Global Markets Research

Daily Market Highlights

Key Takeaways

- **US stocks extended gains on Thursday ahead of Independence Day holiday, boosted by an upbeat June job report** that highlighted the 4.8mil job additions and lower unemployment rate, convincing investors that the labour market is heading on a firmer recovery path. This was against a backdrop of uncertainties surrounding the pandemic situation in the country as the country reported nearly 50,000 new cases on Wednesday, "the fifth single-day case record in eight days", according to the New York Times which could jeopardise the ongoing economic recovery. In fact, Reuters reported that cases are on the rise in 37 states, with Florida seeing more than 10,000 new infections.

- The Dow Jones rose 0.4%, the S&P 500 gained 0.5% and NASDAQ reached another record high (+0.5%). The rally this week led stocks to reverse last week's losses and close out the week in gains – Dow (+3.2%), S&P 500 (+4%), NASDAQ (+4.6%) – ahead of Friday's observed Fourth of July holiday. Meanwhile, 10Y UST yield slipped to 0.67% (-1bp) and gold price rebounded by 0.3% to $1775.38/ounce. The dollar index gained 0.1% to 97.317, boosted by positive job data after being lower for most part of the day.

- **Apart from the 4.8mil nonfarm job additions, US unemployment rate fell to 11.1%, initial jobless claims were lower and stabilizing at 1.43mil.** Factory orders recovered 8% MOM while trade deficit widened to $54.6b. Elsewhere, Eurozone unemployement rate remained largely stable, ticking up only slightly to 7.4% and factory deflation eased. Australia trade surplus widened to AUD8.03b on smaller contractions in both exports and imports.

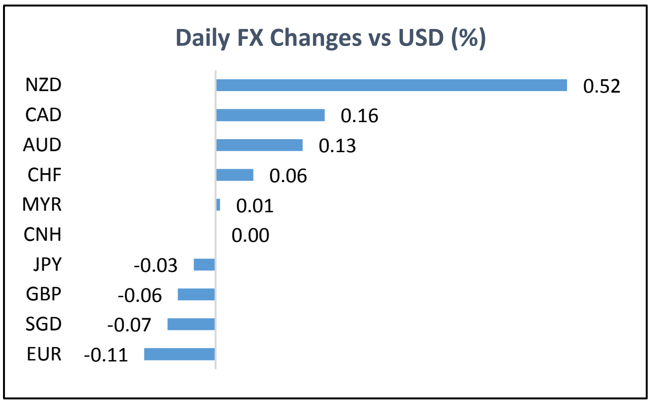
- USD ended two days of weakness with a modest gain. The DXY rose by 0.1%, benefitting from the EUR, GBP and JPY reversals. We are **neutral on the USD** for the week ahead. DXY has remained in range movement since 10 June, after a bottom of 95.716 on 11 June. But we detect a slight bearish tone since 30 June, meaning that upside risks are capped. DXY to stay within 96.84-97.80 for now.

- USDMYR finished virtually unchanged at 4.2860, holding around recent ranges for the third consecutive session. **USDMYR is turning slightly bullish** in response to positive US data and risk sentiment could be retreating ahead of the weekend. In the week ahead, sentiment is likely to remain cautious with BNM's OPR decision (we expect a pause), Covid-19 development in major countries and rising US-China tension being the prime market movers.

Market Snapshots

	Last Price	DoD %	YTD %
Dow Jones Ind.	25,827.36	0.36	-9.50
S&P 500	3,130.01	0.45	-3.12
FTSE 100	6,240.36	1.34	-17.26
Hang Seng	25,124.19	2.85	-10.87
KLCI	1,536.28	1.44	-3.30
STI	2,636.69	1.02	-18.19
Dollar Index	97.32	0.1	0.9
WTI oil ($/bbl)	40.65	2.08	-33.43
Brent oil ($/bbl)	43.14	2.64	-34.64
Gold (S/oz)	1,775.38	0.30	17.07
CPO (RM/tonne)	2,396.50	-0.06	-20.79

Source: Bloomberg



Source: Bloomberg

Overnight Economic Data

US	→	Eurozone	→
Australia	↑		

Up Next

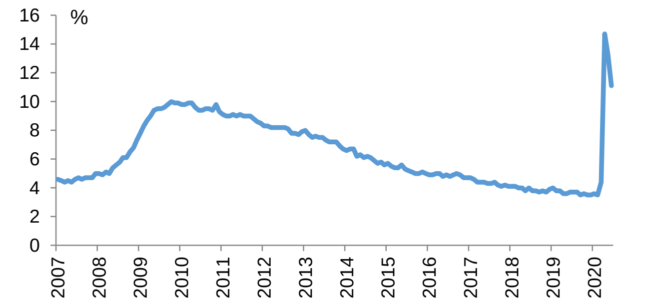
Date	Event	Prior
03/07	EU Markit Eurozone Services PMI (Jun F)	47.3
	UK Markit/CIPS UK Services PMI (Jun F)	47.0
	JP Jibun Bank Japan PMI Services (Jun F)	42.3
	CH Caixin China PMI Services (Jun)	55.0
	SG Markit Singapore PMI (Jun)	27.1
	SG Retail Sales YoY (May)	-40.5%
	SG Purchasing Managers Index (Jun)	46.8
	AU Retail Sales MoM (May)	-17.7%
06/07	US Markit US Services PMI (Jun F)	46.7
	US ISM Non-Manufacturing Index (Jun)	45.4
	EU Sentix Investor Confidence (Jul)	-24.8
	EU Retail Sales MoM (May)	-11.70%
	UK Markit/CIPS UK Construction PMI (Jun)	28.9
	HK Markit Hong Kong PMI (Jun)	43.9

Source: Bloomberg

Macroeconomics

- ***Upbeat US job data; record rises in Covid-19 cases pose downside risk:*** US nonfarm payrolls came in much better than expected at 4.8mil in June, beating analysts' estimate of 3mil. Revisions to April and May numbers also resulted in a net addition of 90k. Majority of new jobs came from the services sector (+4.3mil) as manufacturing added 356k jobs and construction jobs rose by 158k. Unemployment rate slipped further to 11.1% in June, from 13.3% with labour participation rate inching higher to 61.5% (May: 60.8%). Average hourly earnings fell 1.2% MOM in June, extending from the 1.0% decline in May. This reflects job gains in among low wages workers, exerting downward pressure on overall earnings. YOY, earnings were 5.0% higher (May: +6.6%). In a separate release, initial jobless claims was 1.427mil last week, trending down from 1.482mil prior. Continuous claims which lagged by one week however went slightly up to 19.29mil, from 19.23mil. These combination of job data painted a firmer picture that businesses were rapidly hiring workers following the reopening of the economy, which may not sustain going forward. Uncertainties remain high given that the record rise in new Covid-19 cases had prompted some states to halt reopening, this could prevent businesses from creating more jobs in July.

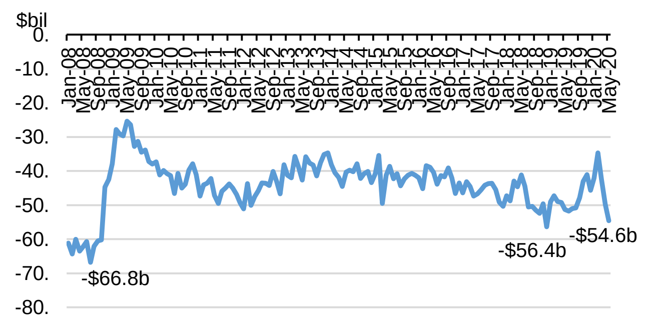
US Unemployment Rate, %



Source: Bloomberg, BLS

- ***US trade deficit rose to $54.6b in May:*** US international trade deficit widened to $54.6b in May, from -$49.76b in April, and was its highest deficit recorded in 17 months. The continuous fall in exports amid the Covid-19 pandemic albeit at smaller magnitude (-4.4%) alongside a tiny decline in imports (-0.9%) has undone the Trump Administration's effort to shrink the country's trade deficit. Deficit went as low as $34.67b in February just before the pandemic economic shock rocked the nation's manufacturing industry and exports sector. The trade gap with China widened to -$27.9b in May; YTD, deficit with China stood at $115.5b, still 25% smaller than in the same period last year.

US Trade Balance, $



Source: CEIC, BEA

Forex

MYR (Slightly Bearish)

- USDMYR finished virtually unchanged at 4.2860, holding around recent ranges for the third consecutive session.
- The pair is turning slightly bullish in response to positive US data and risk sentiment could be retreating ahead of the weekend. In the week ahead, sentiment is likely to remain cautious with BNM's OPR decision (we expect a pause), Covid-19 development in major countries and rising US-China tension being the prime market movers.

USD (Neutral-to-Bullish)

- USD ended two days of weakness with a modest gain. The DXY rose by 0.1%, benefitting from the EUR, GBP and JPY reversals.
- We are 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 weakened by 0.11% on Thursday after paining a day earlier. However, pair still 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.

GBP (Neutral-to-Bearish)

- GBP consolidated on Thursday, losing 0.06% against the USD on Thursday.
- 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 lost 0.03% vs. the USD on Thursday.
- JPY looks to stay within a range of 106-108. Further moves away from the range looks unlikely at this stage.

AUD (Neutral)

- AUD/USD rose 0.13% on Thursday. A modest bid tone was observed for AUD/USD for the past three days.
- 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 slightly went up on Thursday, mostly from the European session before stabilising around 1.395 levels.
- Improving data (such as China's PMI) is counterbalanced by risk aversion that a second global wave of Covid-19 cases is escalating. Upward momentum looks limited for now, with the psychological 1.4000 big figure resistance holding up.

- ***US factory orders rebounded but capex growth modest:*** Factory orders rebounded by 8% MOM in May, from the 13.5% fall in April. Orders of durable goods rose 15.7% MOM recovering from the 18% fall prior. The rebound was broad-based across most products, of which transportation equipment gained 82% after contracting for more than 40% for two months. Orders of the so-called core capital goods rose 1.6%, lower than initial estimate of 2.3% (Apr: -6.6%), indicating that businesses remained wary of raising capex spending.

- ***Slight uptick in Eurozone's unemployment rate:*** Unemployment rate in the Euro area went up a little higher to 7.4% in May, from 7.3% in April. This is better than analysts' expectation of 7.7%. Unemployment rate in the continent is relatively stable compared to that of the US thanks to more robust job protection programs that had long existed prior to Covid-19 pandemic downturn.

- ***Eurozone factory deflation eased in May:*** Eurozone producer prices index fell 0.6% MOM in May, easing from the 2% decline in April and marking its fourth straight month of decline. This was in part thanks to the smaller fall in prices of energy (-1.4% vs -7.6%) as prices of other goods remained relatively flat. YOY, producer prices fell 5%, a sharper decline compared to the 4.5% fall in April. This is mainly because prices of energy was 17.2% lower compared to the same month last year.

- ***Improving Australian trade data:*** Australia trade surplus widened by AUD195mil to AUD8.025b in May, this was lower than consensus forecast of AUD9b. The wider surplus reflects smaller contractions in both imports and exports. Exports fell 4% MOM in May (Apr: -11.4%), marking its second month of decline of which exports to mainland China rose 8% after a flat reading in April while shipments to Japan, the US and major economies in Europe fell. Imports slipped by another 6% (Apr: -6.9%), extending the current losing streak to five-month long. Looking ahead, exports could recover further judging from the recent recovery in China's economic activity.

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