07	**Eurozone**	**Sentix Investor Confidence**	**Jul**	**0.1**	**-3.3**	--
08/07	**Japan**	**Eco Watchers Survey Current SA**	**Jun**	**43.8**	**44.1**	--
		Eco Watchers Survey Outlook SA	**Jun**	**44.5**	**45.6**	--
09/07		Machine tool orders YOY	Jun P	--	-27.3%	--
09/07	Australia	NAB biz conditions	Jun	--	1	--
		NAB biz confidence	Jun	--	7	--

Source: Bloomberg

	Last Price	DoD %	High	Low	YTD %
EURUSD	1.1225	-0.53	1.1288	1.1207	-2.09
GBPUSD	1.2521	-0.46	1.2588	1.2481	-1.80
USDJPY	108.47	0.60	108.64	107.78	-1.06
AUDUSD	0.6980	-0.60	0.7029	0.6958	-0.94
EURGBP	0.8963	-0.10	0.8985	0.8958	-0.28
USDMYR	4.1355	0.06	4.1425	4.1355	0.05
EURMYR	4.6582	-0.13	4.6715	4.6549	-1.46
JPYMYR	3.8270	-0.22	3.8414	3.8262	1.84
GBPMYR	5.1908	-0.22	5.2086	5.1883	-1.46
SGDMYR	3.0462	-0.08	3.0540	3.0455	0.34
AUDMYR	2.9010	-0.05	2.9092	2.8994	-0.75
NZDMYR	2.7575	-0.17	2.7681	2.7569	-0.76
CHFMYR	4.1863	-0.12	4.2029	4.1860	-0.31
CNYMYR	0.6011	-0.14	0.6023	0.6009	-0.69
HKDMYR	0.5306	-0.08	0.5316	0.5305	0.45
USDSGD	1.3596	0.26	1.3625	1.3554	-0.18
EURSGD	1.5260	-0.28	1.5307	1.5260	-2.28
GBPSGD	1.7029	-0.16	1.7078	1.7000	-1.98
AUDSGD	0.9488	-0.36	0.9531	0.9477	-1.11

Source: Bloomberg

➢Forex

MYR

- **MYR closed marginally weaker at 4.1355** in subdued trading ahead of important NFP release.
- **We turn bearish MYR over the short term** as market expectations of a series of rate cut expectations begin to dim and market begins repositioning for the shorter term.

USD

- **The dollar index closed 0.54% stronger at 97.247** as the USD rebounded led by higher UST yields on lower rate cut expectations.
- **We remain bearish on USD in the medium term** as the Fed is still expected to cut rates at the end of this month, while any positive US-China trade headlines in this period could drive down the USD.

EUR

- **EUR closed lower by 0.53% against the USD at 1.1225** in line with broadly higher DXY**.**
- **We turn bearish EUR today** as markets are repricing Fed rate cut expectations to more likely a one-and-done scenario rather than a series of cuts as expected given strong US jobs numbers.

GBP

- **GBP closed 0.46% weaker at 1.2521** in line with stronger USD across the board.
- **We remain bearish on GBP** as dovish BOE coupled with relatively poor economic data and market repricing Fed rate cuts 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 weaker by 0.60% at 108.47** led by higher UST yields.
- **We turn bearish JPY in the short term** as the market reprices a one-and-done Fed rate cut scenario vs a series of cuts. In the more medium term, we look towards elsewhere for further directional cues.

AUD

- **AUD closed 0.60% weaker at 0.6980** against the USD in line with broad USD strength.
- **We remain neutral on AUD** as it continues to trade within the recent range set post the RBA cut. In the more medium term, we look towards Fed speakers for further directional guidance as well as US-China trade talk outcomes.

SGD

- **SGD closed weaker by 0.26%** at 1.3596 against the USD in line with broad USD strength.
- **We turn bearish SGD** over the short term as market reprices a one-and done insurance cut vs a series of cuts by the Fed. In the more medium term, Fed speak and US-China trade talk outcomes are likely to drive direction for the pair.

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