Hong Leong Bank

Global Markets Research

Daily Market Highlights

Key Takeaways

- **US stocks rebounded on Friday, closing the week largely on a positive note** despite the economy recorded worst GDP contraction in history. **Fitch's revision of US triple-A rating from stable to negative did not sway market.** The Dow Jones added more than 110pts or 0.4% DOD on Friday, the S&P500 gained 0.8% and NASDAQ again outperformed with a 1.5% increase. For the week, the Dow lost out to its peer with a near-0.2% weekly decline. The S&P500 rebounded 1.7% WOW and NASDAQ jumped 3.7%. **Rally in tech stocks were driven by strong tech corporate earnings as well in particular the surge in Apple's shares** to above $400 after the iPhone maker announced its fifth stock split in history.

- Looking at other asset classes, **treasury yields fell slightly on Friday even as stock markets rebounded, highlighting a certain level of investor jittery amid mixed economic data as well as the upcoming expiry of the supplementary unemployment benefit.** US lawmakers are still hammering out a deal over the latest coronavirus stimulus aid bill and none was reached over the weekend. On Friday, yield on 10Y UST fell by nearly 2bps to 0.53% and was 6bps lower compared to the previous Friday. Gold prices continued to climb higher on Friday- Spot gold surged nearly 1% DOD to $1975.86/ounce and futures for August delivery added more than 1% to $1962.8/ounce. **Key market drivers this week are expected to be news related to the Trump Administration's move on Chinese popular music-video social media app Tik Tok, the ongoing stimulus negotiation at Congress and also PMI data.**

- US consumer data were mixed - higher consumer spending but falling income and retreating sentiment. The Eurozone recorded worst GDP contraction on history and higher underlying inflation. UK house prices recovered further. Japan jobless rate fell and industrial production rebounded. China PMI recorded growth.

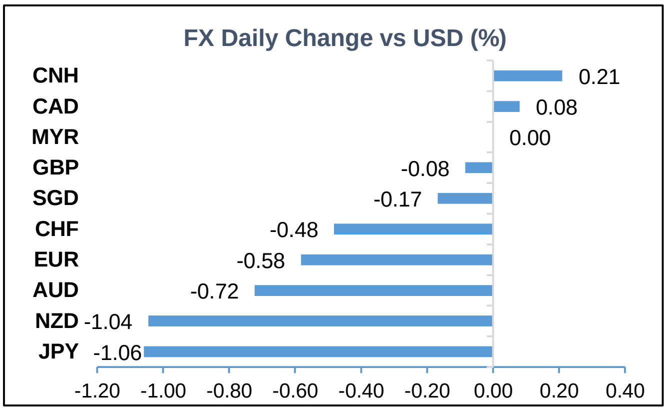
- The dollar regained strength as nearly all majors weakened against the greenback; the DXY jumped 0.4% on Friday to 93.35. We maintain a **neutral to bearish outlook on USD** as investors continued shying away from the greenback amid dimming US growth outlook.

- USD/MYR was little changed (-0.09%) on Thursday at 4.2395 ahead of the long weekend. **Daily USDMYR outlook is neutral** today as the market reopened and investors digest key headlines over the weekend. USD movement and shift in risk sentiments will remain a key determinant for MYR fate in the short-to-medium term.

Market Snapshots

	Last Price	DoD %	YTD %
Dow Jones Ind.	26,428.32	0.44	-7.39
S&P 500	3,271.12	0.77	1.25
FTSE 100	5,897.76	-1.54	-21.81
Hang Seng	24,595.35	-0.47	-12.75
KLCI	1,603.75	-0.48	0.94
STI	2,529.82	-1.70	-21.50
Dollar Index	93.35	0.35	-3.13
WTI oil ($/bbl)	40.27	0.88	-34.05
Brent oil ($/bbl)	43.30	0.84	-34.12
Gold ($/oz)	1,975.86	0.98	30.51
CPO (RM/tonne)	2,677.50	-1.05	-11.50

Source: Bloomberg



Source: Bloomberg

Overnight Economic Data

US	→	Eurozone	→
UK	↑	Japan	↑
China	↑	New Zealand	→

Up Next

Date	Event	Prior
03/08	AU AiG Perf of Mfg Index (Jul)	51.5
	MA Markit Malaysia PMI Mfg (Jul)	51.0
	JP Jibun Bank Japan PMI Mfg (Jul F)	--
	VN Markit Vietnam PMI Mfg (Jul)	51.1
	CH Caixin China PMI Mfg (Jul)	51.2
	EU Markit Manufacturing PMI (Jul F)	--
	UK Markit UK PMI Manufacturing SA (Jul F)	--
	SG Purchasing Managers Index (Jul)	48.0
	US Markit US Manufacturing PMI (Jul F)	--
	US ISM Manufacturing (Jul)	52.6
	US Construction Spending MoM (Jun)	-2.1%
04/08	AU Trade Balance (Jun)	A$8025m
	AU Retail Sales MoM (Jun)	16.9%
	AU RBA Cash Rate Target (04 Aug)	0.25%
	EC PPI YoY (Jun)	-5.0%
	US Factory Orders (Jun)	8.0%
	US Durable Goods Orders (Jun F)	--
	US Cap Goods Orders Nondef Ex Air (Jun F)	--

Source: Bloomberg

Macroeconomics

- ***Mixed US consumer data as country struggled to contain pandemic:***
  - Personal spending, a gauge of US consumer consumption rose for the second month, recording a 5.6% MOM growth in June, following the 8.5% rebound in May. The cumulative increase has not reversed the hefty declines seen in March and April during the onset of the Covid-19 pandemic in the US. Outlook for consumer spending was rather bearish as the country still struggles to contain the virus. The University of Michigan Consumer Sentiment Index, a popular leading indicator for consumer spending slipped to 72.5 in July (Jun: 78.1), following the resurgence of the virus.
  - Personal income fell for the second month by 1.1% MOM in June (May: -4.4%) as the effect of the one-off stimulus boost (+12.1%) in April has dissiapted. A separate release of the employment cost index registered a mere 0.5% QOQ growth (1Q: +0.8%). This showed that wage growth is likely to be battered as the labour market remained depressed amid economy reopening. This is evident in the second consecutive weekly gain in initial jobless claims.
  - Meanwhile, the core PCE price index, the Federal Reserve's key inflation gauge rose 0.2% MOM in June (May: +0.2%); the annual rate eased to 0.9% YOY (May: 1%), further away from the Fed's 2% target.
  - The MNI Chicago PMI surged to 51.9 in July (Jun: 36.6), marking its first above-50 reading in 13 months following the reopening of the economy. The jump was a recovery following the three successive month of below-40 readings.
- ***Eurozone economy saw largest contraction on record; core inflation improved***:
  - Advance report showed that Eurozone real GDP contracted by a whopping 12.1% QOQ in the second quarter of 2020 (1Q: -3.6%), its largest decline on record as member states across the continent imposed social distancing measures to contain the Covid-19 pandemic since March. YOY, GDP fell 15% (1Q: -3.1%).
  - The HICP inflation recorded a smaller 0.3% MOM decline in July according to flash estimate. This led the annual inflation rate to increase to 0.4% YOY in July (Jun: +0.3%) thanks to a smaller decrease in prices of energy and the surge in cost of non-energy industrial goods. Underlying inflation surged to 1.2% YOY (Jun: +0.8%), its largest gain in five months. Services inflation however eased to 0.9% YOY (Jun: +1.2%).
- ***UK house prices on course for recovery:*** UK house prices recovered by 1.7% MOM in July, according to the Nationwide House Price Index. This more than offset the 1.6% fall in June. YOY, prices rose 1.5%, in July (Jun: -0.1%). House price stood at an average £220.9k, still below the £222.9k in April this year and looks set to recover further.
- ***China economy on track for recovery:*** The official NBS manufacturing PMI rose to 51.1 in July, from 50.9 in June, and the non-manufacturing PMI was slightly lower at 54.2 (Jun: 54.4). This reflects ongoing recovery of both the manufacturing and services industries.

Forex

MYR (Neutral)

- USD/MYR was little changed (-0.09%) on Thursday at 4.2395 ahead of the long weekend. Daily outlook is neutral today as the market reopened and investors digest key headlines over the weekend. USD movement and shift in risk sentiments will remain a key determinant for MYR fate in the short-to-medium term.
- **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)

- USD rose by 0.35% on Friday, now around Thursday levels of c.93.4. Reversal came after a low of 92.546 on 31 July.
- **Factors supporting**: Risk aversion, US-China relations, stretched low DXY levels
- **Factors against**: Complacent markets, positive developments from global policymakers, poor US economy

EUR (Neutral-to-Bullish)

- EUR/USD came off after hitting a high of 1.1909 on Friday. Some profit taking triggered a close below 1.18.
- **Factors supporting**: Solid fiscal support on confidence, recovering economy
- **Factors against**: Risk aversion, 2nd wave of Covid-19 infections, stretched levels

GBP (Neutral)

- GBP/USD reached a high of 1.3170 on Friday but has since eased back to 1.31 territory.
- **Factors supporting**: Breakthrough in news, USD weakness
- **Factors against**: Risk aversion, Brexit, twin deficits

JPY (Neutral-to-Bullish)

- USD/JPY fell last Friday after some stabilisation prior. Pair tested a low of 104.19 before rebounding to close to 106 at the moment.
- **Factors supporting**: BOJ policy, risk aversion, USD weakness
- **Factors against**: Weak fundamentals

AUD (Neutral)

- AUD/USD reached a high of 0.7227 on 31 July, but soon retreated to below 0.7150 at close.
- **Factors supporting**: Current account, resilient economy
- **Factors against**: Risk aversion, 2nd wave of Covid-19 infections, China-Australia relations, stretched levels

SGD (Neutral-to-Bullish)

- USD/SGD touched a low of 1.3689 on Friday but has since rebounded back to close to 1.375, and awaiting further developments.
- **Factors supporting**: Fed vs. MAS policy, economic recovery
- **Factors against**: Risk aversion, trade war, US-China

- ***Encouraging Japan data as economy reopened:***
  - Japan jobless rate fell for the first time in four months to 2.8% in June, from 2.9% in May despite higher labour participation rate, as firms rehired workers following the reopening of the Japanese economy. The number of employment rose for the second month by 80k in June (May: +40k) after the nearly 1.2mil job losses recorded in March and April. A separate report shows that the job-to-applicant ratio fell for the sixth consecutive month to 1.11 in June from the 1.2 in May, confirming the number of jobs available continued to decline.

  - Japan's industrial production grew for the first time in five months, registering a 2.7% MOM gain in June (May: -8.9%). YOY, industrial production is still 17.7% lower compared to the same month last year.

- ***Little change in New Zealand's consumer confidence:*** The ANZ Consumer Confidence Index was little changed (-0.2% MOM) at 104.3 in July. Consumers were wary of current economic condition but showed more optimism for outlook

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