February 18, 2019

Global Markets Research

Daily Market Highlights

Key Takeaways

- **US stocks rallied on Friday on trade optimism as the US and China were seen inching nearer to a deal prior the 1 Mar deadline.** Stocks benchmarks jumped as the Dow, S&P 500 and NASDAQ each climbed by 1.74%, 1.09% and 0.61%. Treasuries fell as risk appetites improved substantially- yield on 10y US government notes rose soared as much as 4bps to 2.68% before finishing at 2.66% (+1bps) while the 2Y notes yield closed 2bps higher at 2.51%. Oil prices benefited tremendously from the improved trade sentiments as both benchmark WTI and Brent surged by more than 2% to $55.59/barrel and $66.25/barrel.

- **Data were mixed in the US** - industrial productions fell by 0.6% MOM in January due to the sizable drop in vehicles output, New York Empire State manufacturing index recovered 5pts suggesting a modest growth in the area, imports prices fell by 0.5% as prices of fuels imports continued to fall while University of Michigan Consumer Index rebounded to 95.5 in February. **Eurozone exports fell by 0.1% MOM in January while imports were unchanged. UK retail sales recovered to surprisingly increase 1.0%** as shoppers returned to shop during January sales. **Japan industrial productions fell by 1.9% reflecting entrenched weakness in manufacturing sector. China PPI and CPI eased further flagging disinflation risk.**

- **USD fell against 8 G10s** while the DXY erased all early day gains to close marginally lower by 0.08% at 96.90, stoke by the surprised decline in US industrial production that overshadowed improved risk sentiments. This, coupled with the surprised fall in retail sales seen just a day earlier, heightened growth fear. **USD remains bearish** in our view. Positive momentum is dwindling but US market closure and absence of both US and EU data today could keep it in rangebound mode. Further out, DXY is on track to test 96.47-96.66 in its next move down.

- **USDMYR** climbed further but closed off its high of 4.0920, **gaining 0.27% to 4.0860 at close on Friday. Expect USDMYR to trade on a slightly bearish bias** as risk appetites returned on rising trade optimism and renewed softness in the USD. Technically, the pair was however bullish after having broken 4.0850, hence reinforcing our view that USDMYR will head towards 4.1060 next.

- **SGD advanced 0.10% to 1.3566 against a retreating USD** but traded mixed against the G10s amid return of risk appetite. **SGD is expected to stay bullish against a soft USD**. Expect a drop to circa 1.3553 – 1.3561 next, below which 1.3520 – 1.3533 will be targeted.

Overnight Economic Data	
US	→
Eurozone	↓
UK	↑
Japan	↓
China	↓
New Zealand	↑

What's Coming Up Next

Major Data

- UK Rightmove House Prices MoM
- Japan Core Machine Orders MOM
- Singapore Non-oil Domestic Exports YOY

Major Events

- Nil

Daily Supports – Resistances (spot prices)*

	S2	S1	Indicative	R1	R2	Outlook
EURUSD	1.1276	1.1290	1.1297	1.1312	1.1325	↗
GBPUSD	1.2847	1.2891	1.2904	1.2933	1.2954	↗
USDJPY	110.16	110.38	110.49	110.65	110.85	↘
AUDUSD	0.7103	0.7124	0.7145	0.7168	0.7181	↗
EURGBP	0.8729	0.8740	0.8754	0.8766	0.8789	→
USDMYR	4.0700	4.0730	4.0743	4.0765	4.0795	↘
EURMYR	4.5949	4.6000	4.6042	4.6049	4.6085	↗
JPYMYR	3.6800	3.6843	3.6882	3.6926	3.6953	↘
GBPMYR	5.2461	5.2537	5.2573	5.2653	5.2722	↗
SGDMYR	3.0017	3.0031	3.0046	3.0056	3.0092	↘
AUDMYR	2.9033	2.9077	2.9123	2.9151	2.9191	↗
NZDMYR	2.7923	2.7980	2.8003	2.8049	2.8094	↗
USDSGD	1.3535	1.3552	1.3561	1.3586	1.3597	↘
EURSGD	1.5290	1.5313	1.5321	1.5341	1.5357	↗
GBPSGD	1.7444	1.7467	1.7498	1.7526	1.7549	↘
AUDSGD	0.9656	0.9673	0.9692	0.9704	0.9730	↗

* 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	1,688.83	-0.01	-0.10	CRB Index	181.33	1.46	6.79
Dow Jones Ind.	25,883.25	1.74	10.96	WTI oil ($/bbl)	55.59	2.17	22.42
S&P 500	2,775.60	1.09	10.72	Brent oil ($/bbl)	66.25	2.60	25.59
FTSE 100	7,236.68	0.55	7.56	Gold (S/oz)	1,321.55	0.68	8.10
Shanghai	2,682.39	-1.37	7.56	CPO (RM/tonne)*	2,119.00	-0.14	8.53
Hang Seng	27,900.84	-1.87	7.95	Copper ($/tonne)	6,188.00	0.83	3.74
STI	3,239.74	-0.41	5.57	Rubber (sen/kg)	408.00	0.62	7.65

Source: Bloomberg

Economic Data				
	For	Actual	Last	Survey
US Empire Manufacturing	Feb	8.8	3.9	7.0
US Import Price Index MOM	Jan	-0.5%	-1.0%	-0.2%
US Industrial Production MOM	Jan	-0.6%	0.1% (revised)	0.1%
US U. of Mich. Sentiment	Feb P	95.5	91.2	93.7
EU Trade Balance SA	Dec	€15.7b	€15.8b (revised)	€15.7b
UK Retail Sales Inc Auto Fuel MOM	Jan	1.0%	-0.7% (revised)	0.2%
JP Industrial Production YOY	Dec F	-1.9%	1.5%	--
CH CPI YOY	Jan	1.7%	1.9%	1.9%
CH PPI YOY	Jan	0.1%	0.9%	0.3%
NZ performance services index	Jan	56.3	53.2 (revised)	--

Source: Bloomberg

Macroeconomics

- ***US industrial production fell as vehicles output plummeted:*** Industrial productions fell by 0.6% MOM in January (Dec: +0.1%) following a minimal gain in the previous month. The fall was largely driven by the 0.9% MOM drop in manufacturing output, reversing December's 0.8% gain while mining and utilities output increased by 0.1% and 0.4% respectively. According to the Federal Reserves which published the figures, the sizable 8.8% MOM drop in motor vehicles and parts contributed significantly to the fall in output. Output fell across all major market groups as final products (consumer goods, business equipment), non-industries supplies and materials all recorded declines offering tentative sign that the that manufacturing sector is operating under huge pressure from the cooling domestic as well as foreign demand as a result of the ongoing trade dispute with China. Meanwhile, the New York Fed Empire State Manufacturing Survey reported a 5pts increase in the headline general business conditions index to 8.8 in February (Jan: 3.9) indicating a modest growth in business activity in New York State. Separately, import price index fell for the third consecutive month by 0.5% MOM in January (Dec: -1.0%), sign that price pressure stayed muted last month. Prices of fuel imports continued to drop (-3.2% vs -8.6% revised) as global oil prices remained low. Last but not least, consumer confident rebounded this month according to the preliminary University of Michigan Consumer Sentiment Index which rose to 95.5 (Jan: 91.2) reflecting improved sentiments over the end of government shutdown and Fed's rate hike pause.

- ***Eurozone exports fell as demand softened globally, imports unchanged:*** Eurozone exports fell for the second consecutive month by 0.1% MOM in December (Nov: -0.9%) while imports were unchanged (Nov: -2.1%) leading to slight narrowing of the trade surplus to €15.6b (Nov: €15.8b). The fall in exports reflects generally softer foreign demand for European goods amidst slower global economic growth worldwide while stagnated imports after the contraction in the previous month also suggest a rather muted domestic demand, in line with the weaker 0.2% QOQ GDP growth in the final quarter of 2018.

- ***UK retail sales recovered as shoppers returned for January sales:*** Retail sales increased by 1.0% MOM in January (Dec: -0.7% revised) reversing the decline seen in previous month while on a yearly basis, sales soared by 4.2% YOY (Dec: +3.1%) the highest since Dec-16. The superb figure was driven mainly by the superb performance in textile, clothing and footwear stores which showed a 5.5% YOY growth as shoppers flocked to purchase discounted clothing in January sales (clothing prices fell by the most since Aug-16).

- ***Japan industrial output declined in late 2018:*** Japan industrial production fell 1.9% YOY in December (Nov: +1.5%) unrevised from the preliminary reading. The rebound in November and October turned out to be unsustainable, reflecting entrenched weakness in the manufacturing industry on the back of weaker demand from China. The contraction led to a sharp fall in shipment naturally as well as a buildup in inventories, suggesting that output might continue to ease in the coming month.

- ***China inflation eased further, raising concerns over dis-inflation:*** Producer prices index eked out a 0.1% YOY gain in January (Dec: +0.9%) marking its seventh consecutive month of slow down, raising concerns over disinflation and margin compression at Chinese factories. Weaker PPI means falling revenue and profit for industrial companies –in fact industrial profits have been easing in recent months. The muted price pressure also translated into a softer gain in consumer prices as CPI rose 1.7% YOY in the same month (Dec: +1.9%). Prices of consumer goods rose a mere 1.3% YOY (Dec: +1.7%) versus a growth of 2.4% YOY in services (Dec: +2.1%) suggesting waning demand from Chinese consumers.

- ***New Zealand services improved:*** Services index in New Zealand climbed 3.1ppt to 56.3 in January (Dec: 53.2 revised), its best in eight months, driven by increases in sales (+9.2pt), employment (+2.6pt), and new orders (+1.8pt). This shall provide the much needed support to overall GDP growth in the first quarter of 2019.

Economic Calendar						
Date	**Country**	**Events**	**Reporting Period**	**Survey**	**Prior**	**Revised**
19/02	US	NAHB Housing Market Index	Feb	59.0	58.0	--
19/02	Eurozone	ZEW Survey Expectations	Feb	--	-20.9	--
18/02	**UK**	**Rightmove House Prices MoM**	**Feb**	**--**	**0.4%**	**--**
19/02		Average Weekly Earnings 3M/YoY	Dec	--	3.4%	--
		ILO Unemployment Rate 3Mths	Dec	4.0%	4.0%	--
		Employment Change 3M/3M	Dec	--	141k	--
18/02	**Japan**	**Core Machine Orders MOM**	**Dec**	**-0.7%**	**0.0%**	**--**
18/02	**Singapore**	**Non-oil Domestic Exports YOY**	**Jan**	**--**	**-8.5%**	**--**
19/02	Australia	RBA Minutes of Feb. Policy Meeting				

Source: Bloomberg

➢Forex

	Last Price	DoD %	High	Low	YTD %
EURUSD	1.1296	0.01	1.1306	1.1234	-1.54
GBPUSD	1.2889	0.67	1.2898	1.2785	1.17
USDJPY	110.47	-0.01	110.65	110.26	0.71
AUDUSD	0.7141	0.49	0.7149	0.7079	1.23
EURGBP	0.8762	-0.68	0.8828	0.8753	-2.66
		0.00			
USDMYR	4.0860	0.27	4.0710	4.0920	-1.15
EURMYR	4.6104	0.42	4.5976	4.6147	-2.47
JPYMYR	3.7085	1.11	3.6839	3.7106	-1.31
GBPMYR	5.2372	0.25	5.2095	5.2382	-0.58
SGDMYR	3.0112	0.49	2.9974	3.0114	-0.81
AUDMYR	2.9004	0.24	2.8867	2.9012	-0.77
NZDMYR	2.7929	0.49	2.7764	2.7934	0.51
CHFMYR	4.0655	0.70	4.0501	4.0682	-3.18
CNYMYR	0.6036	0.40	0.6016	0.6037	-0.26
HKDMYR	0.5214	0.42	0.5188	0.5215	-1.29
		0.00			
USDSGD	1.3566	-0.10	1.3596	1.3559	-0.45
EURSGD	1.5325	-0.08	1.5348	1.5265	-1.99
GBPSGD	1.7484	0.58	1.7495	1.7364	0.70
AUDSGD	0.9690	0.42	0.9694	0.9620	0.78

Source: Bloomberg

MYR

- USDMYR climbed further but closed off its high of 4.0920, gaining 0.27% to 4.0860 at close on Friday.
- Expect USDMYR to trade on a slightly bearish bias as risk appetites returned on rising trade optimism and renewed softness in the USD. Technically, the pair was however bullish after having broken 4.0850, hence reinforcing our view that USDMYR will head towards 4.1060 next.

USD

- **USD fell against 8 G10s** while the DXY erased all early day gains to close marginally lower by 0.08% at 96.90, stoke by the surprised decline in US industrial production that overshadowed improved risk sentiments. This, coupled with the surprised fall in retail sales seen just a day earlier, heightened growth fear.
- **USD remains bearish** in our view. Positive momentum is dwindling but US market closure and absence of both US and EU data today could keep it in rangebound mode. Further out, DXY is on track to test 96.47-96.66 in its next move down.

EUR

- **EUR** brushed off early day losses and **eked out a 0.01% gain to 1.1296 against USD** but fell against 6 G10s, as Eurozone data continued to paint a gloomy growth picture of the euro region and on talks of ECB loan issuances to banks.
- **EUR remains bullish on the back of a soft USD**. Negative momentum continued hence setting the stage for EURUSD to move higher. We believe the pair could recapture above 1.1367 in the coming week(s). Above this, EURUSD will take aim at 1.1413.

GBP

- **GBP jumped 0.67% to 1.2889 against USD** and turned around to strengthen against all G10s, boosted by positive UK data and Brexit newsflows on conciliatory remarks from Irish foreign minister.
- **GBP could take a brief respite against a soft USD today** amid US market closure and on spillover of positive vibes on UK-related factors. Looking forward, GBPUSD remains bearish and on track to test 1.2760, unless it manages to close above 1.2946.

JPY

- **JPY also managed a small 0.01% gain against the USD to 110.47** but it fell against 6 G10s on the return of risk appetite to the markets.
- **JPY is expected to turn bearish against USD** today in the absence of demand for refuge as risk sentiments improved. USDJPY is still expected to break above 111.01 by next week, provided it does not close below 110.38.

AUD

- **AUD climbed 0.49% to 0.7141 against USD** and gained against all G10s save for the sterling on revived risk sentiments in the market on trade talk optimism and better than expected loan demand in China that soothed growth slowdown concern.
- **AUD remains slightly bullish amid a soft USD**. Successfully closing above 0.7086 and breaking above 0.7095 has reinforced the bullish trend. We now expect AUDUSD to head towards 0.7160 next.

SGD

- **SGD advanced 0.10% to 1.3566 against a retreating USD** but traded mixed against the G10s amid return of risk appetite.
- **SGD is expected to stay bullish against a soft USD**. Expect a drop to circa 1.3553 – 1.3561 next, below which 1.3520 – 1.3533 will be targeted.

Hong Leong Bank Berhad
Fixed Income & Economic Research, Global Markets
Level 8, Hong Leong Tower
6, Jalan Damanlela
Bukit Damansara
50490 Kuala Lumpur
Tel: 603-2081 1221
Fax: 603-2081 8936
Email: HLMarkets@hlbb.hongleong.com.my