HongLeong Bank

# Global Markets Research
# Daily Market Highlights

## Key Takeaways

- **US stocks rallied overnight, extending their current winning streak to four days.** The Dow Jones added 527pts or 2.1% while the S&P500 rose 1.4% and NASDAQ picked up 0.8%, just a tad away from its all-time high in February. All eleven S&P500 sectors ended on positive note save for the heathcare sector. **Optimism of an economic rebound continued to favour equities, supported by recovery in economic data** despite ongoing demonstrations across America and growing US-China hostility. **The Trump Administration now plans to block Chinese flight from entering the US in mid-June** as US airlines (Delta and United) have not been granted permission by Chinese authority to resume their services to China. **The US is also expected to impose restrictions on more Chinese media outlets operating in the US according to a Reuters news story.**

- Nonetheless, **risk-on sentiment took hold of markets, pressuring safe havens assets.** Gold price fell 1.6% DOD to $1699.67/ounce, 10Y UST yield was 6bps higher at 0.75% as investors dumped bonds for stocks and the greenback weakened further. **Crude oils finished modestly higher;** the EIA had reported a crude oil inventory draw of nearly 2.08mil barrels last week but markets are generally anticipating any OPEC+ decision. Brent crude retreated from $40/barrel intraday high and settled at $39.79/barrel (+0.6%) while WTI was up at $37.29/barrel (+1.3%). Elsewhere, **the Bank of Canada left its overnight rate unchanged at 0.25% as widely expected** but scaled back some market operations as financial conditions improved, saying the ecnomic impact of Covid-19 has likley peaked. UK PM Boris Johnson pledged to allow 3mil Hong Kong citizens to seek refuge in Britain should China imposes the controversial national security law. As of writing, **stock futures are pointing to higher opening in Asia. The ECB Governing Council Meeting meets today and is expected to maintain its monetary policy.**

- **US data offered signals of recovery.** The ISM Non-manufacturing PMI rebounded and the private sector lost fewer jobs than expected. **Services PMIs for most other economies mostly troughed in April and has now rebounded in May.** Eurozone unemployment rate rose to 7.3% and producer prices deflation dragged on and deepened. **Australia 1Q GDP shrank 0.3% QOQ, a modest contraction.**

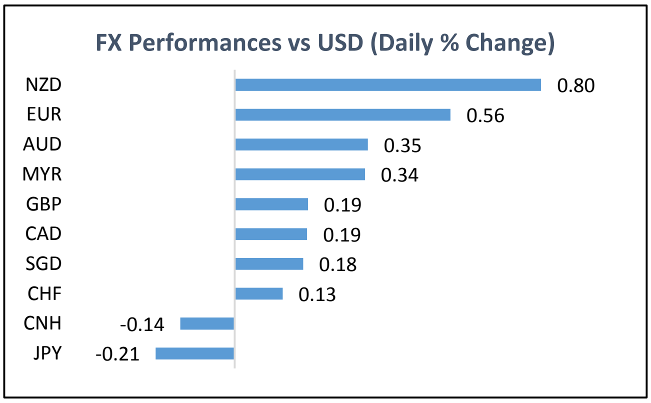
- The US dollar remained under pressure from the buoyant market mood. The DXY lost another 0.4% closing at 97.276. DXY weakness has moved beyond our Q3 forecast of 97.50. **We stay neutral to bearish on the USD** over the coming week. We anticipate some possible consolidation on stretched levels, possibly close to 97.50.

- USDMYR extended its losing streak to finish 0.34% lower at 4.2620 on Wednesday as risk appetites continued to pressure the broader USD. **Daily outlook for USDMYR remains bearish asr risk-on mood is expected to prevail for now.** The uncertainty surrounding US-China tension still poses a downside risk to MYR in our view which tends to underperform alongside its emerging market peers for fear of a potential US-China fallout. This might led to a recovery in USD should risk appetites broadly retreat.

## Market Snapshots

| | Last Price | DoD % | YTD % |
|---|---|---|---|
| Dow Jones Ind. | 26,269.89 | 2.05 | -7.95 |
| S&P 500 | 3,122.87 | 1.36 | -3.34 |
| FTSE 100 | 6,382.41 | 2.61 | -15.38 |
| Hang Seng | 24,325.62 | 1.37 | -13.71 |
| KLCI | 1,538.53 | 2.05 | -3.16 |
| STI | 2,700.39 | 3.40 | -16.21 |
| Dollar Index | 97.28 | -0.4 | 1.0 |
| WTI oil ($/bbl) | 37.29 | 1.30 | -38.93 |
| Brent oil ($/bbl) | 39.79 | 0.56 | -40.00 |
| Gold (S/oz) | 1,699.67 | -1.62 | 12.08 |
| CPO (RM/tonne) | 2,374.00 | 0.23 | -21.53 |

*Source: Bloomberg*




*Source: Bloomberg*

### Overnight Economic Data

| | | | |
|---|---|---|---|
| US | → | Eurozone | → |
| UK | ↑ | Japan | ↑ |
| China | ↑ | Hong Kong | ↑ |
| Singapore | ↓ | Australia | ↓ |

### Up Next

| Date | Event | Prior |
|---|---|---|
| 04/06 | MA Exports YoY (Apr) | -4.7% |
| | US Trade Balance (Apr) | -$44.4b |
| | US Initial Jobless Claims (30 May) | 2123k |
| | EU Retail Sales MoM (Apr) | -11.2% |
| | EU ECB Deposit Facility Rate (4 June) | -0.5% |
| | AU Exports MoM (Apr) | 15% |
| | AU Retail Sales MoM (Apr) | 8.5% |
| 05/06 | MA Foreign Reserves (29 May) | $102.6b |
| | US Change in Nonfarm Payrolls (May) | -20537k |
| | US Unemployment Rate (May) | 14.7% |
| | US Average Hourly Earnings YoY (May) | 7.9% |
| | US Labor Force Participation Rate (May) | 60.2% |
| | JP Household Spending YoY (Apr) | -6.0% |
| | JP Leading Index CI (Apr P) | -- |
| | SG Retail Sales SA MoM (Apr) | -1.3% |
| | SG Retail Sales YoY (Apr) | -13.3% |
| | SG Retail Sales Ex Auto YoY (Apr) | -9.7% |

*Source: Bloomberg*

## Macroeconomics

- ***Key US data offered positive signals of economic rebound:***
  - The ISM Non-manufacturing Index, a key gauge of services sector rose to 45.4 in May, from 41.8 in April, indicating an easier rate of contraction as businesses began to reoperate last month as US states reopened economies.
  - The private sector shed 2.76mil jobs in May, according to the ADP National Employment Reported while the April job losses were revised lower from 20.24mil to 19.56mil. May losses turned out to be fewer than analysts' expectations of 9mil, another reason to be optimistic over the outlook for recovery. The services sector lost 1.97mil jobs while the manufacturing industry lost 794k jobs.
  - Headline factory orders plummeted by 13% MOM in April, slightly larger than the 11% decline observed in March. Order of durable goods orders fell 17.7% in April; declines were broad-based across nearly all categories of goods amid a global supply chain disruption and weak demand. For instance, new orders of transportations equipment nearly halved (-48.3% MOM).
  - Mortgage applications fell 3.9% last week, following a 2.7% increase in the prior week.

- ***Services PMIs mostly troughed in April and has now rebounded in May*** as most economies eased social distancing measures but still struggled to recover the shock in March or April. This could be seen in the US, Eurozone, UK, Japan and Hong Kong where PMIs have picked up but remained below 50 (a level separating expansion and contraction). China PMI returned back above 50 to signal a rapid recovery in services activity. Singapore PMI however edged lower.
  - US Markit Services PMI edged up to 37.5 in May (Apr: 26.7), in line with the recovery seen in the ISM index.
  - Eurozone Markit Services PMI rebounded to 30.5 in May (Apr: 12.0).
  - UK Markit/CIPS Services PMI rose to 29 in May (Apr: 13.4).
  - Japan Jibun Bank Services PMI edged up to 26.5 in May (Apr: 21.5)
  - China Caixin China PMI Services PMI recovered strongly to 55 in May (Apr: 44.4).
  - Hong Kong Markit PMI went up to 43.9 in May (Apr: 36.9).
  - Singapore Markit PMI fell to 27.1 in May (Apr: 28.1) as private sector conditions continued to deteriorate.

- ***EU Unemployment rate rose in April; deflation in factories dragged on and deepened:*** Unemployment rate in the Eurozone ticked higher to 7.3% in April, from 7.1% in March as lockdown measures remained well in place across the Euro Area. This is well below the 8%-12% range in the period during GFC all the way to the debt crisis in 2013. Meanwhile, deflationary pressure gained momentum with producer prices index falling 2% MOM in April (Mar: -1.5%), dragged down by energy prices (-7.5%). This translated into a deeper 4.5% annual decline, compared to -2.8% prior, marking its ninth consecutive month of negative growth.

## Forex

**MYR (Slightly bullish)**
- USDMYR extended its losing streak to finish 0.34% lower at 4.2620 on Wednesday as risk appetites continued to pressure the broader USD.
- Daily outlook for USDMYR remains bearish asr risk-on mood is expected to prevail for now. The uncertainty surrounding US-China tension still poses a downside risk to MYR in our view which tends to underperform alongside its emerging market peers for fear of a potential US-China fallout. This might led to a recovery in USD should risk appetites broadly retreat.

**USD (Neutral-to-Bearish)**
- The US dollar remained under pressure from the buoyant market mood. The DXY lost another 0.4% closing at 97.276. DXY weakness has moved beyond our Q3 forecast of 97.50.
- We stay neutral to bearish on the USD over the coming week. We anticipate some possible consolidation on stretched levels, possibly close to 97.50.

**EUR (Neutral-to-Bullish)**
- EUR/USD rose further on Wednesday and pair is now looking to consolidating above 1.1220. This continued the bid tone seen since 26 May.
- The improving global economic outlook is beneficial for the EUR. We are somewhat sceptical on further rallies on a slow economic recovery. However, momentum is robust for now.

**GBP (Neutral)**
- GBP/USD consolidated after a continual bid tone from 28 May, with pair now down after a high of 1.2615.
- Although there is scope for some near-term GBP catch up on USD weakness and sentiments, we remain comparatively pessimistic regarding the GBP thereafter. Covid-19, Brexit and risk aversion does not favour GBP in our view.

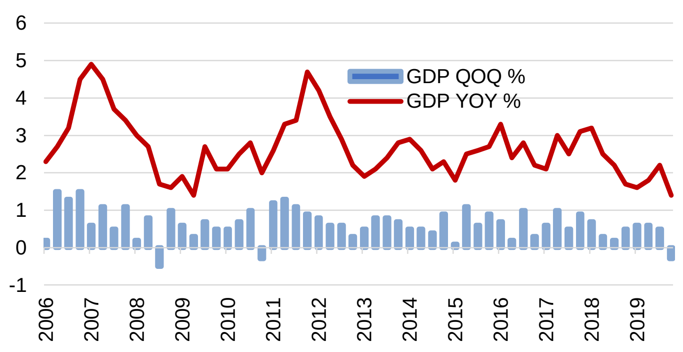
**JPY (Neutral-to-Bearish)**
- USD/JPY broke out of consolidation trend since 19 May. Pair surged above 108.00 to reach a high of 109.04 on 4 June open. Bullish risk sentiments have now turned on the JPY.
- We are slightly bearish on the JPY due to market optimism. Near-term, USD/JPY may continue to test footing at the 109.00 levels.

**AUD (Neutral-to-Bullish)**
- AUD/USD stayed above the 0.6900 big figure and reached a high of 0.6983 on 3 June.
- AUD/USD is likely to be one of the primary beneficiaries of risk on mood in markets (alongside NZD and CAD). Commodity markets outlook is also recovering. However, concerns on US-China or Australia-China relations may cause AUD to fall later on.

**SGD (Neutral)**
- USD/SGD was 0.18% down on Wednesday and has consolidated at the lowest levels seen since mid-March, now below the 1.4000 big figure. This was helped by momentum towards a weaker USD.
- We expect improved risk sentiments to benefit the SGD. However, the momentum looks stretched after breaking out of April and May ranges at the moment. After hitting the 1.4000 level decisively, there may be some consolidation ahead.

- ***Modest contraction in Aussie economy:*** The Australian economy contracted 0.3% QOQ in the first quarter of 2020: matching analysts' expectation, its first quarterly contraction since 1Q11. This brings the annual growth rate to slow to 1.4% YOY in 1Q (4Q; +2.2%), its slowest in more than a decade ago (3Q09: +1.4%) during the Global Financial Crisis. Household consumptions, and private investment made negative contribution to headline GDP growth while government spending contributed positively. The latest print suggests that the economy appeared to have weather the shock from the global pandemic well and is in line with the RBA's more optimistic outlook over recovery. Like most countries around the world, Australia has eased its lockdown rules, the Prime Minister had also laid out the government's plan to reopen the economy by July.

**Australia GDP**




*Source: Bloomberg*

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