2 September, 2020

Global Markets Research

Daily Market Highlights

Key Takeaways

- **US stocks rallied ahead** on the first day of September, supported by upbeat manufacturing data, pushing the S&P500 (+0.8%) and NASDAQ (+1.4%) to respective record highs. The Dow Jones added more than 200pts or 0.8% in the same session; materials and technology shares led the overnight rally. **Treasury yields retreated** after a recent jump, saves for the yield on 2Y notes (which was unchanged). 10Y UST yield fell 3.6bps to 0.669%. **Gold futures was steady** at $1970.8/oz. **Crude oil prices picked up momentum;** Brent crude gained for the second session (+0.7%) to $45.58/barrel; WTI settled 0.4% higher at $42.76/barrel.

- **PMI data continued to indicate uneven recovery across the global manufacturing industry in August.** PMI strengthened in the US, UK, China but weakened in the Eurozone, Malaysia and Vietnam. Japan PMI improved but still below 50. Meanwhile, US residential construction spending rose in July; **Eurozone inflation turned negative and unemployment rate rose;** Hong Kong retail sales saw another double-digit decline. **The RBA earlier had left cash rate unchanged but expanded and extended its Term Funding Facility.**

- DXY rebounded with a 0.2% DOD gain to settle at 92.34 on Tuesday after hitting an intraday low of 91.75. The index started to move lower on Wednesday open although it continues hovering at 92.30 level at time of writing. Maintain a **neutral to bearish view on the USD** this week amid expectations for consolidation from recent weakness.

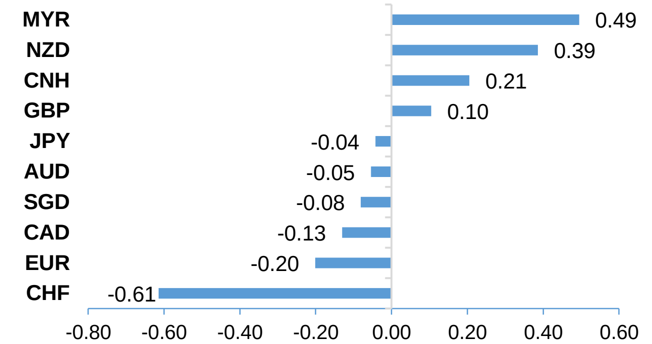
- USD/MYR kicked off the week with more losses, finishing 0.5% lower at 4.1435 after breaching the key 4.15 support, on the back of dollar weakness. A modest rebound in USD overnight could temporarily stem the USDMYR downward momentum, hence our **bearish outlook on MYR today** The next levels to watch out for are 4.12-4.13 before attempting to hit 4.10. Nonetheless the pair is severely oversold, correction is thus possible. BNM's OPR decision and FTSE Russell's WGBI decision also present as event risks this month.

Market Snapshots

	Last Price	DoD %	YTD %
Dow Jones Ind.	28,645.66	0.76	0.38
S&P 500	3,526.65	0.75	9.16
FTSE 100	5,862.05	-1.70	-22.28
Hang Seng	25,184.85	0.03	-10.66
KLCI	1,521.43	-0.25	-4.24
STI	2,538.55	0.24	-21.23
Dollar Index	92.34	0.21	-4.20
WTI oil ($/bbl)	42.76	0.35	-29.97
Brent oil ($/bbl)	45.58	0.66	-30.94
Gold (S/oz)	1,970.80	0.02	29.38
CPO (RM/tonne)	2,825.00	1.47	-6.63

Source: Bloomberg

FX Daily Change vs USD (%)



Source: Bloomberg

Overnight Economic Data			
US	→	Eurozone	↓
UK	↑	Japan	↑
China	↑	Hong Kong	↓
Malaysia	↓	Vietnam	↓

Up Next

Date	Event	Prior
02/09	AU GDP SA QoQ (2Q)	-0.3%
	US MBA Mortgage Applications (28/08)	-6.5%
	US ADP Employment Change (Aug)	167k
	US Factory Orders (Jul)	6.2%
03/09	US U.S. Federal Reserve Releases Beige	
	HK Markit Hong Kong PMI (Aug)	44.5
	JP Jibun Bank Japan PMI Services (Aug F)	45.0
	SG Markit Singapore PMI (Aug)	45.6
	AU Trade Balance (Jul)	A$8202m
	CH Caixin China PMI Services (Aug)	54.1
	EU Markit Eurozone Services PMI (Aug F)	50.1
	UK Markit/CIPS UK Services PMI (Aug F)	60.1
	EU Retail Sales MoM (Jul)	5.70%
	US Trade Balance (Jul)	-$50.7b
	US Initial Jobless Claims (29/08)	1006k
	SG Purchasing Managers Index (Aug)	50.2
	US Markit US Services PMI (Aug F)	54.8
	US ISM Services Index (Aug)	58.1

Source: Bloomberg

Macroeconomics

- ***PMI data indicate uneven recovery in global manufacturing industry:***
  - US ISM Manufacturing Index picked up further to 56.0 in August (Jul: 54.2). The Markit Manufacturing PMI also rose to 53.1 (Jul: 50.9); both indexes are pointing to ongoing recovery in the US factory activity.
  - Eurozone Markit Manufacturing PMI was slightly lower at 51.7 in August (Jul: 51.8).
  - UK Markit/CIPS Manufacturing PMI surged to 55.2 in August (Jul: 53.3), a sign of robust expansion.
  - Japan Jibun Bank Manufacturing PMI improved to 47.2 in August (Jul: 45.2), but still below 50 neutral threshold, indicating the sector's struggle to recover.
  - China Caixin Manufacturing PMI rose to 53.1 in August (Jul: 52.8), a sign of steady recovery. This compares to the slight loss of momentum in the official manufacturing PMI.
  - Malaysia Markit Manufacturing PMI slipped to 49.3 in August (Jul: 50.0), back to contraction territory.
  - Vietnam Markit Manufacturing PMI fell to 45.7 in August (Jul: 47.6), adding to signs of ongoing struggle to recover.

- ***US residential construction spending rose:*** Headline construction spending was little changed in July, recording a tiny 0.1% MOM growth (June: -0.5%). This was below consensus forecast of 1% growth, mainly thanks to the further decline in non-residential spending. Spending on residential construction in fact rebounded by 2.1% following four months of decline, keeping up with the robust demand in the housing sector.

- ***Eurozone inflation turned negative; unemployment rate went up:***
  - The euro area HICP inflation unexpectedly went negative at -0.2% YOY in August. This came after the 0.4% YOY growth in July and markets had been expecting a smaller growth of 0.2% YOY. This reflects a weaker gain in prices of food, alcohol and tobacco and services as well as the decline in prices of non-energy inflation goods. Cost of energy continued to fall but at more modest pace compared to the previous month. Core inflation eased to 0.4% YOY in August, from 1.2% in July, also below analysts' forecast of 0.8%.
  - Unemployment rate climbed higher to 7.9% in July (Jun: 7.7%), its highest level in 20 months. Unemployment rate was still relatively stable and did not go up sharply as it did in the US thanks to more robust job protection program in the Europe.

- ***Another double-digit decline in Hong Kong retail sales:*** Hong Kong retail sales fell 23.1% YOY in July, extending from the 24.7% decrease in June. This marks retail sales' 18th month of consecutive decline since February last year, reflecting the impact of earlier domestic unrests, stymied tourism and the pandemic in general.

- ***RBA left cash rate steady, expanded and extended term funding facility:*** The RBA left its cash rate and 3-year Australian government bond yield target unchanged at 0.25%, increased the size of the Term Funding Facility to AUD200b and lengthen the availability of the facility from September this year to June 2021. RBA said that global economic recovery is uneven after the severe contraction in 1H20. China's economic growth has been relatively strong. The downturn in Australia is not as severe as earlier expected and recovery is underway in most of Australia. RBA expects the unemployment rate to rise to around 10% later in 2020 and then declines gradually to be around 7.0% in two years' time. Inflation is expected to average between 1.0-1.5% over the next couple of years. It reiterated the importance of fiscal policy and also its commitment to support jobs, incomes and businesses.

Forex

MYR (Neutral to Bearish)

- USD/MYR kicked off the week with more losses, finishing 0.5% lower at 4.1435.
- **Factors supporting**: Economic recovery
- **Factors against**: Risk aversion, US-China relations, domestic politics, imposition of second lockdown

USD (Neutral-to-Bearish Outlook over 1 Week Horizon)

- DXY rebounded on Tuesday after hitting a low of 91.75. Now pair is back around 92.3, although starting to move lower on Wednesday open
- **Factors supporting**: Risk aversion, US-China relations
- **Factors against**: Complacent markets, positive developments from global policymakers, poor US economy, US stimulus

EUR (Neutral-to-Bullish)

- EUR/USD moved higher to a high of 1.2011 on Tuesday before tapering its gains. Pair is now down around 1.192 although crawling up on Wednesday open.
- **Factors supporting**: Solid fiscal support on confidence, recovering economy, USD weakness
- **Factors against**: Risk aversion, 2nd wave of Covid-19 infections

GBP (Neutral-to-Bullish)

- GBP/USD reached a high of 1.3482 before retreating on Tuesday, with pair now looking to crawl upwards.
- **Factors supporting**: Breakthrough in news, USD weakness
- **Factors against**: Risk aversion, Brexit, twin deficits

JPY (Neutral-to-Bullish)

- USD/JPY stayed relatively range bound on Tuesday, after the low of 105.2 on 28 August.
- **Factors supporting**: BOJ policy, USD weakness
- **Factors against**: Weak fundamentals, risk sentiments

AUD (Neutral-to-Bullish)

- AUD/USD looked in consolidation mode on Tuesday, although hitting a high of 0.7414. This comes as RBA boosts its policy accommodation on Tuesday. Pair started Wednesday moving horizontally.
- **Factors supporting**: Current account, resilient economy, USD weakness
- **Factors against**: Risk aversion, 2nd wave of Covid-19 infections, China-Australia relations

SGD (Neutral-to-Bullish)

- USD/SGD reached a low of 1.356 before rebounding on Tuesday. This brought pair to around 1.36 big figure at the start of Wednesday.
- **Factors supporting**: Fed vs. MAS policy, economic recovery, USD weakness
- **Factors against**: Risk aversion, trade war, US-China

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