January 25, 2019

Global Markets Research

Daily Market Highlights

Key Takeaways

- **US stocks ended mixed overnight as positive corporate earnings helped ease the ongoing concerns over slower global growth** as well as the uncertainties arising from the US-China trade talks and the current US government shutdown. **Votes on the two dueling bills at the Senate fell short as widely expected leaving the shutdown in its 34th day**. Adding to the wound was Commerce Secretary **Wilbur Ross' remark that Washington and Beijing are "miles and miles" away from a permanent trade agreement,** confirming the lack of progress in negotiations. The Dow was virtually unchanged, whereas the S&P500 and NASDAQ were up by 0.1% and 0.7% respectively. Treasuries rose with the yield on 2y notes ticking down to 2.56% (-2bps) while that of the 10s falling to 2.72% (-3bps). Elsewhere, **the ECB left key rates unchanged, and said that the balance of risk have moved to the downside.** Eurozone equity generally ended higher while stocks in the U.K. fell, Asian equity mostly rallied. Crude oil prices were mixed - Brent crude weakened to $61.09/barrel (-0.1%) while WTI strengthened to 53.13/barrel (+1.0%). **BNM held OPR steady at 3.25% and offered no signs of a move.**

- **Data were mixed in the US**- Markit PMIs indicate still-solid growth but leading index points to a softer conditions, while initial jobless claims fell below 200k. **Eurozone PMIs dropped to levels nearing 50.0** indicating stalling growth while **Japan manufacturing PMI hit the 50.0 neutral line. Australia added more jobs than expected** and unemployment rate fell to 5.0%. **Malaysia CPI rose steadily by 0.2% YOY in December.**

- **USD rebounded to beat all G10s** while the DXY arrested a tumble in US morning before extending a rally that began in European session, closing 0.5% higher at 96.60 amid weakness in European majors. **We turn slightly bearish on USD** on technical reasons. DXY is near the end of a bullish trend, as well as approaching a firm resistance at 96.68, and we suspect some retracement to overnight's strong gains. Losses holding above 96.24 still confers a bullish bias, otherwise expect a drop going forward that would pierce below 96.05.

- **MYR weakened 0.18% to 4.1455 against USD** and fell against 6 G10s on the back of softer market sentiment on top of risk aversion heading into BNM OPR decision. **MYR remains slightly bearish against USD** as we expect market sentiment to fade heading into the weekend. A mild upward momentum continues to prevail, alongside lingering bullish trend, are both expected to tilt USDMYR towards the upside. We continue to expect USDMYR to soon challenge 4.1500 – 4.1547.

- **SGD weakened 0.16% to 1.3610 against USD** but managed to beat 6 G10s. **Continue to expect a slightly bearish SGD against USD** in anticipation of an increase in risk-off sentiment in the markets. We now expect USDSGD to test 1.3621 going forward. Caution that this level could potential reject USDSGD from further advances.

Overnight Economic Data	
Malaysia	➔
US	➔
Eurozone	↓
Japan	↓
Australia	➔

What's Coming Up Next

Major Data

- Singapore Industrial Production

Major Events

- Nil

Daily Supports – Resistances (spot prices)*

	S2	S1	Indicative	R1	R2	Outlook
EURUSD	1.1287	1.1300	1.1312	1.1325	1.1350	↗
GBPUSD	1.3072	1.3094	1.3119	1.3130	1.3150	↘
USDJPY	109.33	109.48	109.63	109.70	109.90	↗
AUDUSD	0.7050	0.7066	0.7087	0.7100	0.7118	↘
EURGBP	0.8600	0.8615	0.8626	0.8637	0.8650	↗
USDMYR	4.1380	4.1405	4.1460	4.1480	4.1500	↗
EURMYR	4.6850	4.6861	4.6890	4.6921	4.6950	➔
JPYMYR	3.7741	3.7800	3.7815	3.7850	3.7890	➔
GBPMYR	5.4280	5.4300	5.4331	5.4418	5.4450	↗
SGDMYR	3.0424	3.0458	3.0476	3.0485	3.0500	➔
AUDMYR	2.9337	2.9363	2.9374	2.9392	2.9406	↘
NZDMYR	2.7974	2.7996	2.8007	2.8033	2.8076	↘
USDSGD	1.3585	1.3600	1.3606	1.3615	1.3621	↗
EURSGD	1.5360	1.5378	1.5392	1.5400	1.5420	↗
GBPSGD	1.7776	1.7812	1.7832	1.7860	1.7880	↘
AUDSGD	0.9600	0.9622	0.9641	0.9660	0.9685	↘

* 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	1,693.59	0.32	0.18	CRB Index	179.24	0.32	5.56
Dow Jones Ind.	24,553.24	-0.09	5.25	WTI oil ($/bbl)	53.13	0.97	16.67
S&P 500	2,642.33	0.14	5.40	Brent oil ($/bbl)	61.09	-0.08	13.55
FTSE 100	6,818.95	-0.35	1.35	Gold (S/oz)	1,281.21	-0.12	8.10
Shanghai	2,591.69	0.41	3.92	CPO (RM/tonne)*	2,074.00	0.90	6.22
Hang Seng	27,120.98	0.42	4.93	Copper ($/tonne)	5,951.50	0.28	-0.23
STI	3,190.73	0.62	3.97	Rubber (sen/kg)	392.50	0.64	3.56

Source: Bloomberg

Economic Data	For	Actual	Last	Survey
MY CPI YOY	Dec	0.2%	0.2%	0.3%
MY BNM Overnight Policy Rate	Jan-24	3.25%	3.25%	3.25%
US Initial Jobless Claims	Jan-19	199k	212k (revised)	218k
US Markit Manufacturing PMI	Jan P	54.9	53.8	53.5
US Markit Services PMI	Jan P	54.2	54.4	54.0
US Leading Index	Dec	-0.1%	0.2%	-0.1%
US Kansas City Fed Manf. Activity	Jan	5.0	6.0 (revised)	3.0
EU Markit Manufacturing PMI	Jan P	50.5	51.4	51.4
EU Markit Services PMI	Jan P	50.8	51.2	51.5
EU ECB Main Refinancing Rate	Jan-24	0.0%	0.0%	0.0%
JP Nikkei Japan PMI Mfg	Jan P	50.0	52.6	--
JP Leading Index CI	Nov F	99.1	99.3	--
JP Coincident Index	Nov F	102.9	103.0	--
AU Employment Change	Dec	21.6k	39.0k (revised)	18.0k
AU Unemployment Rate	Dec	5.0%	5.1%	5.1%
AU Participation Rate	Dec	65.6%	65.7%	65.7%

Source: Bloomberg

➢ Macroeconomics

- ***ECB left rates unchanged, saw weaker near-term growth, citing rising uncertainties:*** The ECB left key interest rates unchanged as widely expected and maintained its accommodative stance on monetary policy - forward guidance was unchanged as well with interest rates expected to remain at their present levels at least through the summer of 2019. Economic assessment however was softer than in the previous statement as the Governing Council expects near-term growth momentum likely to be weaker than previously anticipated due to a slowdown in external demand compounded by some country and sector specific factors. Notably, the risk surrounding growth outlook have moved to the downside as the ECB removed its statement on risks being broadly in balance. In the Q&A session, President Mario Draghi said that the meeting focused mainly on assessment and not policy. He summarized that the Governing Council was unanimous with regards to changing the balance of risk for growth citing three reasons- (1) the increase in general uncertainties namely rising protectionism and protracted unclear outcome about Brexit, (2) political development in some countries in the euro area (3) country specific factors such as the slowdown in China, waning effect of fiscal stimulus in the US and the car industry in Germany. That said, the central bank was optimistic that the slowdown in China would not last long as they (the ECB) are confident in the Chinese government's measures. Similarly, trade dispute is expected to wane while, the German car sector is expected to rebound. However, the weaker soft and hard data are persistent and "not going away" hence the governing council would need more time for further assessment. He also added the governing council agreed in unanimity that the likelihood of a recession is very low.

- ***ECB maintained outlook for inflation:*** Outlook for inflation remained the same, the recent fall in headline inflation was due to lower energy prices and the ECB acknowledged the muted underlying inflation but nonetheless continued to expect a pick-up in the core measure due to continuation of economic expansion, strong (albeit slowing down) labour market and significant increase in wages. It is thus only a matter time before pass-through of cost happens as profits are squeezed. When asked about similarly muted inflation in the US, Draghi said that it took the country several years for inflation to hover around 2% and given that the US is more advanced in its business cycle (compared to the Eurozone), the process could thus be the same for the Eurozone in reaching its inflation target.

- ***Eurozone PMIs indicated stalling growth:*** The Flash Eurozone Manufacturing PMI fell to 50.5 in January (Dec: 51.4), only a touch above the neutral 50.0 threshold while the Flash Services PMI also slid to 50.8 (Dec: 51.2) indicating that the euro area economy edged closer to stagnation in the start of 2019.

- ***US PMIs point to still-solid growth, jobless claims fell to near 50-year low:*** The Flash US Manufacturing PMI rose to 54.9 in January (Dec: 53.8) while the Services PMI ticked slightly lower to 54.2 (Dec: 54.4) suggesting a still solid rate of expansion of the US economy. The Kansas City Fed Manufacturing Index however fell by 1pt to 5.0 in January (Dec: 6.0 revised) as factories in the region experienced another month of sluggish growth. The Conference Board Leading index however fell by 0.1% MOM in December (Nov: +0.2%) offering signals that growth in the US is indeed softening. In contrast, initial jobless claims fell by 13k to 199k for the week ended 19 January (Dec: 212k revised), the lowest level since November 1969 bringing the four-week moving average to 215k (previous: 220.5k). The stronger print last week confirms that the labour market has tightened even further despite signs of a slowing US economy has begun to emerge in recent months. Firms continue to ramp up hiring and in the process struggle to locate qualified workers.

- ***Japan manufacturing PMI fell to neutral level, suggesting stagnation:*** The Flash Japan Manufacturing PMI fell to the neutral level of 50.0 in January (Dec: 52.6) ending the longest expansionary run for over a decade. The latest print was driven by the decline in output as well as new orders, weighed down by softer domestic and external demand. This is in line with the recent fall in exports particularly shipment to China and the rest of Asia. Meanwhile, separate releases show that leading index fell to 99.1 in November (Oct: 99.3) while coincident index also dropped to 102.9 (Oct: 103.0) again suggesting softer conditions in the Japanese economy.

- ***Australia added more jobs than expected, unemployment rate fell:*** The Australian economy added 21.6k jobs in December (Nov: +39.0k revised) but majority of the new jobs created are part-time employment (+24.6k vs +46.3k) as full-time jobs saw further decline (-3.0k vs -7.k). Unemployment rate meanwhile fell to 5.0%, the lowest level since Jun-11 partly because of the fall in participation rate (65.6% vs 65.7%). That said, the Australian labour market ended 2018 on a solid footing and is expected to strengthen further in 2019 alongside rising wage growth. Downside risk to the job market is the potential impact brought about by the slower growth in China, Australia largest trading partner.

- ***Malaysia CPI steadied in December; full year inflation at a 9-year low:*** Consumer Price Index (CPI) increased at a steady pace of 0.2% YOY in December as expected, hovering near its lowest since early 2015. Smaller gains in food and education prices were cushioned by narrower fall in transport and miscellaneous prices as well as faster increases in alcohol/ tobacco, and restaurants/ hotels prices. The continued soft CPI print reaffirmed that inflation remains very benign with full year CPI settling in at only 1.0% YOY in 2018 (2017: +3.7% YOY) despite various policy changes during the year. No change in our view for CPI to stay on a downward trajectory in the next few months before bouncing back in 2Q of 2019, barring any surprised move in global crude oil prices. Even if global crude oil prices were anticipated to trend higher going forward, its upsides shall be limited by persistent oversupply and soft global demand, hence keeping inflation in check at about 1.0% YOY in 2019 – unchanged from 2018.

- ***BNM kept OPR steady, policy tone unchanged:*** BNM maintained the Overnight Policy Rate (OPR) at 3.25% as expected, and a close scrutiny on the policy statement suggests no change in the underlying policy stance. This shall offer some relieves to the markets who have been expecting the policy statement to be turning a tad more dovish. BNM also reiterated that the Malaysian economy will remain on a steady growth path, underpinned by sustained growth in private sector activities that is expected to offset weaknesses in public spending. On the external front, BNM highlighted the case of a softer external sector that closely tracks softer growth in the world economy. Inflation is expected to trend moderately higher in 2019, from 1.0% in 2018, remaining very well-contained in the absence of demand-pull inflationary pressure. Overall inflation trajectory is expected to rise towards the end of the year but movement in global oil prices will be the key determinant. Taking cue from the rather neutral statement, we continue to hold on to our view that BNM will leave OPR unchanged at 3.25% this year, unless downside growth risks stemming from trade tensions, tightening financial conditions, political and policy uncertainty materialize.

Economic Calendar

Date	Country	Events	Reporting Period	Survey	Prior	Revised
28/01	US	Chicago Fed Nat Activity Index	Dec	--	0.22	--
		Dallas Fed Manf. Activity	Jan	-2.1	-5.1	--
28/01	UK	Nationwide House PX MOM	Jan	0.2%	-0.7%	--
28/01	Hong Kong	Exports YOY	Dec	-1.8%	-0.8%	--
		Trade Balance HKD	Dec	-56.0b	-45.0b	--
28/01	China	Industrial Profits YOY	Dec	--	-1.8%	--
25/01	**Singapore**	**Industrial Production YOY**	**Dec**	**4.0%**	**7.6%**	**--**
25-31/01	Vietnam	Industrial Production YOY	Jan	--	11.4%	--
		Retail Sales YTD YOY	Jan	--	11.7%	--
		Exports YTD YOY	Jan	--	13.8%	--
		Trade Balance	Jan	--	-$200m	--
		CPI YOY	Jan	--	2.98%	--

Source: Bloomberg

	Last Price	DoD %	High	Low	YTD %
EURUSD	1.1304	-0.68	1.1391	1.1290	-1.43
GBPUSD	1.3066	-0.02	1.3094	1.3012	2.44
USDJPY	109.64	0.04	109.80	109.42	-0.14
AUDUSD	0.7094	-0.67	0.7167	0.7081	0.47
EURGBP	0.8653	-0.63	0.8725	0.8652	-3.77
USDMYR	4.1455	0.18	4.1455	4.1320	0.29
EURMYR	4.7036	0.10	4.7141	4.6974	-0.50
JPYMYR	3.7789	0.07	3.7899	3.7695	0.56
GBPMYR	5.4038	0.64	5.4163	5.3951	2.59
SGDMYR	3.0451	0.04	3.0482	3.0426	0.30
AUDMYR	2.9416	-0.35	2.9621	2.9360	0.64
NZDMYR	2.8063	-0.06	2.8134	2.8014	0.99
CHFMYR	4.1615	0.36	4.1663	4.1552	-0.90
CNYMYR	0.6099	0.00	0.6101	0.6092	0.78
HKDMYR	0.5280	0.13	0.5281	0.5267	-0.04
USDSGD	1.3610	0.16	1.3616	1.3569	-0.12
EURSGD	1.5386	-0.52	1.5478	1.5371	-1.55
GBPSGD	1.7781	0.12	1.7781	1.7704	2.32
AUDSGD	0.9655	-0.50	0.9727	0.9640	0.35

Source: Bloomberg

➢Forex

MYR

- **MYR weakened 0.18% to 4.1455 against USD** and fell against 6 G10s on the back of softer market sentiment on top of risk aversion heading into BNM OPR decision.
- **MYR remains slightly bearish against USD** as we expect market sentiment to fade heading into the weekend. A mild upward momentum continues to prevail, alongside lingering bullish trend, are both expected to tilt USDMYR towards the upside. We continue to expect USDMYR to soon challenge 4.1500 – 4.1547.

USD

- **USD rebounded to beat all G10s** while the DXY arrested a tumble in US morning before extending a rally that began in European session, closing 0.5% higher at 96.60 amid weakness in European majors.
- **We turn slightly bearish on USD** on technical reasons. DXY is near the end of a bullish trend, as well as approaching a firm resistance at 96.68, and we suspect some retracement to overnight's strong gains. Losses holding above 96.24 still confers a bullish bias, otherwise expect a drop going forward that would pierce below 96.05.

EUR

- **EUR weakened 0.68% to 1.1304 against USD** and fell against 7 G10s, pressured by the acknowledgment of downside risks to outlook by ECB President Draghi, which spurred market expectation that policy normalization may be further delayed.
- **We are slightly bullish on EUR against USD** today, anticipating some retracement to relatively sharp losses overnight. We note that EURUSD price action has begun to shy away from the lower Bollinger, indicating potential loss of downward momentum, and it is near the end of a bearish trend. There may be a potential rebound soon.

GBP

- **GBP** advanced against 9 G10s on news of rising support of a new Brexit deal by UK PM May, but **slipped 0.02% to 1.3066 against a firmer USD**.
- **Maintain a slight bearish view on GBP against USD** as we expect current Brexit optimism to wane in the absence of any solid progress towards a deal. We continue to note the presence of bearish signs that diminish our confidence of further gains. Caution on a potential slide back towards 1.2952 in the coming days.

JPY

- **JPY** remained firm against 8 G10s, supported by relatively soft sentiment in equities and FX space, but **slipped 0.04% to 109.64 against USD**.
- **JPY remains slightly bearish against USD**; if refuge demand increases, it is likely to be in favour of the greenback, while retreat in refuge demand will impact JPY to the downside. Technical viewpoint has turned more mixed after bullish trend in USDJPY ended yesterday. We opine that USDJPY is still inclined to the upside given the balance of positive momentum, with scope to test 110.24 soon.

AUD

- **AUD weakened 0.67% to 0.7094 against USD** and fell against 7 G10s, pressured by speculation that the RBA may have to cut rates to support Australia's continually soft property segment after the National Bank of Australia raised mortgage rates.
- **Stay slightly bearish on AUD against USD** as we expect risk aversion in the FX space to prevail. A bearish trend prevails and downside pressure is likely to build after losing 0.7100 yesterday. Expect AUDUSD to soon test 0.7066, below which a drop to 0.7002 will be exposed.

SGD

- **SGD weakened 0.16% to 1.3610 against USD** but managed to beat 6 G10s.
- **Continue to expect a slightly bearish SGD against USD** in anticipation of an increase in risk-off sentiment in the markets. We now expect USDSGD to test 1.3621 going forward. Caution that this level could potential reject USDSGD from further advances.

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