HongLeong Bank

Global Markets Research
Daily Market Highlights

Key Takeaways

- **US stocks edged higher overnight, bolstered by rate cuts optimism as Fed Chair Jerome Powell's testimony before US Congress and June FOMC meeting minutes reaffirmed expectations that the central bank would cut rate later this month, its first time in nearly a decade.** The Dow added 77pts or 0.3%, the S&P 500 briefly touched an all-time high during intraday trading but retraced earlier gain to finish 0.45% higher and NASDAQ managed to rose 0.8% to close at a record high. **Futures continued to show that at least a 25bps cut in the Fed funds rate has been fully priced in with traders again raising their bets on a 50bps reduction in the fed funds rate. Yield on 2Y treasuries notes, a proxy for US short term interest rates outlook tumbled by 8bps to 1.83% overnight**. Riding on rate cut expectations and falling US crude stocks, crude oil prices posted impressive gains as WTI and Brent crude both gained around 4.5% to $60.43/barrel and $67.01/barrel. **The Bank of Canada held rate steady at 1.75% as widely expected,** flagging concerns over heightening global trade tensions but appeared in no rush to ease policy anytime soon.

- **US data bag was light.** Wholesale inventories rose 0.4% MOM in May, mortgage applications slipped again by 2.4% last week. UK grew 0.3% MOM MOM in the three months to May driven by the positive contributions of both the services and productions as construction flat-lined. On a monthly basis, industrial production rebounded by 1.4% MOM. Goods trade deficit narrowed to -£11.5b in May as exports rebounded while imports fell. The RICS House Price Balance Index improved substantially to -1% in June as buyers returned to the UK housing market**. In Asia, Japanese and Chinese factories are flashing disinflation signals** as Japan PPI fell for the first time in 2.5 years by 0.1% YOY while China PPI was unchanged. China CPI meanwhile managed to hold on to a steady 2.7% YOY gain.

- **The dollar index closed 0.50% weaker at 97.046** as the USD tanked on a dovish speech by Fed Powell. **We remain bearish on USD in the medium term** as Fed Chair Powell has cemented the case for a July rate cut by stressing on the growing uncertainties and persistent weak inflation.

- **MYR closed 0.11% stronger at 4.1370** in another subdued trading day as market awaits Fed Powell's speech. **We turn bullish MYR** as according to Fed Powell's speech, the Fed is concerned about growing uncertainties and persistently weak inflation which cements the case for a July rate cut.

- **SGD closed 0.22% stronger** at 1.3585 on overall USD weakness. **We turn bullish SGD** as yield differential is likely to narrow as the Fed signals a July cut is more or less confirmed. In the more medium term, SGD is likely to be influenced by trade war outcomes.

Overnight Economic Data	
US	↓
UK	↑
Japan	↓
China	→

What's Coming Up Next

Major Data

- US Initial Jobless Claims, CPI
- AU Home Loans

Major Events

- Nil

Daily Supports – Resistances (spot prices)*

	S2	S1	Indicative	R1	R2	Outlook
EURUSD	1.1200	1.1230	1.1262	1.1280	1.1300	↗
GBPUSD	1.2470	1.2500	1.2514	1.2550	1.2585	↗
USDJPY	107.70	108.00	108.15	108.50	108.80	↘
AUDUSD	0.6900	0.6930	0.6965	0.7000	0.7030	↗
EURGBP	0.8950	0.8975	0.9003	0.9030	0.9050	→
USDMYR	4.1200	4.1250	4.1310	4.1350	4.1400	↘
EURMYR	4.6150	4.6300	4.6525	4.6600	4.6750	↗
JPYMYR	3.7850	3.8000	3.8205	3.8250	3.8400	↗
GBPMYR	5.1400	5.1600	5.1685	5.1800	5.2000	↗
SGDMYR	3.0375	3.0400	3.0430	3.0450	3.0475	↗
AUDMYR	2.8500	2.8600	2.8765	2.8800	2.9000	↗
NZDMYR	2.7150	2.7300	2.7485	2.7500	2.7600	↗
USDSGD	1.3530	1.3550	1.3580	1.3600	1.3630	↘
EURSGD	1.5225	1.5240	1.5290	1.5300	1.5325	↗
GBPSGD	1.6870	1.6920	1.6990	1.7030	1.7100	↘
AUDSGD	0.9400	0.9425	0.9455	0.9475	0.9500	→

* 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	1,678.97	-0.23	-0.69	CRB Index	184.17	1.92	8.46
Dow Jones Ind.	26,860.20	0.29	15.14	WTI oil ($/bbl)	60.43	4.50	33.08
S&P 500	2,993.07	0.45	19.40	Brent oil ($/bbl)	67.01	4.44	24.55
FTSE 100	7,530.69	-0.08	11.93	Gold (S/oz)	1,419.02	1.53	10.67
Shanghai	2,915.30	-0.44	16.90	CPO (RM/tonne)	1,865.00	-0.16	-4.48
Hang Seng	28,204.69	0.31	9.13	Copper ($/tonne)	5,940.00	2.03	-0.42
STI	3,340.42	0.33	8.85	Rubber (sen/kg)	476.50	-0.21	25.73

Source: Bloomberg

Economic Data				
	For	Actual	Last	Survey
US MBA Mortgage Applications	Jul 5	-2.4%	-0.1%	--
US Wholesale Inventories MOM	May F	0.4%	0.8%	0.4%
UK GDP (Monthly) MOM	May	0.3%	-0.4%	--
UK Industrial Production MOM	May	1.4%	-2.9% (revised)	--
UK Visible Trade Balance	May	-£11,524m	-£12,761m	--
UK RIC House Price Balance Index	Jun	-1.0%	-9.0% (revised)	-12.0%
JP PPI YOY	Jun	-0.1%	0.6% (revised)	0.4%
CN CPI YOY	Jun	2.7%	2.7%	2.7%
CN PPI YOY	Jun	0.0%	0.6%	0.2%

Source: Bloomberg

Macroeconomics

- ***June FOMC minutes and Powell's testimony set stage for rate cut this month:*** Fed Chair Jerome Powell's testimony before the House Financial Services Committee and the latest June FOMC meeting supported a strong case for a downward adjustment in the fed funds rate at the end of this month. During the central bank chief's biannual testimony, Powell's repeated its main message that the Fed pledged to "act as appropriate" to support the US economic expansion. He said that despite a robust US job growth, broad global weakness still persisted and other major economies' data continued to disappoint, citing weak manufacturing, trade and investment around the world. The restart of US-China trade talks didn't "remove the uncertainty" surrounding global trades, adding that inflation remained muted and highlighted the now much weakened connection between a tight labour market and inflation. Meanwhile, the June FOMC meeting minutes shed some light on the recent revisions to overall Fed growth and interest rate outlook. Nearly all participants had revised down their projection of the appropriate path for the fed funds rate. Many indicated that the case for somewhat more accommodative policy had strengthened and widely noted that the global developments that led to the heightened uncertainties were quite recent. Many judged additional monetary policy accommodation would be warranted in the near term should these recent developments proved to be sustained and continue to weigh down on outlook. Several policymakers noted that a near term cut in the target range could help cushion the effects of possible future adverse shocks. A few participants were concerned that inflation expectations had already moved below levels consistent with the Committee's symmetric 2% objective and that it was important to provide additional accommodation in the near term to bolster inflation expectations.

- ***US wholesale inventories went up; mortgage applications fell:*** US wholesale inventories rose 0.4% MOM in May (Apr: +0.8%) in a final reading, suggesting that firms are slowly raising inventory investment after a scale-back earlier of the year. Wholesale trade remained weak and only managed to eke out a 0.1% MOM gain (Apr: -0.4%) after a fall in the previous month. Meanwhile, mortgage applications slipped by 2.4% for the week ended 5 July (previous: -0.1%) as the refinancing segment underperformed last week (-6.5% vs -1.1%). The number of applications to purchase a new house rose 2.3% (previous: +1.1%).

- ***UK industrial production rebounded in May; external trade weakened; housing market seen stabilizing:*** UK economy grew 0.3% MOM in the three months to May (Apr:-0.4%) according to the Office of National Statistics (ONS), driven by the positive contributions of both the services and productions as construction flat-lined. On a monthly basis, GDP also managed to bounce up by 0.3% MOM in May (Apr: -0.4%) as industrial productions rebounded by 1.4% MOM (Apr: -2.9% revised) and services output stagnated. Within industrial production, manufacturing output managed to turnaround to increase 1.4% MOM (Apr: -4.2%) after a slump in April. The upturn is likely a brief one in our view, taking cue from the sub-50 manufacturing PMI reading in June as manufacturing output contracted at the faster pace last month. In a separate release by the ONS, UK goods trade deficit narrowed to -£11.5b in May (Apr: -£12.8b) as exports of goods rebounded by 3.5% MOM (Apr: -9.0%) while imports continued to fall albeit at a much slower pace of 0.6% MOM (Apr: -11.7%). On an annual basis, exports growth continued to decelerate for the second month by 2.5% YOY (Apr: +2.7%) while the increase in imports slowed to 1.4% YOY (Apr: +3.5%), consistent with the slower trend in international trade. Separately, the Royal Institution of Chartered Surveyors (RICS) reported that its house price balance index improved to -1% in June (May: -9%) as the sub-indexes for sales expectations, new buyer enquiries, new instructions and agreed sales jumped back up to positive territory, pointing to a return of new buyers for the first time since Nov-16 to what now seen as a stabilizing UK housing market. The price expectations index rose by 12pts to -1 (May: -13) and was the only sub-index staying in the negative territory.

- ***Japan producer prices slumped, flagging disinflation risk:*** Japan producer prices slipped for the second month by 0.5% MOM in June (May: -0.1%), more than what was estimated by a Bloomberg consensus forecast. This left the index to fall by 0.1% on a yearly basis (May: +0.6% revised), its first decline in two and a half years, intensifying worries of disinflation at Japanese factories amidst soft overseas and domestic demand conditions. Both exports and import prices recorded the largest annual drop since Nov-16 and were a sure signs consumer prices inflation will remained subdued in the near-to-medium term.

- ***China factory gate inflation stagnated, renewed disinflation fear:*** Latest official data reported that consumer price inflation rose at a steady pace of 2.7% YOY in May (Apr: +2.7%). Prices of food (+8.3% vs +7.7%) continued to soar by a whopping 8.3% YOY (Apr: +7.7%) but the effect was minimized by the falling cost of transportations & communication (-1.9% vs -0.9%) as well as the slower pace of increase in prices of housing, household items and recreation & education. Notably the producer prices index was unchanged in June (May: +0.6%), renewing concerns that prices may soon drop at factories and lead to disinflation in the manufacturing sector. PPI had last recorded decline nearly three years ago in 2016 and had almost stagnated early this year but was then followed by a milder increase after the Lunar New Year. The current divergence in CPI and PPI flashes worrying signals that profit margin could be severely squeezed at Chinese factories, suggesting that industrial profits could take another downturn in June after barely rising in the May.

Economic Calendar						
Date	**Country**	**Events**	**Reporting Period**	**Survey**	**Prior**	**Revised**
12/07	Malaysia	Industrial Production YOY	May	3.5%	4.0%	--
11/07	**US**	**Initial Jobless Claims**	**06 Jul**	**221k**	**221k**	**--**
		CPI YOY	**Jun**	**1.6%**	**1.8%**	**--**
12/07		PPI Final Demand YOY	Jun	1.6%	1.8%	--
12/07	Eurozone	Industrial Production SA MOM	May	0.2%	-0.5%	--
12/07	Japan	Industrial Production YOY	May F	--	-1.1%	--
12/07	China	Trade Balance	Jun	$45.00b	$41.65b	$41.66b
		Exports YOY	Jun	-1.4%	1.1%	--
		Imports YOY	Jun	-4.6%	-8.5%	--
12/07	Singapore	Retail Sales SA MOM	May	-0.8%	0.5%	--
11/07	**Australia**	**Home Loans MOM**	**May**	**-1.0%**	**-1.1%**	**--**
12/07	New Zealand	BusinessNZ Manufacturing PMI	Jun	--	50.2	--

Source: Bloomberg

	Last Price	DoD %	High	Low	YTD %
EURUSD	1.1251	0.38	1.1264	1.1202	-1.84
GBPUSD	1.2502	0.30	1.2521	1.2444	-1.94
USDJPY	108.46	-0.36	108.99	108.35	-1.22
AUDUSD	0.6959	0.45	0.6969	0.6911	-1.25
EURGBP	0.8999	0.08	0.9010	0.8984	0.12
USDMYR	4.1370	-0.11	4.1475	4.1370	0.08
EURMYR	4.6433	0.06	4.6472	4.6391	-1.78
JPYMYR	3.7992	-0.16	3.8070	3.7975	1.10
GBPMYR	5.1656	-0.04	5.1667	5.1528	-1.94
SGDMYR	3.0410	-0.03	3.0445	3.0391	0.17
AUDMYR	2.8661	-0.26	2.8738	2.8614	-1.95
NZDMYR	2.7336	-0.15	2.7383	2.7229	-1.62
CHFMYR	4.1764	0.22	4.1796	4.1664	-0.54
CNYMYR	0.6014	-0.05	0.6018	0.6011	-0.63
HKDMYR	0.5296	-0.19	0.5311	0.5294	0.27
USDSGD	1.3585	-0.22	1.3625	1.3569	-0.37
EURSGD	1.5284	0.16	1.5289	1.5253	-2.21
GBPSGD	1.6985	0.06	1.7010	1.6950	-2.31
AUDSGD	0.9453	0.21	0.9461	0.9410	-1.60

Source: Bloomberg

➢Forex

MYR

- **MYR closed 0.11% stronger at 4.1370** in another subdued trading day as market awaits Fed Powell's speech.
- **We turn bullish MYR** as according to Fed Powell's speech, the Fed is concerned about growing uncertainties and persistently weak inflation which cements the case for a July rate cut.

USD

- **The dollar index closed 0.50% weaker at 97.046** as the USD tanked on a dovish speech by Fed Powell.
- **We remain bearish on USD in the medium term** as Fed Chair Powell has cemented the case for a July rate cut by stressing on the growing uncertainties and persistent weak inflation.

EUR

- **EUR closed 0.38% stronger against the USD at 1.1208** as Fed Chair Powell more or less confirms the case for a July rate cut**.**
- **We turn bullish EUR today** as the pair bounces back from recent lows and likely to trade higher on a dovish Fed.

GBP

- **GBP closed 0.30% stronger at 1.2465** as USD reverses earlier gains on a dovish Fed.
- **We turn bullish GBP in the short term** as USD reverses recent gains on a dovish Fed. **In the medium term, we remain bearish GBP** as UK leadership and Brexit issues likely to continue to weigh on the sterling.

JPY

- **JPY finished stronger by 0.36% at 108.46** as the USD gives up recent gains.
- **We turn bullish JPY** as Fed Chair Powell cements the case for a July rate cut. Ongoing trade uncertainties and persistently weak inflation according to the Fed also likely to support JPY strength in the medium term.

AUD

- **AUD closed 0.45% stronger at 0.6959** on overall USD weakness.
- **We turn bullish AUD** as Fed Chair Powell signals that a July cut is imminent. In the medium term, **we remain neutral** AUD as it continues to trade within the broad range set previously.

SGD

- **SGD closed 0.22% stronger** at 1.3585 on overall USD weakness.
- **We turn bullish SGD** as yield differential is likely to narrow as the Fed signals a July cut is more or less confirmed. In the more medium term, SGD is likely to be influenced by trade war outcomes.

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