Global Markets Research
Daily Market Highlights

Key Takeaways

- **US stocks broadly gained overnight, after economic data pointed to promising recovery and overshadowing rising US-China tension.** The ADP private payrolls rose nearly 2.4mil and the ISM Manufacturing Index surged past the neutral line of 50 last month to indicate growth. **PMI data across the world** were also encouraging, **painting a picture of synchronous rebound** in response to governments' looser restriction rules. **The FOMC minutes meanwhile did not offer much surprise.** The S&P500 rose 0.5% and NASDAQ gained 1.0% to hit a new record high; the bluechip Dow Jones meanwhile fell 0.3% DOD. 10Y treasury yield gained for the second day, up by 2bps to 0.68% as risk sentiment improved. This was alongside weaker dollar (-0.2%) and gold price - the precious metal snapped four-day winning streak to $1770.09/ounce (-0.6%). Crude oil prices reversed previous sessions's losses by adding 1.4-2.1%. Brent crude settled at $42.03/barrel and WTI at $39.82/barrel.

- **US-China tension remains a lingering concern.** The Chinese central government has officially imposed a controversial national security law on Hong Kong yesterday. Bloomberg reported that the US "readies sanctions on China" over its human rights abuses in Xinjiang. According to CNN, China meanwhile has demanded four US news organisations operating in the country to declare details of their finances and staffing, in a move to counter what Chinese official labelled "US' unreasonable suppression of Chinese media in the US".

- Economic data were largely positive as seen in the general upticks in Markit manufacturing PMI readings. In the US, aside from upbeat ISM and ADP number, US construction spending actually disappointed with a 2.1% MOM decline in May. Mortgage applications also slipped 1.8% last week despite record low rates.

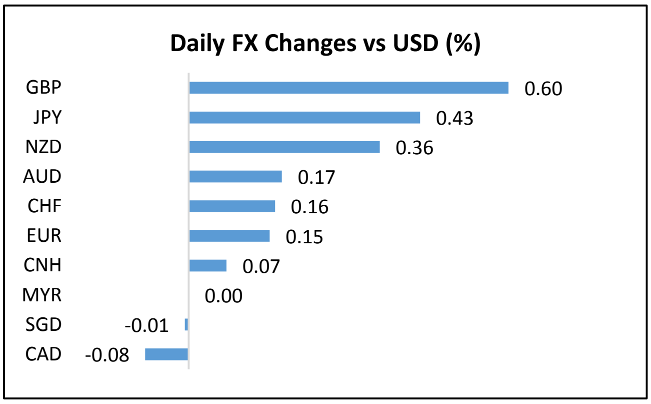
- USD was down a second consecutive day overnight. The DXY weakened 0.2% as GBP, JPY and NZD saw the largest gains against the dollar. We turn **neutral on the USD** for the week ahead. DXY has remained in range movement since 10 June, after a bottom of 95.716 on 11 June. But we detect a slight bearish tone since 30 June, meaning that upside risks are capped. DXY to stay within 96.84-97.80 for now.

- USDMYR finished unchanged at 4.2865, in line with our neutral expectation. **MYR will likely see small gains today** in response to weaker greenback overnight after holding relatively stable for two days, and ahead of upcoming US NFP data tonight and Independence Day holiday in the US tomorrow. While upticks in PMI data offer comfort of global economic rebound, we reckon that sentiment remains cautious as investors monitor Covid-19 situation in major countries and rising US-China tension.

Market Snapshots

	Last Price	DoD %	YTD %
Dow Jones Ind.	25,734.97	-0.30	-9.82
S&P 500	3,115.86	0.50	-3.56
FTSE 100	6,157.96	-0.19	-18.36
Hang Seng	24,427.19	0.52	-13.35
KLCI	1,514.43	0.90	-4.68
STI	2,610.17	0.78	-19.01
Dollar Index	97.20	-0.2	0.8
WTI oil ($/bbl)	39.82	1.40	-34.79
Brent oil ($/bbl)	42.03	2.14	-36.50
Gold (S/oz)	1,770.09	-0.61	16.47
CPO (RM/tonne)	2,392.00	0.00	-20.94

Source: Bloomberg



Source: Bloomberg

Overnight Economic Data

US	→	Eurozone	↑
UK	↑	Japan	↑
China	↑	Vietnam	↑
Malaysia	↑		

Up Next

Date	Event	Prior
02/07	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
03/07	EC Markit Eurozone Services PMI (Jun F)	47.3
	UK Markit/CIPS UK Services PMI (Jun F)	47.0
	JP Jibun Bank Japan PMI Services (Jun F)	42.3
	CH Caixin China PMI Services (Jun)	55.0
	SG Markit Singapore PMI (Jun)	27.1
	SG Retail Sales YoY (May)	-40.5%
	SG Purchasing Managers Index (Jun)	46.8
	AU Retail Sales MoM (May)	-17.7%

Source: Bloomberg

Macroeconomics

- ***Fed officials see high uncertainty and risk to outlook:*** The Federal Reserve released the minutes of its most recent June 9-10 meeting during which it had maintained Fed Funds rate unchanged at 0-0.25%. Fed officials believed that there remained an extraordinary amount of uncertainty and considerable risks to the economic outlook. "A full recovery in employment would take some time". "Highly accommodative monetary policy and sustained support from fiscal policy" are needed to facilitate a durable recovery in labour market conditions. Annual PCE inflation likely runs below 2% for some time. Some officials judged that additional waves of Covid-19 outbreaks could result in further economic disruptions and possibly a protracted period of reduced economic activity. Officials reaffirmed the Fed's commitment to using full range of tools to support the economy.

- ***Markit Manufacturing PMIs showed synchronous improvement:***
  - The JP Morgan Global Manufacturing PMI posted a record increase of 5.4pts to 47.8 in June (May: 42.4), suggesting that manufacturing downturn eased sharply across the world.
  - US Manufacturing PMI rose to 49.8 in June (May: 39.8), posting a record 10-point increase to indicate a sharp easing in contraction after state governments loosened Covid-19 restrictions.
  - Eurozone Manufacturing PMI picked up to 47.4 in June (May: 39.4), revised up from the flash reading of 46.9, moving towards stabilisation.
  - UK manufacturing stabilised in June as the Markit/CIPS PMI rose to 50.1 (May: 40.7).
  - Japan Jibun Bank Manufacturing PMI rose more than initially estimated to 40.1 in June (May: 38.4), suggesting that sector remains under pressure albeit the rate of contraction eased slightly.
  - Caixin China General Manufacturing PMI rose to 51.2 in June (May: 50.7), highest since Dec-19. The reading focuses on the smaller export-oriented firms in China, and is in line with the continuos recovery in the official NBS PMI (which focused on larger firms) from 50.6 to 50.9.
  - Vietnam Manufacturing PMI rose to 51.1 in June, (May: 42.7), indicating that sector has returned to growth.
  - Malaysia Manufacturing PMI rose sharply to 51.0 in June (May: 45.6), as factories returned to operations following the easing in MCO lockdown restrictions.

- ***US ISM manufacturing surged past 50:*** The highly watched ISM Manufacturing Index, seen as the main factory gauge jumped to 52.6 in June, from 43.1 in May, its first above 50 reading in four months to indicate an expansion in activity. New orders and productions rose sharply, alongside higher employment, prices as well as new exports order, offering positive outlook for US manufacturing sector.

- ***US private sector added nearly 2.37mil jobs in June:*** The US private sector added 2.37mil jobs in June according to the ADP National Employment Report, missing analysts' expectation of 3mil gain. May reading was also revised from a 2.76mil loss to 3.07mil gain. In June, the goods producing sector created 457k jobs while employment in the services sector rose by more than 1.9mil.

Forex

MYR (Slightly Bullish)

- USDMYR finished unchanged at 4.2865, in line with our neutral expectation.
- MYR will likely see small gains today in response to weaker greenback overnight after holding relatively stable for two days, and ahead of upcoming US NFP data tonight and Independence Day holiday in the US tomorrow. While upticks in PMI data offer comfort of global economic rebound, we reckon that sentiment remains cautious as investors monitor Covid-19 situation in major countries and rising US-China tension.

USD (Neutral)

- USD was down a second consecutive day overnight. The DXY weakened 0.2% as GBP, JPY and NZD saw the largest gains against the dollar.
- We turn neutral 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. But we detect a slight bearish tone since 30 June, meaning that upside risks are capped. DXY to stay within 96.84-97.80 for now.

EUR (Neutral)

- EUR/USD rebounded by 0.15% on Wednesday. However, pair looks relatively range bound over the past week.
- 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 gained by 0.60% and is now closer to the 24 June high of 1.2543.
- With GBP stretched to weekly highs, we stay slightly bearish. 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 gained 0.43% on Wednesday, ending up as an outperformer. This comes as Tankan still showed a large contraction for manufacturers.
- JPY looks to stay within a range of 106-108. Further moves away from the range looks unlikely at this stage.

AUD (Neutral)

- A modest bid tone was observed for AUD/USD for the past two days. AUD gained 0.17% against the USD on Wednesday. This bought AUD/USD above 0.69.
- We see 0.70 as a huge resistance. Consolidation may continue. As the AUD/USD pair remains above its moving averages, some return to 0.67 levels is possible if market fears climb some more.

SGD (Neutral)

- USD/SGD stayed range bound for the second consecutive day, with pair around the 1.394 level.
- Improving data (such as China's PMI) is counterbalanced by risk aversion that a second global wave of Covid-19 cases is escalating. Momentum upwards looks limited for now, with psychological 1.4000 big figure resistance holding up.

- ***US construction spending fell for third month***: Construction spending fell for the third month by 2.1% MOM in May, following the larger 3.5% decline in April. This reflect fall in both residential (-3.9%) and nonresidential spending (-0.9%). The industry continued to take hit from Covid-19 pandemic despite the recent reopening of economy; rising cases across the country puts the industry in a vulnerable state.

- ***US mortgage applications dropped last week:*** US mortgage application fell 1.8% for the week ended 26 June, following the 8.7% decline in the prior week. This reflects 2% fall in refinance index and 1% fall in purchase index. This was despite mortgage rates hitting another record low as investors are "contemplating the risks of the recent resurgence of Covid-19 cases to the labor market and economy".

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