Global Markets Research

Daily Market Highlights

Key Takeaways

- **US stocks finished generally higher on Friday to give the week a solid gain as investors shrugged off ongoing US-China tension,** poor US data and focused on the reopening of the US economy instead. The Dow Jones was little changed (-0.1%) while the S&P500 gained 0.5%; the NASDAQ picked up 1.3%. Compared to the previous week, the Dow gained 3.8%, S&P 500 added 3% and NASDAQ rose 1.8%, marking stocks' second weekly climb. 10Y UST yields fell 4bps to 0.65%, a sign of weaker sentiments.

- Meanwhile on the commodity front, gold price closed 0.7% higher at $1730.27/ounce; brent crude was flat at $35.33/barrel but WTI gained 5.3% to $35.49/barrel, completely wiped out the positive gap Brent commands between the two oil benchmarks. In a much-awaited press conference, **US president Donald Trump annnounced the US's withdrawal from the World Health Organisation**, blasting China for having "total control" over the WHO. **He also said that the US will rescind the special treatment and policy exemption given to the previously semi-autonomous Hong Kong** following China's passage of a national security law that has overrided the territory's autonomy agreed under the post-British colonial joint declaration..

- **Economic data remained weak.** In the US, consumer spending saw record plunge (-13.6%) but personal income (+10.5%) was boosted by the Federal Government stimulus checks. The annual core PCE inflation eased to 1.0% YOY. Goods trade deficit widened as exports fell 25.2%. Eurozone HICP inflation rose a mere 0.1% YOY. China official NBS PMIs show little change in activity but exports remained weak. Australia's May AiG Manufacturing PMI recovered from the largest drop in April but remained below 50.

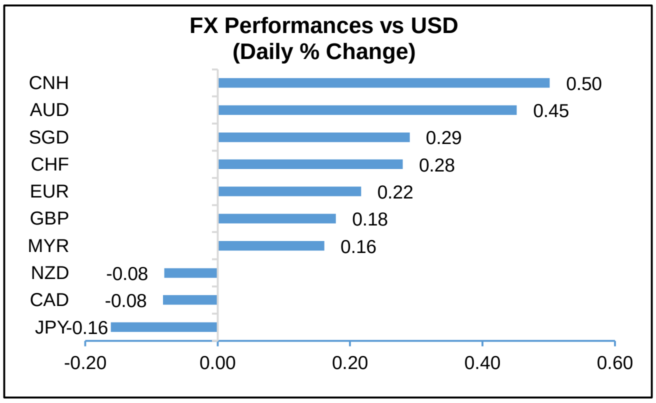
- The dollar weakness stayed extended for another day on poor US data that saw personal spending plunging 13% MOM in April, in addition to lingering market jitters over US-China spat. DXY retreated by 0.05% to 98.30 on Friday, paring back most losses after President Trump's retaliation on China was seen as not as harsh as expected. Aussie led gains along with other majors namely EUR, GBP, NZD and CHF while the JPY weakened. This continued the weakening trend since mid-May. **We are neutral-to-bearish on the USD** on a one-week basis. Momentum is weak for the USD at the moment as liquidity concerns abate. At the same time, uncertainty regarding US-China relations are high, with the latest unrest in the US adding more fuel to fire.

- USDMYR had an indecisive Friday session amid cautious market sentiment. The pair lost momentum towards the end of the session and closed 0.16% lower at 4.3465. Despite weakness in the USD, **the uncertainty surrounding US-China tension, and the US itself, poses a downside risk to MYR today** which tends to underperform alongside its emerging market peers for fear of a potential US-China fallout. This might led to a short term recovery in USD as risk appetites broadly retreated.

Market Snapshots

	Last Price	DoD %	YTD %
Dow Jones Ind.	25,383.11	-0.07	-11.06
S&P 500	3,044.31	0.48	-5.77
FTSE 100	6,076.60	-2.29	-19.43
Hang Seng	22,961.47	-0.74	-18.55
KLCI	1,473.25	1.08	-7.27
STI	2,510.75	-0.18	-22.09
Dollar Index	98.34	0.0	1.9
WTI oil ($/bbl)	35.49	5.28	-41.88
Brent oil ($/bbl)	35.33	0.11	-42.79
Gold ($/oz)	1,730.27	0.69	14.66
CPO (RM/tonne)	2,273.00	0.02	-24.87

Source: Bloomberg



Source: Bloomberg

Overnight Economic Data

US	↓	EU	↓
China	→	Australia	↑

Up Next

Date	Event	Prior
01/06	MA Markit Malaysia PMI Mfg (May)	31.3
	US Markit US Manufacturing PMI (May F)	39.8
	US Construction Spending MoM (Apr)	0.90%
	US ISM Manufacturing (May)	41.5
	EU Markit Eurozone PMI (Mau F)	39.5
	UK Markit UK PMI Manufacturing (May F)	40.6
	JN Jibun Bank Japan PMI Mfg (May F)	38.4
	CH Caixin China PMI Mfg (May)	49.4
	AU AiG Perf of Mfg Index (May)	35.8
	VN Markit Vietnam PMI Mfg (May)	32.7
	HK Retail Sales Value YoY (Apr)	-42.00%
02/06	RBA Cash Rate	0.25%

Source: Bloomberg

Macroeconomics

- ***Record plunge in US consumer spending; but better consumer sentiment:*** Personal consumption expenditure (PCE) or consumer spending in the US saw a record 13.6% MOM decline in April (Mar: -6.9%), adding to the stacks of dismal data for April when states issued social distancing orders and Covid-19 was at its peak. According to the same report by the BEA, personal income jumped 10.5% MOM (Mar: -2.2%) mainly because of the Federal Government's stimulus check to support individuals in a pandemic-battered economy that had triggered millions of job losses. In line with the spending crunch, the core PCE price index, a key inflation measure closely watched by the Federal Reserved slipped 0.4% MOM (Mar: 0%) which translated to a mere 1% YOY increase in April (Mar: +1.7%), the smallest gain since Dec 2010 and way below the Fed's 2% target. In a separate release, the University of Michigan Consumer Sentiment Index edged up slightly to 72.3 in May, from 71.8 in April, reflecting consumers' brighter outlook of current economic conditions compared to its recent standstill.

- ***US goods trade deficit widened in April:*** Advance report shows that goods trade deficit in the US widened to $69.68b in April, from $64.98b in March as the collapse in goods exports (-25.2% MOM) outweighed the simultaneous 14.3% decline in imports. The impact was particularly brutal in the shipments of goods such as industrial supplies, capital goods, automotive vehicles and consumer goods which recorded double-digit falls. Import of automotive vehicles meanwhile more than halved (-52.2% MOM) in the month as the demand for cars declined in the foreseeable future when people are encouraged to stay at home and practise social distancing. Last but not least, the MNI Chicago PMI slipped further from 35.4 to 32.3 in May indicating poor business condition in Illinois, Indiana and Michigan.

- ***Eurozone inflation lost momentum amid low energy prices:*** Flash estimate indicates the Eurozone HICP inflation pulled back further to a 0.1% YOY growth in May, from 0.3% in April. The headline index was weighed down by the 12% YOY decline (Apr: -9.7%) in energy prices as well as the smaller increase in prices of food, alcohol and tobacco (+3.3% vs +3.6%). Services inflation rose to 1.3% (Apr: +1.2%). Core inflation was steady at 0.9% YOY, unchanged from April's rate. Containment measures which constrain spending were still put in place in May although the guidelines were eased towards the second half of the month; global crude oil prices remained weak albeit recovering.

- ***Little change in China activity; exports remined weak:*** Activity in both manufacturing and services sectors were little changed in May according to the latest official NBS PMI. The manufacturing gauge fell slightly to 50.6 in May, from 50.8 in April while the services PMI picked up to 53.6 (Apr: 53.2). While headline PMI indicates activity expansion (above 50), the exports orders sub-index for manufacturing, now at 35.3 contracted for the fifth straight month, suggesting that the pandemic continued to weigh heavily on global demand.

- ***Australia manufacturing contraction eased in May:*** The AiG Performance of Manufacturing Index rose to 41.6 in May, from 35.8 in April, indicating a recovery in manufacturing activity as the rate of contraction eased last month. Nonetheless, the industry remained "deep in contraction" according to the Australian Industry Group as demand was weak across the board, with the exports index falling to its record low given that most of foreign markets remained shut.

Forex

MYR (Slightly Bearish)

- USDMYR had an indecisive Friday session amid cautious market sentiment. The pair lost momentum towards the end of the session and closed 0.16% lower at 4.3465.
- Despite weakness in the USD, the uncertainty surrounding US-China tension poses a downside risk to MYR today which tends to underperform alongside its emerging market peers for fear of a potential US-China fallout. This might led to a short term recovery in USD as risk appetites broadly retreated.

USD (Neutral to Bearish)

- The dollar weakness stayed extended for another day on poor US data that saw personal spending plunging 13% MOM in April, in addition to lingering market jitters over US-China spat. DXY retreated by 0.05% to 98.30 on Friday, paring back most losses after President Trump's retaliation on China was seen as not as harsh as expected. Aussie led gains along with other majors namely EUR, GBP, NZD and CHF while the JPY weakened. This continued the weakening trend since mid-May.
- We are neutral-to-bearish on the USD on a one-week basis. Momentum is weak for the USD at the moment as liquidity concerns abate. At the same time, uncertainty regarding US-China relations are high, with the latest unrest in the US adding more fuel to fire.

EUR (Neutral-to-Bullish)

- EUR/USD saw extended climb above the 1.11 handle, firmly broken out of the previous 1.08-1.10 range on the back of persistent USD weakness.
- EUR/USD may still gradually strengthen, although we do not see much sustainability above 1.1100. Fundamentals are supported by reopening economies, although still weak.

GBP (Neutral)

- GBP continued to gain grounds, pushing nearing the fortnightly high of 1.2363 on 26 May, up from the low of 1.2076 on 18 May.
- Although there is scope for some near-term GBP catch-up, we remain comparatively pessimistic regarding the GBP thereafter. Covid-19, Brexit and risk aversion does not favour GBP in our view.

JPY (Neutral-to-Bearish)

- USD/JPY remained largely stuck within a range of 107.30-108.09 since 19-May, despite the sharp swing Friday. Pair has now moved to the middle of the range at 107.78 as at last close.
- We are slightly bearish on the JPY due to market optimism. Concerns on US-China relations may cap gains above 108.00.

AUD (Neutral-to-Bullish)

- AUD/USD remained elevated near the high of 0.6680 on 27 May. Despite some consolidation since, the pair looks biddish, benefitting from risk on mood.
- AUD/USD is likely to be one of the primary beneficiaries of risk on mood in markets. Commodity markets outlook is also recovering. However, concerns on US-China or Australia-China relations may cause AUD to weaken.

SGD (Neutral)

- USD/SGD finally broke below recent ranges of 1.4121-1.4279 since mid-May, last settled at 1.4110. Fiscal support hopes domestically coupled with USD weakness in Asian session likely prompted the move, in addition to ongoing concerns over US-China relations.
- There remains a lack of impetus to significantly shift SGD away from current ranges with 1.4090-1.4000 serving as major supports. The SGD is vulnerable in risk off market situations. Losses may be capped on resilient fundamentals.

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