HongLeong Bank

Global Markets Research

Daily Market Highlights

Key Takeaways

- **US stocks gained for the second session overnight, ending the second quarter on a high note as the jump in US consumer confidence overshadowed surging Covid-19 cases across the country.** The Dow Jones rose 0.8%, the S&P500 picked up 1.5% and NASDAQ added 1.9%. All main indexes finished 2Q with strong, double-digit gains after suffering a dramatic crash in March – the Dow (+17.8%), S&P 500 (+20.0%) and NASDAQ (+30.6%). This was supported by the Federal Reserve's massive monetary easing program and investors' optimism of strong economic recovery. On Tuesday, improving risk sentiment could also be observed in the rise in 10Y UST yield (+4bps) to 0.66% and the weakening of the dollar index (-0.1%) to 97.39. Gold price however extended winning streak (+0.5%) to $1780.96/ounce. Crude oils fell more than 1% - Brent slid to $41.15/barrel and WTI to $39.27/barrel amid renewed concerns over oil demand.

- **Fed Chair Jerome Powell and Treasury Secretary Steven Mnuchin** testified before the House Financial Services Committee and **offered a mixed view of economic outlook. Powell stressed that economic outlook is "extraordinarily uncertain"** despite recent uptick in activity while **Mnuchin expected a rebound in the second half of the year, sounding more optimistic**. Meanwhile, Dr Anthony Fauci, the US leading Covid-19 task force member warned of daily 100,000 jump in new cases if Americans continued to flout social distancing rules. **FOMC minutes will be closely watched tonight, besides ADP private payroll numbers and ISM manufacturing index.**

- **US data were positive** – Conference Board Confidence rose by more than 12pts, MNI Chicago Index continued to recover and house prices were relatively stable. **Eurozone HICP inflation picked up** to 0.3% YOY. **UK GDP fell 1.7% YOY in 1Q, a slight downward revision. The BOJ's quarterly Tankan Survey offered grim outlook. China NBS PMIs extended recovery.** Hong Kong retail sales fell more than 30%. Australia manufacturing PMI surged past 50, New Zealand business confidence improved. Locally, **Malaysia exports saw another month of hefty decline (-25.5% YOY) in May** relfecting the reeling effects of the pandemic.

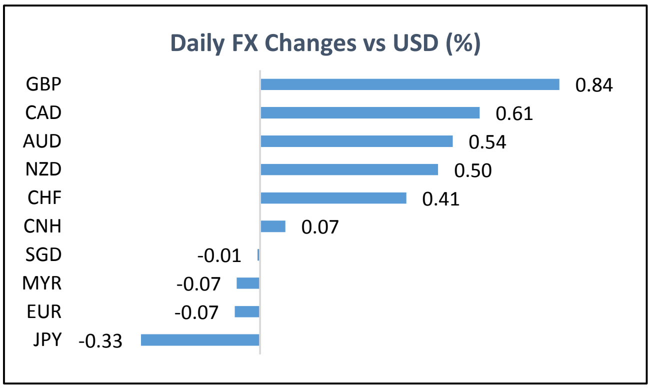
- USD was slightly down on Tuesday. The DXY fell by 0.15% to end 2Q at 97.391. This came as GBP, CAD, AUD and NZD gained against the USD, while JPY weakened. We are **neutral to bullish on the USD** for the week ahead. DXY has remained in range movement since 10 June, after a bottom of 95.716 on 11 June. As Covid-19 cases resurges in the US, there is a case for a return towards 98 levels. Risk sentiments will likely remain integral for USD movements. Thereafter, Fed accommodation will likely remain a large factor in driving further moves downwards.

- USDMYR finished 0.1% higher at 4.2865, in line with our neutral expectation. We are still **neutral to slightly bullish on USDMYR** today as investors are likely to adopt a wait-and-see approach to assess the current Covid-19 situation in major countries. This week's slew of economic data especially PMI and US job report would serve as market driver with the FOMC meeting minute in the pipeline. Downside risk to MYR remains potential second waves in key economies, US-China tension and downbeat commodity market.

Market Snapshots

	Last Price	DoD %	YTD %
Dow Jones Ind.	25,812.88	0.85	-9.55
S&P 500	3,100.29	1.54	-4.04
FTSE 100	6,169.74	-0.90	-18.20
Hang Seng	24,427.19	0.52	-13.35
KLCI	1,500.97	0.44	-5.53
STI	2,589.91	0.61	-19.64
Dollar Index	97.39	-0.1	1.1
WTI oil ($/bbl)	39.27	-1.08	-35.69
Brent oil ($/bbl)	41.15	-1.34	-37.09
Gold (S/oz)	1,780.96	0.46	17.45
CPO (RM/tonne)	2,391.00	-3.55	-20.97

Source: Bloomberg



Source: Bloomberg

Overnight Economic Data

Malaysia	↓	US	↑
UK	↓	Eurozone	↑
Japan	↓	China	↑
Hong Kong	↓	Australia	↑
		New Zealand	↑

Up Next

Date	Event	Prior
01/07	US ADP Employment Change (Jun)	-2760k
	US Markit US Manufacturing PMI (Jun F)	49.6
	US Construction Spending MoM (May)	-2.9%
	US ISM Manufacturing (Jun)	43.1
	EU Manufacturing PMI (Jun F)	46.9
	UK Manufacturing PMI (Jun F)	50.1
	JP Manufacturing PMI (Jun F)	37.8
	CN Caixin China Mfg PMI	50.7
	VN Markit Vietnam PMI Mfg (Jun)	42.7
	MA Markit Malaysia PMI Mfg (Jun)	45.7
02/07	US FOMC Meeting Minutes	
	US Trade Balance	-$49.4b
	US NFP Payrolls	2.5mil
	US Initial Jobless Claims	1.48mil
	US Factory Orders	-13%
	EU PPI YOY	-4.5%
	EU Unemployment Rate	7.3%
	AU Trade Balance	A$8800m

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Source: Bloomberg

Macroeconomics

- ***US cosumer confidence jumped in June:*** The Conference Board Consumer Confidence Index rose to 98.1 in June, from 85.9 in May, a huge leap following a flat reading. The Present Situation Index – went up from 68.4 to 86.2. The Expectations Index gained from 97.6 to 106.0, highlighting consumer's strong optimism following the reopening of businesses across US states.

- ***Ongoing recovery in MNI Chicago PMI:*** US MNI Chicago PMI picked up to 36.6 in June, from 32.3 in May, depicting the ongoing recovery in manufacturing activity, in line with other key manufacturing gauges in the US.

- ***Stable house prices in US:*** The S&P CoreLogic CS House Prices rose 4.0% YOY in Apr, relatively stable from the 3.9% gain in March. The reading beat analyst expectation that called for a 3.8% increase and underscore ongoing demand in real estate despite Covid-19 pandemic.

- ***Eurozone inflation went up as oil prices stabilized:*** Eurozone HICP annual inflation rate went up to 0.3% YOY in June according to flash estimate, from 0.1% in May. This was mainly driven by a smaller contraction in prices of energy (-9.4% vs -11.9%) as global crude oil prices stabilized. Services inflation was relatively stable (+1.2%), maintaining its 1.2-1.3% rate for the past four months since March. Nonetheless, overall inflation remained markedly below the ECB's 2% target.

- ***Slight downward revision to UK GDP***: The UK economy shrank 1.7% YOY in the first quarter of 2020, this was a slight downward revision from the first estimate (-1.6 YOY). The services, production and construction sectors all contributed negatively to headline GDP with services falling by a record 2.3%. From the expenditure perspective, household consumption fell 2.9%, its largest fall since 3Q1979.

- ***BOJ Tankan Survey offered grim outlook***: The BOJ released its quarterly Tankan Survey this morning. The Large Manufacturing Index, a gauge of current condition by Japanese's large manufacturers deep-dived to -34 in 2Q, from -8 in 1Q. While the similar reading for Large Non-manufacturing fell to -17 (1Q: 8). These big firms also offered grim assesment of 3Q outlook – Large Manufacturing Outlook Index fell to -27 (1Q: -11) and Non-manufacturing slipped to -14 (1Q: -1). The All Industry Capex rose only 3.2% YOY in 2Q, recovering slightly from the low 1.8% growth in 1Q, instead of a jump that usually followed a weaker 1Q spending.

- ***Further improvement in China's PMI:*** China's Composite PMI improved to 54.2 in June from 53.4 in May. This is the highest level since June 2018, after a low of 28.9 in February. The improvements in line with outlook that China's GDP growth will be positive in 2Q. Manufacturing PMI went up to 50.9 from 50.6. New orders up to 51.4 from 50.9 prior (export orders also improved but still negative at 42.6). Input prices (56.8) and output prices (52.4) supportive of recovery. Employment dipped to 49.1 from 49.4. Medium enterprises outlook improved but small enterprises outlook turned negative. Non-manufacturing PMI up to 54.4 from 53.6, highest since November 2019. Prices were supportive but employment is still a drag.

Forex

MYR (Bearish)

- USDMYR finished 0.1% higher at 4.2865, in line with our neutral expectation.
- We are still neutral to slightly bullish on USDMYR today as investors are likely to adopt a wait-and-see approach to assess the current Covid-19 situation in major countries. This week's slew of economic data especially PMI and US job report would serve as market driver with the FOMC meeting minute in the pipeline. Downside risk to MYR remains potential second waves in key economies, US-China tension and downbeat commodity market.

USD (Neutral-to-Bullish)

- USD was slightly down on Tuesday. The DXY fell by 0.15% to end 2Q at 97.391. This came as GBP, CAD, AUD and NZD gained against the USD, while JPY weakened.
- We are neutral to bullish on the USD for the week ahead. DXY has remained in range movement since 10 June, after a bottom of 95.716 on 11 June. As Covid-19 cases resurges in the US, there is a case for a return towards 98 levels. Risk sentiments will likely remain integral for USD movements. Thereafter, Fed accommodation will likely remain a large factor in driving further moves downwards.

EUR (Neutral-to-Bearish)

- EUR/USD weakened slightly by 0.07% on Tuesday, with pair ending 2Q at 1.1234.
- While PMI data was encouraging, uncertainty is creeping in. Covid-19 cases are now climbing in Europe, and officially warned by the World Health Organisation. There is a chance of some pullback when risk aversion climbs sometime this week.

GBP (Neutral-to-Bearish)

- GBP rebounded by 0.84% on Tuesday, after British Prime Minister Boris Johnson promised a "Rooseveltian" boost to public spending. GBP/USD ended 2Q at 1.2401.
- We see Covid-19 becoming a bigger drag in the coming days. Brexit uncertainty, and possibly fragile fundamentals will also likely continue to weigh down on the GBP.

JPY (Neutral)

- JPY fell a further 0.33% vs. USD on Tuesday. USD/JPY ended 2Q at 107.93.
- JPY looks to have ended staying within a range of 106-108. However, further upsides away from the range looks unlikely at this stage.

AUD (Neutral-to-Bearish)

- AUD/USD saw modest gains on Tuesday. AUD/USD was up 0.54% to end 2Q at 0.6903.
- We see 0.70 as a huge resistance. Technicals show that momentum is fading. Consolidation may continue. As the AUD/USD pair remains above its moving averages, some return to 0.6667 levels is possible if market fears climb some more.

SGD (Neutral-to-Bearish)

- USD/SGD remained range bound on the last day of 2Q. Technicals show subdued momentum. Eventually, USD/SGD ended 2Q at 1.3936.
- Improving data (such as China's PMI) is counterbalanced by risk aversion that a second global wave of Covid-19 cases is escalating. We think that there will be some possible tests of the psychological 1.4000 big figure before attention turns to technical resistance of 1.4070.

- ***Another double-digit drop in Hong Kong retail sales:*** Hong Kong retail sector continued to suffer in May as retail sales fell for the 16th consecutive month by 33.9% YOY. This follows the 37.5% YOY decline in April. The persistent drop in retail sales was a direct result of the halt in inbound tourism. The sector had taken a hit ever since local unrests started last year. The current standstill in international travel further added salt to the wound.

- ***Australia manufacturing PMI returned above 50**:* The AiG Performance of Manufacturing Index went up to 51.5 in June, a sharp jump from 41.6 in May. The reading rose past the 50 neutral mark, indicating an expansion in manufacturing activity, as the Australian economy was put into a phase-by-phase reopening last month.

- ***Less downbeat business confidence in New Zealand**:* The ANZ Business Confidence Index improved to -34.4 in June, from -41.8 in May as New Zealand lifted its lockdown restriction in June following the successful elimination of community transmission. The higher reading suggests that confidence is recovering among businesses although most firms remained pessimistic over growth outlook

- ***Malaysia exports saw another month of hefty decline in May:*** Exports fell 25.5% YOY to RM62.7bn in May, deepening from April's 23.8% YOY decline dragged by double-digit declines in both manufacturing and commodity exports, reflecting the reeling effects of the Covid-19 pandemic as both the global and domestic economy struggled to stay afloat. This came better than our expectation for a 31.0% YOY contraction but much worse than consensus estimate for a 15.1% decline. Similar to April, exports to all major export destinations including ASEAN continued to fall, with China being the saving grace sustaining a 4.5% YOY increase (Apr: +4.2%), witnessing more broad-based increases compared to the concentration on higher E&E shipment in April. Shrugging off April's bulky capital goods imports, overall imports fell 30.3% YOY to RM52.3bn in May, reversing the trade position back to a surplus of RM10.4bn as expected. In view of a still highly uncertain and grim growth outlook, we expect continued double-digit declines in both exports and imports in the months ahead.

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