

## Global Markets Research

### Daily Market Highlights

#### Key Takeaways

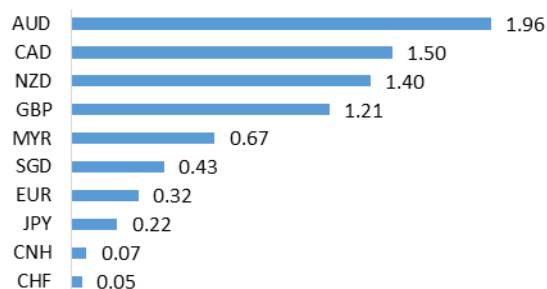
- US stocks extended gains on Monday as investors shrugged off domestic riots and US-China uncertainties and looked towards the rebound in global activity.** The Dow Jones and S&P500 picked up modestly by 0.4% while NASDAQ rose 0.7%. PMI data for majority of the economies have rebounded in May (albeit still at contraction levels) as businesses reopened and consumers began to spend. Protests to condemn the murder of George Floyd, an African American under police custody continued grow across the US, sparking riots in some cities.
- Halfway across the globe, **China has responded to US condemn by ordering firms to halt purchases of US soybeans, putting the January “Phase One” trade deal at risk.** Other than that, 10Y UST yield was little changed (+1bps) at 0.66%, gold price continued to climb (+0.5%) to \$1739.55/ounce. Crude oils were mixed with Brent at \$38.32/barrel and WTI at \$35.44/barrel. **The RBA is expected to announce its monetary policy decision today and is expected to keep the cash rate unchanged at 0.25%.**
- On the data front, **May manufacturing PMI rebounded albeit still at depressed levels for nearly all economies** with the exception of Japan which had implemented lockdown much later (in mid Apr). US ISM manufacturing index rose to 43.1 in May (Apr 41.5), construction spending fell lesser than expected (-2.9%). Hong Kong retail sales continued its double-digit slide in April albeit at a slower rate of -36% YOY.
- The US dollar continued to weaken amid signs of economic rebound from low levels. The DXY fell by 0.5% to 97.83. This was helped by improved global PMIs, despite still in negative territory. **Markets continue to look ahead at Q3 and beyond for an economic recovery, which will weigh on the USD.** US protests may not have pushed the USD stronger for now. We are neutral to bearish on the USD over the coming week. We anticipate some possible consolidation on stretched levels.
- USD/MYR closed 0.67% lower at 4.3175 on Monday. USD weakness prevailed despite rising US-China tension. Despite ongoing weakness in the USD, **the uncertainty surrounding US-China tension still poses a downside risk to MYR** in our view which tends to underperform alongside its emerging market peers for fear of a potential US-China fallout. This may lead to a recovery in USD if risk appetites retreat.

#### Market Snapshots

	Last Price	DoD %	YTD %
Dow Jones Ind.	25,475.02	0.36	-10.73
S&P 500	3,055.73	0.38	-5.42
FTSE 100	6,166.42	1.48	-18.24
Hang Seng	23,732.52	3.36	-15.81
KLCI	1,490.14	1.15	-6.21
STI	2,550.86	1.60	-20.85
Dollar Index	97.83	-0.5	1.4
WTI oil (\$/bbl)	35.44	-0.14	-41.96
Brent oil (\$/bbl)	38.32	8.46	-41.70
Gold (\$/oz)	1,739.55	0.54	14.71
CPO (RM/tonne)	2,283.00	0.44	-24.54

Source: Bloomberg

#### FX Performances vs USD (Daily % Change)



Source: Bloomberg

#### Overnight Economic Data

US	↑	EU	↓
UK	↑	Japan	↓
China	↑	Hong Kong	↓
Malaysia	↑	Vietnam	↑

#### Up Next

Date	Event	Prior
02/06	AU RBA Cash Rate	0.25%
	UK Nationwide Housing Price YOY	3.7%
03/06	US MBA Mortgage Applications (29 May)	2.7
	US ADP Employment Change (May)	-20236k
	US Markit US Services PMI (May F)	36.9
	US Factory Orders (Apr)	-10.30%
	US ISM Non-Manufacturing Index (May)	41.8
	EC PPI YoY (Apr)	-2.80%
	EC Unemployment Rate (Apr)	7.40%
	UK Markit/CIPS UK Services PMI (May F)	28.7
	JN Jibun Bank Japan PMI Services (May F)	-21.5
	CH Caixin China PMI Services (May)	44.4
	SI Markit Singapore PMI (May)	28.1
	SI Purchasing Managers Index (May)	44.7
	SI Electronics Sector Index (May)	42.8
	AU GDP SA QoQ (1Q)	0.50%
	CA Bank of Canada Rate Decision (3 Jun)	0.25%
	HK Markit Hong Kong PMI (May)	36.9

Source: Bloomberg

## Macroeconomics

- US ISM Manufacturing PMI rebounded:** The ISM Manufacturing Index rose to 43.1 in May, from 41.5 in March to signal the slower rate of contraction in US manufacturing sector. While nearly all of the sub-indexes still reported contractions (below 50), the reopening of the US economy has brought about some upturn in the overall activity. This could be seen in the higher reading of new orders (+4.7pts), production (+5.7pts), employment (+4.6pts) and new exports orders (+4.2pts). The Covid-19 pandemic has adversely affected the manufacturing industry for the third straight month in the US and May appeared to be a transition month according to the ISM. However demands remains uncertain. Food, Beverage & Tobacco Products remained the sole industry in expansion among the six biggest industry sectors. Respondents of May survey have generally expressed optimism with demand returning and increasing production capacity.
- Manufacturing PMIs generally rebounded across major economies, indicating an easing in contraction but remained at depressed levels:**
  - The US Markit Manufacturing PMI picked up to 39.8 in May, up from 36.1 in April, in line with the ISM reading.
  - The Eurozone Manufacturing PMI edged up to 39.4 in May, from April's record low (33.4).
  - The UK CIPS Manufacturing PMI recovered to 40.7 in May, from 32.6 in April, also an all-time low.
  - Japan Jibun Bank Manufacturing PMI went down to 38.4 in May, from 41.9 in April, marking its lowest since March 2009 during the Global Financial Crisis. This indicates that the downturn in manufacturing gathered momentum into the month of April since the government imposed nationwide lockdown in mid-April (later than most countries).
  - China Caixin Manufacturing PMI beat expectation, rising from 49.4 in April to above 50 in May, signalling a renewed improvement in overall operating conditions.
  - Malaysia Manufacturing PMI rose sharply to 45.6 in May, from the record low in April at 31.3, offering early signs of stabilization.
  - Vietnam Manufacturing PMI rose to 42.7 in May, from the record low 32.7 in April, pointing to easing contraction in the manufacturing sector.
- US construction spending fell less than expected:** Construction spending in the US dropped 2.9% MOM in April, lesser than analysts expectation of 6.5% contraction, after a flat March (0% change) as the construction activity nationwide was disrupted by the social distancing orders issued by State governments. Residential construction spending fell 4.5% MOM while nonresidential was 1.8% lower. Spending is likely to have rebounded in May when the economy reopened. Despite the latest decline, the YTD total construction spending was still 7.1% higher compared to the same period (Jan-Apr 2019) last year.
- Big, double-digit fall in Hong Kong retail sales:** Retail sales in Hong Kong continued to register enormous decline as the economy slumped deeper into recession thanks to year-long domestic unrests and the Covid-19 outbreak. Retail sales value fell 36.1% YOY in April, after recording a larger 45.8% YOY fall in March.

## Forex

### MYR (Neutral-to-Bearish)

- USD/MYR closed 0.67% lower at 4.3175 on Monday. USD weakness prevailed despite rising US-China tension.
- Despite ongoing weakness in the USD, the uncertainty surrounding US-China tension still poses a downside risk to MYR in our view which tends to underperform alongside its emerging market peers for fear of a potential US-China fallout. This may lead to a recovery in USD if risk appetites retreat.

### USD (Neutral-to-Bearish)

- On Monday, the US dollar continued to weaken amid signs of economic rebound from low levels. The DXY fell by 0.5% to 97.83. This was helped by improved global PMIs, despite still in negative territory.
- Markets continue to look ahead at Q3 and beyond for an economic recovery, which will weigh on the USD. US protests may not have pushed the USD stronger for now. We are neutral to bearish on the USD over the coming week. We anticipate some possible consolidation on stretched levels.

### EUR (Neutral-to-Bullish)

- EUR/USD climbed to the highest levels seen since mid-March. After touching a high of 1.1154 on 1 June, pair remained above 1.1100.
- The improving global economic outlook is beneficial for the EUR. We are somewhat sceptical on further rallies on a slow economic recovery but momentum is robust for now.

### GBP (Neutral)

- GBP/USD continued to benefit from USD weaknesses, now up above 1.2500 big figure. This came as UK PMI rebounded.
- Although there is scope for some near-term GBP catchup on USD weakness and sentiments, 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 remains consolidative, continuing the trend since 19 May. Pair stayed within a range of 107.30-108.09. Pair is close to the middle of the range at 107.59 at the time of writing.
- We are slightly bearish on the JPY due to market optimism. Concerns on US-China relations may cap gains below 108.00.

### AUD (Neutral-to-Bullish)

- AUD/USD surged once again, outperforming all G10 currencies on risk rebound. Pair climbed almost 2% on Monday, reaching a high of 0.6813 on Tuesday open in the process.
- AUD/USD is likely to be one of the primary beneficiaries of risk on mood in markets (alongside NZD and CAD). Commodity markets outlook is also recovering. However, concerns on US-China or Australia-China relations may cause AUD to fall again.

### SGD (Neutral)

- USD/SGD has moved to the lowest levels seen since mid-March, after heading below the 1.4100 big figure on risk sentiment. This was helped by rebounds in global PMIs.
- We expect improved risk sentiments to benefit the SGD. However, the momentum looks stretched after breaking out of April and May ranges at the moment. 1.4000 is a big psychological support level for USD/SGD.

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