August 15, 2019

Global Markets Research

Daily Market Highlights

Key Takeaways

- **US stocks sold off overnight as the brief inversion of a closely watched part of the treasuries yield curve sparked renewed fear of a looming recession, leading all main US indexes to fall sharply by around 3%.** Spread between yield on 2Y and 10Y UST, went below positive for the first time in 12 years (or in other words, yield on 2Y notes went higher above yield on 10Y bonds), **flagging recession risk as an inversion has often preceded a US downturn in history.** Treasuries yield fell by a whopping 9-14bps along the curve, benchmark 10Y UST yield finished 12bps lower at 1.58% and matching the 2Y yield at 1.58%. **Severely weak Chinese and German data had triggered rallies in global bonds as investors fled riskier assets for the relative safety of government bonds, gold, as well as currencies like JPY and CHF.** Yield on 10Y German bund and UK gilts tumbled to fresh lows while gold prices rose 1%. Crude oil prices plunged by around 3.0% reversing most of previous session's gain. WTI finished at $55.23/barrel and Brent crude at $59.48/barrel.

- On the data front, US import prices rose 0.2% MOM in July but fell 1.8% YOY, **as a strong dollar kept imported inflation in check**. **Eurozone industrial productions fell by 1.6% MOM** in Jun while the second estimate of 2Q GDP growth was unchanged at 0.2% QOQ. **UK headline CPI unexpectedly rose by 2.1% YOY** in July but the BOE is still expected to keep rate steady. **China key economic data weakened again in July** - growth in industrial production, retail sales and fixed investment all slowed. Australia wage price index steadied at 2.3% YOY in 2Q confirming the lack of upward pressure in wage growth.

- **The dollar index ended higher by 0.17% at 97.949** as USD gained some ground as the UST yield curve inversion supports overall USD strength. **We are bullish USD today** as demand for USTs are likely to continue to support short term USD strength. **We remain bearish USD over the medium term** as global growth outlook remains dim and may spur further Fed easing.

- **MYR closed stronger by 0.17% at 4.1890** as risk assets got a boost on renewed trade war resolution optimism. **We turn bearish USDMYR today** as market focuses back towards global growth concerns as UST yield inversion cues risk off. **We remain bullish USDMYR over the medium term** at least until US and China shows some form of firm commitment towards trade resolution.

- **SGD closed weaker by 0.48% against the USD** at 1.3900 as the inverted UST yield curve stokes recession fears. **We turn bearish SGD over the short term** as poor US equity performance will likely spillover into Asian trade and support USD strength over risk aversion. **We remain bearish SGD over the medium term** over the global growth outlook and prolonged trade worries.

Eco Overnight Economic Data

US	↑
Eurozone	↓
UK	↑
China	↓
Australia	→

What's Coming Up Next

Major Data

- US Empire Manufacturing, Philadelphia Fed Business Outlook, Retail Sales Advance, Initial Jobless Claims, Industrial Production, NAHB Housing Market Index
- UK Retail Sales
- Japan Industrial Production
- Australia Job Report

Major Events

- Nil

Daily Supports – Resistances (spot prices)*

	S2	S1	Indicative	R1	R2	Outlook
EURUSD	1.1100	1.1125	1.1147	1.1175	1.1200	↘
GBPUSD	1.1980	1.2020	1.2058	1.2080	1.2120	→
USDJPY	105.40	105.70	105.93	106.25	106.50	↘
AUDUSD	0.6700	0.6725	0.6757	0.6780	0.6830	↘
EURGBP	0.9200	0.9225	0.9242	0.9275	0.9300	↗
USDMYR	4.1850	4.1900	4.1980	4.2000	4.2100	↗
EURMYR	4.6500	4.6600	4.6796	4.7000	4.7200	→
JPYMYR	3.9300	3.9500	3.9653	3.9700	3.9850	↗
GBPMYR	5.0200	5.0400	5.0644	5.0700	5.0900	↗
SGDMYR	3.0175	3.0200	3.0229	3.0250	3.0275	↘
AUDMYR	2.8200	2.8300	2.8379	2.8550	2.8700	↘
NZDMYR	2.6800	2.6950	2.7044	2.7150	2.7300	→
USDSGD	1.3850	1.3875	1.3897	1.3925	1.3950	↗
EURSGD	1.5400	1.5450	1.5485	1.5500	1.5550	↘
GBPSGD	1.6680	1.6720	1.6757	1.6780	1.6820	↗
AUDSGD	0.9350	0.9375	0.9389	0.9430	0.9450	→

* 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	1,600.31	0.47	-5.34	CRB Index	170.64	-1.41	0.50
Dow Jones Ind.	25,479.42	-3.05	9.23	WTI oil ($/bbl)	55.23	-3.27	21.63
S&P 500	2,840.60	-2.93	13.31	Brent oil ($/bbl)	59.48	-2.97	10.56
FTSE 100	7,147.88	-1.42	6.24	Gold (S/oz)	1,516.36	0.99	18.37
Shanghai	2,808.92	0.42	12.63	CPO (RM/tonne)*	2,122.50	1.80	8.71
Hang Seng	25,302.28	0.08	-2.10	Copper ($/tonne)	5,765.00	-1.09	-3.35
STI	3,147.60	0.03	2.57	Rubber (sen/kg)	439.00	0.00	15.83

Source: Bloomberg

Economic Data				
	For	Actual	Last	Survey
US MBA Mortgage Applications	09 Aug	21.7	5.3%	--
US Import Price Index MOM	Jul	0.2%	-1.1% (revised)	-0.1%
EU Industrial Production SA MOM	Jun	-1.6%	0.8% (revised)	-1.5%
EU Employment QOQ	2Q P	0.2%	0.4% (revised)	--
EU GDP SA QOQ	2Q P	0.2%	0.4%	0.2%
UK CPI YOY	Jul	2.1%	2.0%	1.9%
UK PPI Output NSA YOY	Jul	1.8%	1.6%	1.7%
CN Fixed Assets Ex Rural YTD YOY	Jul	5.7%	5.8%	5.8%
CN Industrial Production YOY	Jul	4.8%	6.3%	6.0%
CN Retail Sales YOY	Jul	7.6%	9.8%	8.6%
AU Wage Price Index YOY	2Q	2.3%	2.3%	2.3%

Source: Bloomberg

Macroeconomic

- ***US imported inflation stayed subdued amidst strong dollar; lower borrowing cost spurred refinancing activities:*** US import price index rebounded from the fall in June to pick up modestly by 0.2% MOM in July (Jun: -1.1% revised). Excluding petroleum, prices did not budge (Jun: -0.4%) after falling for three straight months. On a yearly basis, import prices fell for the fourth month by 1.8% YOY (Jun: -2.05) indicating that a strong dollar continued to keep imported inflation in check. Meanwhile, lower borrowing costs continued to spur refinancing activities in the US housing market as mortgage applications jumped by 21.7% on a weekly basis for the week ended 9 Aug (previous: +5.3%). Applications to refinance existing home spiked by a whopping 36.9% last week whereas applications to purchase a new house only managed a 1.9% increase. The average rate for a fixed-rate mortgage loan fell to 3.93% last week versus 4.01% in the week before.

- ***Eurozone industrial production slumped again; 2Q GDP growth pulled back:*** Industrial production fell again by 1.6% MOM in Jun (May: +0.8% revised) after a brief gain in May, underscoring the continuous weakness in the currency bloc's manufacturing industry amidst slower overseas demand for European goods which have been hampered by ongoing global trade uncertainties. Production of intermediate goods, energy, capital goods, durable and non-durable consumer goods all recorded decline in June. Looking at individual performance of the bloc's largest economies, notably, output in Germany contracted by a whopping 1.8% MO (May: +0.7%) after a modest rebound in June while output in Spain, Italy, France and Portugal all registered declines as well. On an annual basis, output posted its eighth consecutive month of decline by 1.6% YOY (May: -0.5%), its largest fall in six months. The poor industrial production number in the June added up to the slower growth in the second quarter as the second reading of 2Q GDP growth was unrevised at 0.2% QOQ (1Q: +0.4%), a pull-back from the decent 0.4% gain in 1Q. Hiring also slowed in the second quarter with only modest gain observed in employment (0.2% vs +0.4% QOQ). On a yearly basis, employment growth continued to soften to 1.1% YOY (1Q: +1.3%) after peaking in 3Q17.

- ***UK inflation above BOE's target:*** UK headline CPI unexpectedly rose by 2.1% YOY in July (Jun: +2.0%), beating consensus forecast of 1.9% YOY, led by the higher prices in computer games and hotel accommodations. The core reading also recorded a surprising gain of 1.9% YOY (Jun: +1.8%. Similarly, factory gate inflation quickened as well as producer prices for final demand registered a stronger gain of 1.8% YOY (Jun: +1.6%). offering signs that prices are heating up in the economy, in line with the recent surge in wage growth. July print marks CPI's return above the BOE's 2% target, putting the question of whether the BOE should hike rate to ease inflation back into the spotlight. We reckon that the central bank would continue to hold bank rate steady as the ongoing uncertainties about Brexit persisted with a lack of any concrete progress.

- ***Weak data highlights China's struggle:*** China key economic indicators weakened again in July after a brief improvement in the previous month, suggesting that the world's second largest economy still struggles to regain solid footing as it simultaneously battles domestic and external headwinds. Industrial production rose a mere 4.8% YOY in July (Jun: +6.3%) after experiencing a decent gain in the previous month, weighed down by slower growth in mining and manufacturing output. Fixed investment growth also slowed to 5.7% YOY for the period of Jan-July (Jan-July 2018: +6.0%) as private sector scaled back on investment. The retail space underperformed again as retail sales increased by 7.6% YOY in July (Jun: +9.8%) amidst a broad-based slowdown in sales of nearly all categories, highlighting weakness in consumer demand.

- ***Australia wage growth steadied in 2Q but stayed tepid:*** Australia wage prices index rose 0.6% QOQ in the second quarter of 2019 (1Q: +0.5%), but the annual gain steadied at 2.3% YOY (1Q: +2.3%), confirming the lack of upward pressure in wage growth. The subdued movement in annual wages is likely keeping a lid on household spending which in turns weighs on domestic consumption, suggesting that inflation likely remains muted in the Australian economy. We look towards today's job report for further guidance in the RBA's next move which had recently paused cutting its cash rate but signaled willingness to ease policy if needed.

Economic Calendar

Date	Country	Events	Reporting Period	Survey	Prior	Revised
16/08	Malaysia	GDP YOY	2Q	4.7%	4.5%	--
15/08	**US**	**Empire Manufacturing**	**Aug**	**2.0**	**4.3**	**--**
		Philadelphia Fed Business Outlook	**Aug**	**9.5**	**21.8**	**--**
		Retail Sales Advance MOM	**Jul**	**0.3%**	**0.4%**	**--**
		Initial Jobless Claims	**10 Aug**	**212k**	**209k**	**--**
		Industrial Production MOM	**Jul**	**0.1%**	**0.0%**	**--**
		NAHB Housing Market Index	**Aug**	**65.0**	**65.0**	**--**
16/08		Housing Starts MOM	Jul	0.3%	-0.9%	--
		Building Permits MOM	Jul	3.1%	-6.1%	-5.2%
		U. of Mich. Sentiment	Aug P	97.0	98.4	--
16/08	Eurozone	Trade Balance SA	Jun	18.5b	20.2b	--
15/08	**UK**	**Retail Sales Inc. Auto Fuel MOM**	**Jul**	**-0.2%**	**1.0%**	
15/08	**Japan**	**Industrial Production YOY**	**Jun F**	**--**	**-4.1%**	**--**
16/08	Hong Kong	GDP YOY	2Q F	0.6%	0.6%	--
16/08	Singapore	Non-oil Domestic Exports YOY	Jul	-15.4%	-17.3%	--
15/08	**Australia**	**Employment Change**	**Jul**	**14.0k**	**0.5k**	**--**
		Unemployment Rate	**Jul**	**5.2%**	**5.2%**	**--**
16/08	New Zealand	Business NZ Manufacturing PMI	Jul	--	51.3	--

Source: Bloomberg

	Last Price	DoD %	High	Low	YTD %
EURUSD	1.1139	-0.29	1.1191	1.1131	-2.81
GBPUSD	1.2060	0.00	1.2101	1.2045	-5.44
USDJPY	105.91	-0.78	106.77	105.66	-3.53
AUDUSD	0.6748	-0.75	0.6809	0.6736	-4.21
EURGBP	0.9236	-0.30	0.9276	0.9229	2.80
USDMYR	4.1890	-0.17	4.1940	4.1810	1.34
EURMYR	4.6829	-0.41	4.6904	4.6700	-0.94
JPYMYR	3.9347	-1.29	3.9425	3.9241	4.71
GBPMYR	5.0531	-0.23	5.0623	5.0398	-4.07
SGDMYR	3.0214	-0.05	3.0335	3.0169	-0.48
AUDMYR	2.8349	-0.16	2.8521	2.8333	-3.01
NZDMYR	2.6978	-0.34	2.7115	2.6962	-2.91
CHFMYR	4.3000	-0.49	4.3033	4.2811	2.40
CNYMYR	0.5967	0.46	0.5971	0.5958	-1.40
HKDMYR	0.5337	-0.22	0.5349	0.5329	1.04
USDSGD	1.3900	0.48	1.3906	1.3831	1.97
EURSGD	1.5483	0.20	1.5533	1.5450	-0.91
GBPSGD	1.6763	0.49	1.6785	1.6672	-3.58
AUDSGD	0.9379	-0.26	0.9419	0.9353	-2.82

Source: Bloomberg

➢Forex

MYR

- **MYR closed stronger by 0.17% at 4.1890** as risk assets got a boost on renewed trade war resolution optimism.
- **We turn bearish USDMYR today** as market focuses back towards global growth concerns as UST yield inversion cues risk off. **We remain bullish USDMYR over the medium term** at least until US and China shows some form of firm commitment towards trade resolution.

USD

- **The dollar index ended higher by 0.17% at 97.949** as USD gained some ground as the UST yield curve inversion supports overall USD strength.
- **We are bullish USD today** as demand for USTs are likely to continue to support short term USD strength. **We remain bearish USD over the medium term** as global growth outlook remains dim and may spur further Fed easing.

EUR

- **EUR closed lower by 0.29% against the USD at 1.1139** as USD gained ground in line with higher UST demand on global growth worries.
- **We remain bearish EUR today** as USD strength spillover might be still in play today. **We remain bullish EUR over the medium term** as dim global growth scenario will likely trigger a Fed rate cut.

GBP

- **GBP closed unchanged at 1.2060** as it consolidates and awaits economic data due later today.
- **We remain neutral GBP today** as market focus is currently on global growth concerns and ahead of economic data release. **We are still bearish GBP in the medium term** given that the chances of a no-deal Brexit remain high.

JPY

- **JPY finished 0.78% stronger at 105.91** gaining back some ground as the US equity market slumps on recession fears on the back of an inverted UST yield curve.
- **We turn bullish JPY today as** poor risk sentiment is likely to spillover to the Asian session and hence is supportive towards JPY strength. **We remain bullish JPY over the medium term** over the dim global economic growth outlook and over prolonged trade worries.

AUD

- **AUD closed lower by 0.75% against the USD at 0.6748** as risk appetite fades along with the US equity market slump.
- **We turn bearish AUD today** as the risk off sentiment might spillover and continue in the Asian session today. **We remain bearish AUD over the medium term** over the global economic growth outlook and prolonged trade worries.

SGD

- **SGD closed weaker by 0.48% against the USD** at 1.3900 as the inverted UST yield curve stokes recession fears.
- **We turn bearish SGD over the short term** as poor US equity performance will likely spillover into Asian trade and support USD strength over risk aversion. **We remain bearish SGD over the medium term** over the global growth outlook and prolonged trade worries.

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