February 15, 2019

HongLeong Bank

Global Markets Research

Daily Market Highlights

Key Takeaways

- **US stocks finished on a mixed note overnight as weak data overshadowed earlier news that the US might extend the current trade truce with China by another 60 days** if both countries are inching towards a deal. **US December retail sales recorded the sharpest drop since Sep 2009, raising concerns on domestic demand**. Bonds rallied on the unexpectedly weaker print - yield on 10Y US treasuries dropped by 5bps to 2.65% while the 2Y treasuries yield fell by 4bps to 2.49%. Elsewhere, European stocks ended mostly lower while Asian stocks were mixed. Crude oil gained further momentum as both benchmarks WTI and Brent strengthened further to $54.41/barrel (0.95%) and $64.57/barrel (+1.51%).

- At the data front, US retail sales surprised to the downside, dropping 1.2% MOM in December, initial jobless claims rose by 4k to 239k last week while producer price index growth eased to 2.0% YOY in January. **Eurozone grew a modest 0.2% QOQ in 4Q18,** Germany reading was flat, avoiding a technical recession. **China trade report came in much better than expected as exports rose 9.1% YOY** ahead of the lunar new year while imports only fell by 1.5% YOY. **New Zealand manufacturing PMI weakened** to 53.1 indicating slower manufacturing growth. **Singapore final 4Q GDP reading was revised downward to 1.9% YOY,** leading full-year GDP to print a slower 3.2% YOY growth. **Malaysia 4Q GDP growth staged a pleasant surprise, bouncing back to increase 4.7% YOY, bringing the full-year GDP growth to 4.7% YOY.**

- **USD fell against 7 G10s** while the DXY tumbled in US morning after dismal US data and extended its downsides in the afternoon on dwindling optimism of US-China trade talks, closing 0.16% lower at 96.97. **Expect a bearish USD**, weighed down by unexpected downsides in US data that is set to solidify the notion of a slowing economy, on top of easing optimism over US-China trade talks. DXY was expectedly rejected from further advances. We opine that the recent bullish trend has ended, and yesterday's decline could be the onset of a reversal lower that could reach 96.47 – 96.66.

- **MYR slipped 0.18% to 4.0750 against a firm USD** but advanced against 9 G10s. **Expect a neutral MYR against USD**, with room for mild losses as risk appetite recedes going into the weekend. We maintain that there is still room for the unravelling of price-momentum divergence, which could push USDMYR higher going forward. Expect a test at 4.0795 – 4.0850 range going forward, while beating 4.0850 will expose a move to 4.1060 in the next leg higher.

- **SGD advanced 0.13% to 1.3580 against USD** but slipped against 7 G10s following loss of risk appetite. **SGD is now slightly bullish against a soft USD**. USDSGD's failure to beat 1.3614 yesterday has tilted it to the downside. Expect a drop to circa 1.3553 – 1.3561 next, below which 1.3520 – 1.3533 will be targeted.

Overnight Economic Data

Malaysia	↑
US	↓
Eurozone	→
China	↑
Singapore	↓
New Zealand	↓

What's Coming Up Next

Major Data

- US Empire Manufacturing, Import Price Index, Industrial Production, U. of Mich. Sentiment
- Eurozone Trade Balance
- UK Retail Sales
- Japan Industrial Production
- China CPI, PPI

Major Events

- Nil

Daily Supports – Resistances (spot prices)*

	S2	S1	Indicative	R1	R2	Outlook
EURUSD	1.1276	1.1290	1.1293	1.1312	1.1325	↗
GBPUSD	1.2760	1.2773	1.2794	1.2808	1.2833	↘
USDJPY	110.16	110.38	110.44	110.65	110.85	↘
AUDUSD	0.7068	0.7086	0.7093	0.7108	0.7117	↗
EURGBP	0.8804	0.8810	0.8826	0.8839	0.8854	↗
USDMYR	4.0700	4.0730	4.0745	4.0765	4.0795	→
EURMYR	4.5949	4.6000	4.6021	4.6049	4.6085	↗
JPYMYR	3.6800	3.6846	3.6916	3.6953	3.7005	↗
GBPMYR	5.2080	5.2095	5.2129	5.2153	5.2191	↘
SGDMYR	2.9974	3.0000	3.0004	3.0017	3.0031	↗
AUDMYR	2.8850	2.8884	2.8902	2.8941	2.8996	→
NZDMYR	2.7700	2.7717	2.7768	2.7745	2.7782	↗
USDSGD	1.3561	1.3575	1.3583	1.3586	1.3597	↘
EURSGD	1.5310	1.5330	1.5336	1.5346	1.5357	↗
GBPSGD	1.7334	1.7350	1.7375	1.7400	1.7413	↘
AUDSGD	0.9620	0.9629	0.9634	0.9639	0.9655	↘

* 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	1,689.06	0.22	-0.09	CRB Index	178.72	0.00	5.25
Dow Jones Ind.	25,439.39	-0.41	9.05	WTI oil ($/bbl)	54.41	0.95	19.82
S&P 500	2,745.73	-0.27	9.53	Brent oil ($/bbl)	64.57	1.51	20.04
FTSE 100	7,197.01	0.09	6.97	Gold (S/oz)	1,312.57	0.48	8.10
Shanghai	2,719.70	-0.05	9.05	CPO (RM/tonne)*	2,122.00	0.12	8.68
Hang Seng	28,432.05	-0.23	10.01	Copper ($/tonne)	6,125.00	0.31	2.68
STI	3,253.16	0.26	6.01	Rubber (sen/kg)	405.00	1.00	6.86

Source: Bloomberg

Economic Data				
	For	Actual	Last	Survey
MY GDP YOY	4Q	4.7%	4.4%	4.5%
US PPI Final Demand YOY	Jan	2.0%	2.5%	2.1%
US Initial Jobless Claims	Feb-09	239k	235k (revised)	225k
US Retail Sales Advance MOM	Dec	-1.2%	0.1% (revised)	0.1%
EU GDP SA QOQ	4Q P	0.2%	0.2%	0.2%
CH Exports YOY	Jan	9.1%	-4.4%	-3.3%
CH Imports YOY	Jan	-1.5%	-7.6%	-10.2%
CH Trade Balance	Jan	$39.16b	$57.06b	$33.3b
SG GDP YOY	4Q F	1.9%	2.2%	2.1%
NZ BusinessNZ Manufacturing PMI	Jan	53.1	54.8 (revised)	--

Source: Bloomberg

➢ Macroeconomics

- ***Disappointing US retail sales raised questions on demand:*** Retail sales unexpectedly slipped by a whopping 1.2% MOM in December (Nov: +0.1% revised), the largest decline since Sep-09 when analysts were expecting a gain of 0.1% MOM. The decline in sales was broad-based with the gasoline stations (-5.1% vs -4.4%), furniture, sporting goods as well as online retailers recording a sharp drop in sales. Sales in motor vehicles and parts managed to buck the trend to rise 0.1% MOM (Nov: +0.7%). The headline figure caught many off-guard, raising questions on domestic demand in the US, suggesting that consumers are spending cautiously despite December being a festive month for shopping. Other data on the job market and prices missed expectations as well - Initial jobless claims inching up by 4k to 239k for the week ended 9 Feb (previous: 235k) while growth in producer prices index also eased to 2.0% YOY in January (Dec: +2.1%) pointing to muted inflationary pressure in US factories.

- ***Eurozone growth saw muted growth in 4Q18, Germany dodged technical recession:*** The euro area economy grew at a moderate pace of 0.2% QOQ in the final quarter of 2018 (3Q: +0.2%) according to a preliminary reading, while on a yearly basis, growth slowed substantially to 1.2% YOY (3Q: +1.6%), the slowest rate since 4Q13. Performance was mixed in all the member countries with Germany narrowly avoiding a technical recession as it recorded a flat QOQ reading following a 3Q contraction. Nonetheless the lackluster (Eurozone GDP) reading reflects an across-the-board weakness due to country-specific factors as well as generally softer demand abroad. The upside was that employment has continued to see a solid growth of 0.2% QOQ in the final quarter (3Q: +0.2%) as the strength in labour market could further drive up wage growth to support domestic demand. The car sector in Germany is also expected to recover and stage a rebound in 2Q as it finally adjusts to a more stringent emission test. That said, it is still rather uncertain whether the ECB is going ahead with its plan to hike its key interest rates after summer this year amidst this softer growth narrative as the decision also depends much on how Brexit as well as the US-China trade dispute pan out in the next couple of months.

- ***China trade report surprised to the upside, exports rose on new-year front loading:*** Exports rebounded by a huge margin in January following the decline in December last year, growing 9.1% YOY (Dec: -4.4%), relieving the widespread concern that China's trade sector is deteriorating amidst the ongoing trade dispute with the US. Imports also fell less than expected by a relatively modest 1.5% YOY (Dec: -7.6%) bringing the trade surplus to narrow to $39.16b (Dec: $57.06b). The stronger-than-expected exports growth came ahead of the Lunar New Year as Chinese firms frontloaded shipments prior to a long holiday in early February, hence expect pullbacks in February on seasonal swings. Exports to the US continued to fall (-2.4% vs -3.5%) but was outweighed by higher shipments to nearly all of other trading partners. Despite recent improvement in trade optimism as the US and China were seen inching nearer towards a deal ahead of the 1-March self-imposed deadline, uncertainties over both countries' trade relations remain very much at play and given the generally softening global demand conditions, we believe that China's exports sector is in for a slower ride for the rest of 2019.

- ***New Zealand manufacturing sector witness slower expansion:*** The BusinessNZ Manufacturing PMI fell to 53.1 in January (Dec: 54.8 revised), indicating that the manufacturing sector grew a slower pace last month. The weaker print was driven by a substantially slower growth in production (-3.8pts), new orders (-3.pts) as well as deliveries (-4.8pts).

- ***Sluggish 4Q growth in Singapore points to even softer 2019 outlook:*** The final reading of Singapore 4Q GDP growth was revised lower from 2.2% to 1.9% YOY (3Q: +2.4%), below analyst expectations of 2.1% YOY and was its slowest rate since 3Q16. The weaker print weighed down the full-year GDP growth to a modest 3.2% YOY in 2018 (2017: +3.9%) and was mainly due to the softer expansion of the services sector (+1.8% vs +2.7%) as growth in the manufacturing sector rebounded (+5.1% vs +3.5%) albeit still by a comparably slower rate compared to the robust print seen in 2H18. The contraction in the construction sector meanwhile narrowed (-1.0% vs -2.3%). Outlook for Singapore is skewed to the downside amidst weakening domestic consumption while its heavy reliance on the trade sector means that a softer global growth will drag down demand for Singaporean products. Against this backdrop, the Ministry of Trade and Industry (MTI) has thus maintained the 2019 GDP forecast at 1.5-3.5% with growth expected to come in slightly below the mid-point of the forecast range.

- ***Pleasant surprise in Malaysia 4Q growth:*** The Malaysian economy managed to arrest four straight quarters of softening growth, bouncing back more than expected to increase 4.7% YOY in 4Q, up from a two-year low of +4.4% YOY in 3Q, alleviating concern growth could dip to 4.0% for now. The upside surprise in 4Q growth was lifted by a hefty 9.9% YOY rebound in net exports during the quarter (3Q: -7.5% YOY) thanks to a revival in exports growth, that helped offset slower growth in domestic demand (+5.6% vs +6.9% YOY) as a result of slower expansion in both private and public sector activities post tax-holiday boost and further pullback in investment. This brings full year real GDP growth to 4.7% YOY as expected, a tad below MOF's forecast of 4.8% released in conjunction with the tabling of 2019 Budget back in Nov-18. On a seasonally adjusted QOQ basis, real GDP growth moderated somewhat to increase 1.4% in 4Q (3Q: +1.6%). The latest GDP reading came as a pleasant surprise, even as the 4.7% YOY growth for full year 2018 marked a sizeable pullback from the 5.9% expansion last seen in 2017. Going forward, we however remain cautious on the growth outlook of the Malaysian economy in lieu of looming downside risks stemming from trade tensions, tightening financial conditions, political and policy uncertainties across the world. We are maintaining our view for sustained growth of 4.7% YOY in 2019, underpinned by continuous expansion in domestic demand as the external environment takes on a more challenging path.

Economic Calendar

Date	Country	Events	Reporting Period	Survey	Prior	Revised
15/02	**US**	**Empire Manufacturing**	**Feb**	**7.0**	**3.9**	**--**
		Import Price Index MOM	**Jan**	**-0.2%**	**-1.0%**	**--**
		Industrial Production MOM	**Jan**	**0.1%**	**0.3%**	**--**
		U. of Mich. Sentiment	**Feb P**	**93.5**	**91.2**	**--**
15/02	**Eurozone**	**Trade Balance SA**	**Dec**	**15.7b**	**15.1b**	**--**
15/02	**UK**	**Retail Sales Inc Auto Fuel MOM**	**Jan**	**0.2%**	**-0.9%**	**--**
18/02		Rightmove House Prices MOM	Feb	--	0.4%	--
15/02	**Japan**	**Industrial Production YOY**	**Dec F**	**--**	**-1.9%**	**--**
18/02		Core Machine Orders MOM	Dec	-0.7%	0.0%	--
15/02	**China**	**CPI YOY**	**Jan**	**1.9%**	**1.9%**	**--**
		PPI YOY	**Jan**	**0.3%**	**0.9%**	**--**
18/02	**Singapore**	Non-oil Domestic Exports YOY	Jan	--	-8.5%	--
18/02	New Zealand	Performance Services Index	Jan	--	53.0	--

Source: Bloomberg

	Last Price	DoD %	High	Low	YTD %
EURUSD	1.1295	0.30	1.1310	1.1250	-1.49
GBPUSD	1.2803	-0.33	1.2878	1.2773	0.35
USDJPY	110.48	-0.48	111.13	110.46	0.76
AUDUSD	0.7106	0.23	0.7132	0.7072	0.78
EURGBP	0.8822	0.64	0.8840	0.8756	-1.82
USDMYR	4.0750	0.18	4.0765	4.0620	-1.42
EURMYR	4.5911	-0.30	4.5949	4.5798	-2.88
JPYMYR	3.6679	-0.22	3.6737	3.6571	-2.39
GBPMYR	5.2244	-0.46	5.2391	5.2191	-0.82
SGDMYR	2.9966	-0.18	2.9994	2.9915	-1.29
AUDMYR	2.8936	-0.09	2.9019	2.8839	-1.61
NZDMYR	2.7794	0.04	2.7850	2.7678	0.03
CHFMYR	4.0373	-0.21	4.0386	4.0283	-3.86
CNYMYR	0.6012	-0.09	0.6018	0.6005	-0.66
HKDMYR	0.5192	0.15	0.5192	0.5175	-1.70
USDSGD	1.3580	-0.13	1.3601	1.3566	-0.36
EURSGD	1.5338	0.18	1.5348	1.5291	-1.86
GBPSGD	1.7384	-0.46	1.7479	1.7351	-0.02
AUDSGD	0.9649	0.10	0.9677	0.9614	0.43

Source: Bloomberg

➢Forex

MYR

- **MYR slipped 0.18% to 4.0750 against a firm USD** but advanced against 9 G10s.
- **Expect a neutral MYR against USD**, with room for mild losses as risk appetite recedes going into the weekend. We maintain that there is still room for the unravelling of price-momentum divergence, which could push USDMYR higher going forward. Expect a test at 4.0795 – 4.0850 range going forward, while beating 4.0850 will expose a move to 4.1060 in the next leg higher.

USD

- **USD fell against 7 G10s** while the DXY tumbled in US morning after dismal US data and extended its downsides in the afternoon on dwindling optimism of US-China trade talks, closing 0.16% lower at 96.97.
- **Expect a bearish USD**, weighed down by unexpected downsides in US data that is set to solidify the notion of a slowing economy, on top of easing optimism over US-China trade talks. DXY was expectedly rejected from further advances. We opine that the recent bullish trend has ended, and yesterday's decline could be the onset of a reversal lower that could reach 96.47 – 96.66.

EUR

- **EUR climbed 0.3% to 1.1295 against USD** and advanced against 5 G10s, supported by steady Eurozone data.
- **EUR is now bullish on the back of a soft USD**. EURUSD bounced higher earlier than we expected, but nevertheless, we believe this to be the onset of a rebound higher that could retake above 1.1367 in the coming week(s). Above this, EURUSD will take aim at 1.1413.

GBP

- **GBP fell 0.33% to 1.2803 against USD** and weakened against all G10s, pressured by news of UK Parliament's vote to reject PM May's Brexit strategy.
- **GBP remains slightly bearish against USD** in our view as it continues to be weighed down by Brexit uncertainties, more so after recent rejection by the UK Parliament of PM May's Brexit plans. Strong downside breaks at 1.2847 and 1.2808 have paved the way for a passage towards 1.2760 going forward.

JPY

- **JPY strengthened 0.48% to 110.48 against USD** and advanced against 8 G10s on the back of increase in refuge demand following losses in US equities.
- **Stay slightly bullish on JPY against USD** today on technical reasons. USDJPY is still likely to pullback first before heading higher. Current technical landscape suggests a break above 111.01 by next week, but caution that a close below 110.38 today will put an end to this view, and tilt USDJPY towards the downside.

AUD

- **AUD climbed 0.23% to 0.7106 against USD** after bouncing off intraday low amid loss of risk appetite in the markets and ended lower against 5 G10s.
- **We turn slightly bullish on AUD amid a soft USD**, but expect gains to be modest on likelihood of extended decline in risk appetite. Recent bearish trend has ended but AUDUSD needs to hold above 0.7095 by tomorrow to sustain a new bullish trend. AUDUSD is slightly tilted to the upside but remains vulnerable to an extended declines if it closes below 0.7086 today.

SGD

- **SGD advanced 0.13% to 1.3580 against USD** but slipped against 7 G10s following loss of risk appetite.
- **SGD is now slightly bullish against a soft USD**. USDSGD's failure to beat 1.3614 yesterday has tilted it to the downside. Expect a drop to circa 1.3553 – 1.3561 next, below which 1.3520 – 1.3533 will be targeted.

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