HongLeong Bank

Global Markets Research

Daily Market Highlights

Key Takeaways

- **The Federal Reserve unexpectedly cut the fed funds target range** two weeks ahead of the scheduled 18 March meeting, **marking its first such in-between/emergency move more than a decade ago since Oct 2008 during the financial crisis. The preemptive emergency cut reduced the target rangeby 50bps** from 1.5-1.75% to 1.0-1.25%, also **its first largest cut since Dec 2008** (-75bps in a scheduled meeting), highlighting the central bank's concerns over the impact of Covid-19 on the US economy. During a press conference, **Chair Jerome Powell reaffirmed that the US fundamentals remain strong;** the prospect for continued growth remained favourable at the time of January's meeting **but the spread of the coronavirus has brought "new challenges and risks".** He added that the outbreak's overall effects on the economy remain highly uncertain, and the situation remains a fluid one. As such, **the risks to the U.S. outlook have changed materially, which prompt us to believe that further easing is on the cards.** Fed's move came just after G7's earlier morning statement from its Financial Ministers and Central Bank Governors that indicates no concrete and immediate actions taken to support the global economy. **Earlier, both RBA and BNM delivered a 25bps cut as expected.**

- **US stocks sold off in response to the cut** that led main indexes to lost nearly 3% DOD, right after Monday's recovery. Investors piled into safe havens as virus fears deepened in addition to being unnerved by the Fed's emergency cut. Treasuries yields collapsed 11-20bps in a single day of which the benchmark 10Y UST yield tumbled into the unchartered territory of below 1% to 0.981% for the first time in history. **Futures tied to key Asian stock markets point to a mixed start this morning. Up next is the Bank of Canada's decision due tonight.**

- On the data front, **Eurozone flash HICP inflation moderated to 1.2% YOY in Feb, reinforcing the case for more ECB easing. Australia GDP 4Q growth beat expectation at 0.5% QOQ, but a slowdown from the upwardly revised 0.6% growth in 3Q.** This left full-year 2019 growth at 2.3%, Hong Kong PMI plunged to all-time low reflecting Covid-19 impact. Singapore official PMI fell below 50 while the Markit PMI also slipped to record low.

- The dollar sell-off persisted for a fourth consecutive day, as the euro and yen gained more. **DXY closed Tuesday at 97.15.** Fed emergency inter-meeting rate cut moved equities more than FX, but also saw market positioning shift towards the safe havens. This also reflected some repricing of Covid-19 related risks in the US, catching up to the risk aversion in Asia. **We are bearish on the USD today**. We are now neutral on the 1-month outlook. This comes as markets start to expect further moves from the US Fed and US government (in terms of fiscal stimulus). However, resilient US fundamentals may prevent further dollar weakness from current levels.

- **USD/MYR closed little changed at 4.2065** as markets have priced in BNM's OPR cut on Tuesday. **We are bearish on USD/MYR today**, as dollar weakness persists while the widening USD and MYR interest rate differentials following Fed's surprise 50bps cut should keep the MYR supported in the short term, thus making a breach below 4.2000 possible. Nonetheless, downside to the pair is limited as global markets remain risk-off on the back of growing Covid-19 uncertainties, we reckon the pair would settle around 4.1800-4.1900 should it breaks below 4.20.

Overnight Economic Data

Eurozone	→
Australia	↓
Hong Kong	↓
Singapore	↓

What's Coming Up Next

Major Data

- Markit Services PMI (US, Eurozone, UK, Japan, China)
- Markit PMI (Hong Kong, Singapore)
- US ADP Job, ISM Non-manufacturing Index, MBA Mortgage Applications
- Malaysia Exports

Major Events

- Bank Of Canada Rate Decision

Daily Supports – Resistances (spot prices)*

	S2	S1	Indicative*	R1	R2	Outlook
EURUSD	1.1046	1.1096	1.1180	1.1213	1.1277	↗
GBPUSD	1.2600	1.2650	1.2823	1.2850	1.2950	↗
USDJPY	106.52	107.09	107.13	108.50	109.82	↘
AUDUSD	0.6450	0.6500	0.6590	0.6600	0.6655	↗
EURGBP	0.8530	0.8635	0.8719	0.8864	0.8950	→
USDSGD	1.3800	1.3842	1.3873	1.3945	1.4000	↘
USDMYR	4.1700	4.1800	4.1850	4.2000	4.2100	↘
EURMYR	4.6600	4.6700	4.6750	4.6870	4.7016	↗
JPYMYR	3.8709	3.8921	3.9004	3.9139	3.9200	↗
GBPMYR	5.3100	5.3400	5.3653	5.3860	5.4098	→
SGDMYR	3.0100	3.0150	3.0174	3.0213	3.0270	→
AUDMYR	2.7508	2.7570	2.7622	2.7706	2.7780	↗
NZDMYR	2.6144	2.6250	2.6300	2.6388	2.6450	→

* at time of writing

↗ = above 0.1% gain; ↘ = above 0.1% loss; → = less than 0.1% gain / loss

	Last Price	DoD %	YTD %	Name	Last Price	DoD %	YTD %
KLCI	1,478.64	0.80	-6.93	CRB Index	164.93	0.88	-11.23
Dow Jones Ind.	25,917.41	-2.94	-9.18	WTI oil ($/bbl)	47.18	0.92	-22.73
S&P 500	3,003.37	-2.81	-7.04	Brent oil ($/bbl)	51.86	-0.08	-21.42
FTSE 100	6,718.20	0.95	-10.93	Gold (S/oz)	1,640.90	3.24	8.53
Shanghai	2,992.90	0.74	-1.88	CPO (RM/tonne)	2,395.00	-0.77	-20.84
Hang Seng	26,284.82	-0.03	-6.76	Copper ($/tonne)	5,700.00	1.15	-7.68
STI	3,019.56	0.39	-6.31	Rubber (sen/kg)	459.00	-0.11	1.44

Source: Bloomberg

Economic Data				
	For	**Actual**	**Last**	**Survey**
MA BNM Overnight Policy Rate	Mar-03	2.50%	2.75%	2.50%
US Fed Funds Rate Target Range	Mar-03	1-1.25%	1.5-1.75%	--
AU RBA Cash Rate Target	Mar-03	0.50%	0.75%	0.63%
AU GDP SA QoQ	4Q	0.5%	0.6% (revised)	0.4%
EU CPI Estimate YoY	Feb	1.2%	1.4%	1.2%
EU PPI YoY	Jan	-0.5%	-0.6% (revised)	-0.4% AU
EU Unemployment Rate	Jan	7.4%	7.4%	7.4%
HK Markit PMI	Feb	33.1	46.8	--
SG Purchasing Managers Index	Feb	48.7	50.3	49.5
SG Markit PMI	Feb	47.0	51.4	--

Source: Bloomberg

Macroeconomics

- ***Fed surprised markets with a 50basis point emergency rate cut:*** The Federal Reserve unexpectedly cut the fed funds target range overnight two weeks ahead of the scheduled 18 March meeting, marking its first such in-between/emergency move more than a decade ago since Oct 2008 during the financial crisis. The preemptive cut reduced the target range from 1.5-1.75% to 1.0-1.25%, also its first largest cut since Dec 2008 (-75bps in a scheduled meeting), highlighting the central bank's concerns over the impact of Covid-19 on the US economy. During a press conference, Chair Jerome Powell reaffirmed that the US fundamentals remain strong; the prospect for continued growth remained favourable at the time of January's meeting but the spread of the coronavirus has brought "new challenges and risks". He added that the outbreak's overall effects on the economy remain highly uncertain, and the situation remains a fluid one. As such, the risks to the U.S. outlook have changed materially. Fed's move came just after G7's earlier morning statement from its Financial Ministers and Central Bank Governors that indicates no concrete and immediate actions taken to support the global economy.

- ***Successive OPR cuts by BNM, first since 2009:*** BNM expectedly cut the Overnight Policy Rate (OPR) by 25bps to 2.50%, its lowest since 2010, marking its first back to back cut since 2009, and its third reduction within 11 months. Today's move does not come as a surprise at all given heightened downside risks to growth that has since rapidly evolved following the outbreak of Covid-19, which now appears to be fast developing into a global rather than regional shock. Acknowledging potentially further economic fall-out not only regionally but globally, and taking cue from BNM's seemingly dovish statement, we believe further rate cuts are on the table. We therefore pencil in another 25bps cut in the OPR for the remaining of the year. While this could happen as early as the next MPC meeting in May, we trust that BNM may opt to pause and assess the impact from the most recent two rate cuts and the delivery of the RM20.0bn Economic Stimulus Package announced just last week, before its next move.

- ***RBA cuts 25bps to 0.50% in March Meeting:*** RBA decided to cut cash rate by 25bps to 0.5% after markets swiftly priced in a cut in recent days. RBA attributed the cut to Covid-19 outbreak, saying that the "the coronavirus has clouded the near-term outlook for the global economy" and "global growth in the first half of 2020 will be lower than earlier expected". RBA expects significant impact on economy, a shift from February's "too early to assess", adding that the uncertainty is likely to affect domestic spending. It mentioned that the Australian government is also ready to support areas affected by the outbreak. RBA said that there will be delay to the economy recovering to full employment and inflation target and signlled that it is prepared to ease monetary policy further. This should increase expectations of further cut to 0.25% in our view.

- ***Low Eurozone inflation and virus threat support more ECB easing:*** Eurozone flash HICP inflation moderated to 1.2% YOY in February (Jan: +1.4%), reflecting decline in energy prices. Underlying inflation rose to 1.2% YOY (Jan: +1.1%) thanks to slightly higher services inflation. Fall in producer prices eased to 0.5% YOY (Dec: -0.6%), its sixth consecutive month ofcontraction. Persistently low Eurozone inflation supports the case for further ECB easing in light of the new threat posed by the rapid spread of Covid-19 on the bloc's economy. On a separate note, unemployment rate was unchanged at 7.4% in January, still a historically low level, adding to signs of a firm labour market.

- ***Australia GDP growth moderated in 2019:*** Australia 4Q GDP growth came in at 0.5% QOQ (3Q: +0.6% revised), following an upwardly revised 3Q growth (+0.4% to +0.6%). 4Q print was higher than analysts' expectations of 0.4% QOQ, reflecting positive contributions from household (+0.2ppts) and government (+0.1ppts) consumption. Gross capital fixed formation subtracted 0.2ppts from the headline on the back of weak private investment and dwelling investement. Compared to the same period last year, GDP growth accelerated to 2.2% YOY (3Q: +1.8% revised), also better than estimate, bringing the full-year 2019 growth to 2.3%, a marked slowdown compared to 2018's 2.9% expansion.

- ***Hong Kong PMI sank to all-time low:*** The Markit Hong Kong PMI plummeted to an all-time low of 33.1 in February (Jan: 46.8) following two months of gradual recovery (albeit still in contraction), reflecting the severe impact f Covid-19 outbtrak had on Hong Kong economy. The deteriorating situation of the outbreak last month dampened demand and hit an already weak sales, put a severe strain on supply chain and dragged down business sentiment.

- ***Singapore manufacturing sector back into contraction***; ***Markit PMI fell to record low:*** Singapore's manufacturing PMI fell to multi-year lows in February, reflecting the current Covid-19 induced disruptions. Headline PMI fell to 48.7 from 50.3 prior while electronics plummeted to 47.6 from 50.1. For the headline PMI, new export orders (48.1), output (48) and new orders (48.4) were the main drags. Markit Singapore Whole Economy PMI fell to 47.0 in February from 51.4, a record-low. It also reflects the downside risks particularly in the services sector. We expect a negative GDP growth print in Q1-2020 before a recovery in Q2. But things still look pretty fluid.

Economic Calendar

Date	Time	Country	Event	Reporting Period	Survey	Actual	Prior	Revised
02/03	08:30	Malaysia	Markit Malaysia PMI Mfg	Feb	--	48.5	48.8	--
03/03	15:00		BNM Overnight Policy Rate	Mar-03	2.5%	2.5%	2.75%	--
04/03	**12:00**		**Exports YoY**	**Jan**	**-1.6%**	**--**	**2.7%**	**--**
	12:00		**Imports YoY**	**Jan**	**-1.4%**	**--**	**0.9%**	**--**
06/03	15:00		Foreign Reserves	Feb-28	--	--	$104.3b	--
02/03	22:45	US	Markit US Manufacturing PMI	Feb F	50.8	50.7	51.9	--
	23:00		Construction Spending MoM	Jan	0.6%	1.8%	-0.2%	-0.2%
	23:00		ISM Manufacturing	Feb	50.5	50.1	50.9	--
04/03	**20:00**		**MBA Mortgage Applications**	**Feb-28**	**--**	**--**	**1.5%**	**--**
	21:15		**ADP Employment Change**	**Feb**	**170k**	**--**	**291k**	**--**
	22:45		**Markit US Services PMI**	**Feb F**	**49.4**	**--**	**49.4**	**--**
	23:00		**ISM Non-Manufacturing Index**	**Feb**	**54.9**	**--**	**55.5**	**--**
05/03	03:00		U.S. Federal Reserve Releases Beige Book					
	21:30		Initial Jobless Claims	Feb-29	215k	--	219k	--
	23:00		Factory Orders	Jan	-0.1%	--	1.8%	--
	23:00		Durable Goods Orders	Jan F	-0.2%	--	-0.2%	--
	23:00		Cap Goods Orders Nondef Ex Air	Jan F	--	--	1.1%	--
06/03	21:30		Trade Balance	Jan	-$46.1b	--	-$48.9b	--
	21:30		Change in Nonfarm Payrolls	Feb	175k	--	225k	--
	21:30		Unemployment Rate	Feb	3.6%	--	3.6%	--
	21:30		Average Hourly Earnings YoY	Feb	3.0%	--	3.1%	--
	21:30		Labor Force Participation Rate	Feb	63.4%	--	63.4%	--
	23:00		Wholesale Inventories MoM	Jan F	-0.2%	--	-0.2%	--
02/03	17:00	Eurozone	Markit Eurozone Manufacturing PMI	Feb F	49.1	49.2	47.9	--
03/03	18:00		CPI Estimate YoY	Feb	1.2%	1.2%	1.4%	--
	18:00		PPI YoY	Jan	-0.4%	-0.5%	-0.7%	-0.6%
	18:00		Unemployment Rate	Jan	7.4%	7.4%	7.4%	--
04/03	**17:00**		**Markit Eurozone Services PMI**	**Feb F**	**52.8**	**--**	**52.8**	**--**
	18:00		**Retail Sales MoM**	**Jan**	**0.6%**	**--**	**-1.6%**	**--**
02/03	17:30	UK	Markit UK PMI Manufacturing SA	Feb F	51.9	51.7	51.9	--
04/03	**17:30**		**Markit/CIPS UK Services PMI**	**Feb F**	**53.3**	**--**	**53.3**	**--**
02/03	07:50	Japan	Capital Spending YoY	4Q	-2.5%	-3.5%	7.1%	--
	07:50		Company Profits YoY	4Q	--	-4.6%	-5.3%	--
	08:30		Jibun Bank Japan PMI Mfg	Feb F	--	47.8	47.6	--
04/03	**08:30**		**Jibun Bank Japan PMI Services**	**Feb F**	**--**	**--**	**46.7**	**--**
06/03	07:30		Household Spending YoY	Jan	-4.0%	--	-4.8%	--
	07:30		Labour Cash Earnings YoY	Jan	0.2%	--	0.0%	--
06/03	13:00		Leading Index CI	Jan P	91.1	--	91.6	--
02/03	16:30	Hong Kong	Retail Sales Value YoY	Jan	-20.5%	-21.4%	-19.4%	--
04/03	**08:30**		**Markit Hong Kong PMI**	**Feb**	**--**	**33.1**	**46.8**	**--**
02/03	09:45	China	Caixin China PMI Mfg	Feb	46.0	40.3	51.1	--
04/03	**09:45**		**Caixin China PMI Services**	**Feb**	**48.0**	**--**	**51.8**	**--**
07/03	NA		Exports YoY	Feb	-17.5%	--	--	--
	NA		Imports YoY	Feb	-15.0%	--	--	--
03/03	21:00	Singapore	Purchasing Managers Index	Feb	49.5	48.7	50.3	--
04/03	**08:30**		**Markit Singapore PMI**	**Feb**	**--**	**47.0**	**51.4**	**--**
02/03	05:30	Australia	AiG Perf of Mfg Index	Feb	--	44.3	45.4	--
03/03	11:30		RBA Cash Rate Target	Mar-03	0.63%	0.5%	0.75%	--
04/03	**08:30**		**GDP SA QoQ**	**4Q**	**0.4%**	**0.5%**	**0.4%**	**0.6%**
05/03	08:30		Trade Balance	Jan	A$4800m	--	A$5223m	--
06/03	05:30		AiG Perf of Services Index	Feb	--	--	47.4	--
	08:30		Retail Sales MoM	Jan	0.0%	--	-0.5%	--
02/03	08:30	Vietnam	Markit Vietnam PMI Mfg	Feb	--	49.0	50.6	--

Source: Bloomberg

	Last Price	DoD %	High	Low	YTD %
EURUSD	1.1173	0.35	1.1212	1.1095	-0.31
GBPUSD	1.2811	0.45	1.2844	1.2742	-3.22
USDJPY	107.13	-1.11	108.54	106.93	-1.51
AUDUSD	0.6584	0.72	0.6645	0.6510	-6.24
EURGBP	0.8721	-0.10	0.8745	0.8682	3.00
USDSGD	1.3883	-0.16	1.3945	1.3842	3.08
USDMYR	4.2065	0.08	4.2205	4.2005	2.82
EURMYR	4.6806	0.51	4.6960	4.6694	2.03
JPYMYR	3.8921	0.20	3.9052	3.8756	3.29
GBPMYR	5.3693	0.08	5.3995	5.3602	-0.15
SGDMYR	3.0173	-0.21	3.0301	3.0167	-0.79
AUDMYR	2.7541	0.08	2.7685	2.7365	-3.96
NZDMYR	2.6324	0.06	2.6458	2.6253	-4.37
CHFMYR	4.3847	0.66	4.4048	4.3771	3.71
CNYMYR	0.6022	-0.23	0.6048	0.6022	2.42
HKDMYR	0.5404	0.09	0.5423	0.5397	2.82

Source: Bloomberg

➢Forex

MYR

- **USD/MYR closed little changed at 4.2065** as markets have priced in BNM's OPR cut on Tuesday.
- **We are bearish on USD/MYR today**, as dollar weakness persists while the widening USD and MYR interest rate differentials following Fed's surprise 50bps cut should keep the MYR supported in the short term, thus making a breach below 4.2000 possible. Nonetheless, downside to the pair is limited as global markets remain risk-off on the back of growing Covid-19 uncertainties, we reckon the pair would settle around 4.1800-4.1900 should it breaks below 4.20. Medium term USD/MYR outlook remains bullish as EM currencies are vulnerable amid growing risk aversion but we are mindful of the possibility of further Fed's rate cut should the Covid-19 spread go out of hand in the US. While we expect more BNM OPR cut on the local front, the move is likely not immiment after a total of 50bps cut in January and March.

USD

- The dollar sell-off persisted for a fourth consecutive day, as the euro and yen gained more. **DXY closed Tuesday at 97.15.** Fed emergency inter-meeting rate cut moved equities more than FX, but also saw market positioning shift towards the safe havens. This also reflected some repricing of Covid-19 related risks in the US, catching up to the risk aversion in Asia.
- **We are bearish on the USD today**. We are now neutral on the 1-month outlook. This comes as markets start to expect further moves from the US Fed and US government (in terms of fiscal stimulus). However, resilient US fundamentals may prevent further dollar weakness from current levels.

EUR

- **EUR rose 0.35% overnight against the USD.** This came after US Fed unexpectedly cut 50bps inter-meeting.
- **We stay bullish on EUR/USD** today from momentum. 1-month outlook is neutral as USD strength tapers and both central banks engage in dovish actions.

GBP

- **GBP rebounded 0.45% against the USD overnight.**
- **We are bullish on GBP/USD today,** from USD weakness. We are bearish on a 1-month basis as Brexit negotiations may pose some concerns down the road.

JPY

- **JPY gained 1.11% against the greenback** on Tuesday.
- **We are bearish on USD/JPY today** on market panic. We are bearish on a 1-month basis as potential risk aversion may improve yen positioning. Japan's economic data is already at a low, and any upside surprise could support the JPY.

AUD

- **AUD rose 0.72% on Tuesday against the greenback.**
- **We are bullish on AUD/USD today** from USD reversal. We are bearish on a 1-month basis as the AUD remains weighed down by the impact of the domestic bushfires and on RBA expectations.

SGD

- **SGD gained 0.16% against the USD** on Tuesday, now below the 1.3900 big figure.
- **We are bearish on USD/SGD today**, from further US weakness. We are neutral on a 1-month basis, expecting some USD response and as markets continue to price in the impact of the Covid-19 outbreak and MAS easing.

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