3 September, 2020

Global Markets Research

Daily Market Highlights

Key Takeaways

- **US stocks rallied overnight fuelled by economic recovery optimism.** The S&P500 rose sharply (+1.5%) to yet another record high; NASDAQ picked up nearly 1.0% to all-time high. The Dow Jones (+1.6%) closed a tad above 29,000 for first time in more than six month, inching closer to its record high in February. Treasury yields were little changed at the shorter end - 2Y UST yield held steady at 0.133%; 10Y UST yield slipped by 2bps to 0.648%. **Gold futures lost a whopping 1.7% to $1936.9 amid better risk sentiment and alongside stronger dollar. Crude oil prices retreated sharply** despite more than 9.0m draw in the EIA crude stockpiles; Oilprice.com reported that this was mainly **due to markets' concerns over lower refinery runs.** Brent crude dipped by 2.5% to $44.43/barrel and WTI settled nearly 3.0% lower at $41.51/barrel.

- **Data came mostly from the US** and indicates that an economic recovery is underway. **ADP private sector disappointed** with a mere 428k gains (versus expectation of 1mil increase). **Factory orders continued to increase** for the third consecutive month, powered by transportation sector. **Mortgage applications fell** 2.0% last week. The Federal Reserve's latest **Beige Book said that economic activity is rising in most Districts.** Other than that, **Australia's GDP contracted by 7.0% QOQ in the second quarter, its largest fall on record.**

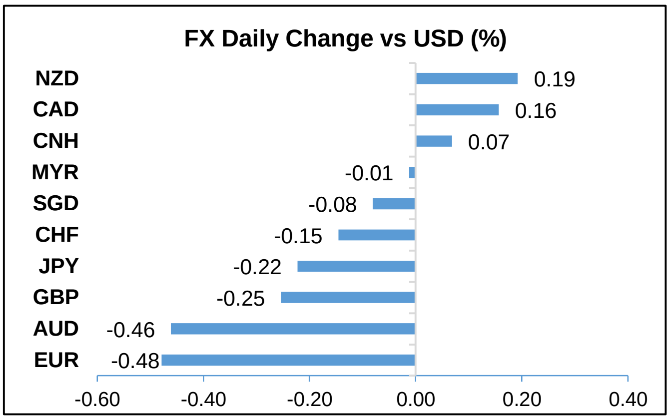
- DXY saw a second day of gains on Wednesday, as the dollar rebounded against all majors save for the NZD and CAD. DXY moved to an intraday high of 92.87, before slightly tapering gains to close the day 0.6% higher at 92.85. We think that the rebound may be temporary as USD weakness may continue after a brief reprieve. Maintain a **neutral to bearish outlook on the USD.**

- USD/MYR closed on a flat note at 4.1440 on Wednesday, below the key 4.15 level. Dollar strength overnight is likely to lead the pair to open higher and back to 4.15-4.17 in the short term. The pair is severely oversold, correction is thus very possible, hence our **neutral to slightly bearish view on the MYR.** BNM's OPR decision and FTSE Russell's WGBI decision present as event risks this month.

Market Snapshots

	Last Price	DoD %	YTD %
Dow Jones Ind.	29,100.50	1.59	1.97
S&P 500	3,580.84	1.54	10.84
FTSE 100	5,940.95	1.35	-21.23
Hang Seng	25,120.09	-0.26	-10.89
KLCI	1,537.54	1.06	-3.22
STI	2,539.94	0.05	-21.19
Dollar Index	92.85	0.55	-3.67
WTI oil ($/bbl)	41.51	-2.92	-32.02
Brent oil ($/bbl)	44.43	-2.52	-32.68
Gold (S/oz)	1,936.90	-1.72	27.31
CPO (RM/tonne)	2,885.50	-0.24	-4.63

Source: Bloomberg



Source: Bloomberg

Overnight Economic Data

US	→	Australia	↓

Up Next

Date	Event	Prior
03/09	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
	CN 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
	US Markit US Services PMI (Aug F)	54.8
	US ISM Services Index (Aug)	58.1
04/09	AU Retail Sales MoM (Jul)	2.70%
	SG Retail Sales YoY (Jul)	-27.80%
	MA Foreign Reserves (28/08)	$104.3b
	US Average Hourly Earnings YoY (Aug)	4.80%
	US Unemployment Rate (Aug)	10.20%
	US Change in Nonfarm Payrolls (Aug)	1763k

Source: Bloomberg

Macroeconomics

- ***US data show that an economic recovery remained underway:***
  - The ADP nonfarm private payroll came in at 428k in August (Jul: +212k), well below expectation of 1mil gain. The services sector added 289k jobs while the manufacturing sector saw a more modest 40k increase. The report indicates the ongoing recovery in the US labour market.
  - Headline factory orders rose 6.4% MOM in July (Jun: +6.4%), marking its third consecutive month of solid growth. Orders of durable goods rose 11.4% MOM (Jun: +7.7%), boosted by orders of transportation equipment; core capital orders, a gauge of business capex picked up 1.9% MOM (Jun: +4.3%).
  - Mortgage applications fell 2.0% for the week ended 28 Aug (prior: -6.5%); purchasing applications were flat while refinancing saw sharper decline. The average 30-year mortgage loan rate remained low at 3.08%.
  - The Federal Reserve's sixth Beige Book of 2020 reported that "economic activity increased among most Districts but gains were generally modest and activity remained well below levels prior to the COVID-19 pandemic". It pointed out slower job growth and increased hiring volatility in the services industry.

- ***Australia GDP fell more than expected:*** Australia's real GDP contracted 7.0% QOQ in the second quarter (1Q: -0.3%), its sharpest fall yet. This translates to a YOY decline of -6.3% (1Q: +1.6%), also a record loss. The numbers were worse than expected – consensus estimate had been expecting a decline of 6.0% QOQ and 5.1% YOY respectively. Household consumption subtracted 6.7percentage points from GDP, the largest negative contribution; investment subtracted 1.2ppt; general government spending contributed positively (+0.6ppt). Changes wise, household consumption fell by a whopping 12.1% QOQ and investment fell 4.8% QOQ. RBA had kept its cash rate steady on the prior day, opting to expand and extend its Term Funding Facility instead. It maintained a cautious outlook, highlighting the pandemic outbreak in Victoria State. Policy (both fiscal and monetary) are likely to remain loose until next year.

Forex

MYR (Neutral to slightly bearish)

- USD/MYR closed on a flat note at 4.1440 on Wednesday, below the key 4.15 level. .
- **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 saw a second day of gains on Wednesday, as the dollar rebounded. DXY moved to an intraday high of 92.87, before tapering gains. We think that the rebound may be temporary as USD weakness may continue after a brief reprieve.
- **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 saw a low of 1.1822 before a slight rebound to around 1.184 at close. Pair was affected by the dollar rebound, underperforming G10 FX performance
- **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 traded in an offered tone on Wednesday, mirroring EUR/USD's movements. Pair reached a low of 1.3284 before rebounding to above-1.33 levels at close.
- **Factors supporting**: Breakthrough in news, USD weakness
- **Factors against**: Risk aversion, Brexit, twin deficits

JPY (Neutral-to-Bullish)

- USD/JPY moved higher on Wednesday. Following a low of 105.59 on 1 September, pair traded at a high of 106.30 on 2 September. USD/JPY stayed close to these levels on Thursday open.
- **Factors supporting**: New prime minister's directives, BOJ policy, USD weakness
- **Factors against**: Weak fundamentals, risk sentiments

AUD (Neutral-to-Bullish)

- AUD/USD also underperformed other G10 currencies after reaching YTD highs in recent days. AUD/USD tapered to a low of 0.7301 before rebounding slightly to around 0.733 on Thursday open.
- **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 moved on a bid tone to 1.3644 high on Wednesday, after being as low as 1.3560 on 1 September. Pair has now consolidated around 1.363 levels on Thursday's open, without much momentum either way.
- **Factors supporting**: Fed vs. MAS policy, economic recovery, USD weakness
- **Factors against**: Risk aversion, trade war, US-China

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