Global Markets Research

Daily Market Highlights

Key Takeaways

- **US stocks broadly fell overnight, amid profit taking, bringing its four-day gaining streak to a stop.** The Dow Jones closed little changed, whereas the S&P500 and NASDAQ fell 0.3% and 0.7%. **Investors reassessed markets after largely ignoring domestic civil unrests, growing US-China tension. Sharp drop in US international trade in April alongside mixed jobless claims data also pressured markets ahead of tonight's nonfarm job report.** Nonetheless, bond traders appeared optimistic over economic outlook as selling of 10Y US treasuries intensified for the fourth session, 10Y USY yield picked up another 7bps DOD to 0.82%, closing above 0.8% for the first time since late March.
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- The dollar was pressured by stronger euro after **the ECB raised its PEPP pandemic bond buying program by €600b, the same day German Chancellor Angela Merkel announced an additional €130b stimulus,** leading the euro to rally further. Meanwhile on the commodity front, gold price recovered half of Wednesday's losses, adding 0.8% to $1714.01/ounce. Crude oil prices extended gains on Saudi and Russian agreement to extend output cut of 9.7milbpd through July; Brent crude climbed above $40/barrel intraday but finished at $39.99/barrel (+0.5%) while WTI added 0.3% to $37.41/barrel.

- **US initial jobless claims was lower at 1.87mil last week**, its first sub-2mil reading since the lockdown started in mid-March. Continuous claims rose to 21.5mil in the week before. **US trade deficit also widened** to $44b as both exports and imports fell dramatically. Elsewhere, **Eurozone retail sales extended doubl-digit decline**, while **UK consumer confidence is approaching all-time low. Japan household spending slumped** for the seventh month. **Australia retail sales also saw drastic fall but services PMI rebounded.**

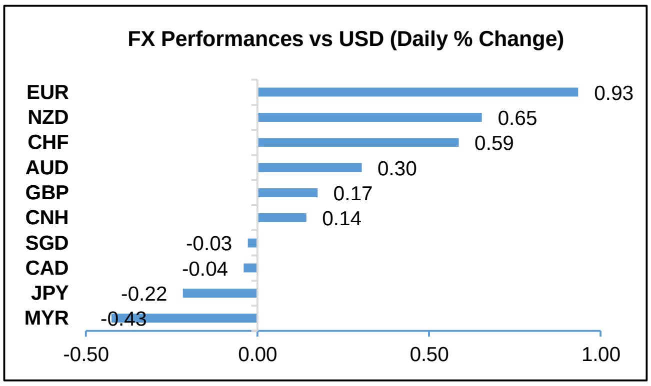
- The US dollar continued to plummet as other currencies strengthened. Notably, EUR gained 0.93% against USD despite strong momentum before. Hence, DXY fell by another 0.6% and closed at 96.677. DXY weakness has moved beyond our Q4 forecast of 97.00. Given current momentum, **we stay neutral to bearish on the USD** over the coming week. We anticipate some possible consolidation on stretched levels, possibly close to 97.00.

- USDMYR finished Thursday's session higher at 4.2785. USD remains pressured for now thanks to the EUR's post-ECB rally but concerns over rising US-China tensions began to take more solid form. **MYR market is likely to be cautious ahead of the Prime Minister's Economy Recovery Plan announcement today (scheduled at 3pm).** US-China fallout risks have been undermining recent MYR's recovery, but the local unit stands to receive a boost (at least in the short-term) from government stimulus and the potential lifting of the current CMCO.

Market Snapshots

	Last Price	DoD %	YTD %
Dow Jones Ind.	26,281.82	0.05	-7.91
S&P 500	3,112.35	-0.34	-3.67
FTSE 100	6,341.44	-0.64	-15.92
Hang Seng	24,366.30	0.17	-13.56
KLCI	1,561.84	1.52	-1.69
STI	2,707.20	0.25	-16.00
Dollar Index	96.68	-0.6	0.4
WTI oil ($/bbl)	37.41	0.32	-38.73
Brent oil ($/bbl)	39.99	0.50	-39.70
Gold ($/oz)	1,714.01	0.84	12.88
CPO (RM/tonne)	2,391.00	0.72	-20.97

Source: Bloomberg



Source: Bloomberg

Overnight Economic Data

US	➔	Eurozone	↓
UK	↓	Japan	↓
Australia	➔	Malaysia	↓

Up Next

Date	Event	Prior
05/06	MY 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%
	JP Leading Index CI (Apr P)	84.7
	SG Retail Sales YoY (Apr)	-13.3%
08/06	EC Sentix Investor Confidence (Jun)	-41.8
	JP GDP SA QoQ (1Q F)	-0.90%
	JP Eco Watchers Survey Outlook SA (May)	16.6

Source: Bloomberg

Macroeconomics

- ***ECB added €600b stimulus via pandemic bond buying program:*** The ECB left its key interest rates unchanged but announced the expansion of its pandemic emergency purchase programme (PEPP) by €600b to €1.35trillion the timeline of the program was also extended to at least the end of June 2021, from the previously expected end 2020. The ECB judged that despite economic data showing some signs of bottoming out, the improvement has been tepid. The June staff macroeconomic projections see growth declining at an unprecedented pace in 2Q before rebounding in 2H. Annual real GDP is expected to contract by 8.7% in 2020 and to rebound by 5.2% in 2021 and by 3.3% in 2022. Headline inflation to decline and to remain subdued until the end of 2020, based on current oil and futures prices for oil; weaker demand to pressure on inflation, partially offset by the supply constraint related upward pressure. HICP inflation is projected to ease to 0.3% in 2020, 0.8% in 2021 and 1.3% in 2022. The ECB reiterated the importance of an "ambitious and coordinated fiscal stance and pledge its readiness to adjust all instruments as appropriate. The ECB president Christine Lagarde said in a press conference that there was broad consensus on expanding the PEPP and the Governing Council was unanimous that on this latest action.

- ***Initial jobless claims at below 2mil:*** The number of Americans filing for unemployment benefits continued to increase but by smaller magnitude. Initial jobless claims for the week ended 29 May came in at 1.877mil, its first sub-2mil reading since the country began to practice social distancing in March. This compared to the slightly revised 2.126mil in the prior week. The latest number brings the 11-week total to about 42.65mil. However, the higher continuous claims of 21.5mil as at 22 May, up from 20.8mil, offered some worrying signals that people remained unemployed and did not return to work despite the reopening of economy. Tonight's job data shall provide a definite picture of the labour market.

- ***US trade deficit widened in March:*** US trade deficit widened to $44.4b in March, from -$39.8b in February, thanks to the sharp fall in exports (9.6% MOM) which outweighed the simultaneous decline in imports (-6.2%). The international trading of both goods and services tumbled in March when the US first practiced social distancing and the lockdown implemented globally essentially triggered a supply chain disruption. Services saw heftier decline, recording double-digit fall in both exports (-15.3%) and imports (-21.8%).

- ***Sharp decrease in Eurozone retail sales:*** Retail sales in the Euro Area fell 11.7% MOM in April, extending from the 11.1% fall in March as Covid-19 containment measures remained widely in place across the continent. Declines were broad-based; sales of food recorded a 5.5% drop, reversing the 5.2% surge in the previous month when lockdown was first imposed. Online sales benefitted, with a whopping 10.9% growth as purchases made via the internet became the alternative to physical stores. Sales of fuels continued to decline 27.7% (Mar: -26.4%) alongside low global crude oil prices.

- ***UK consumer confidence neared all-time low*:** UK consumer confidence remained severely battered and fell to a decade low in May, according the preliminary GfK Consumer Confidence Index which slipped to -40 (Apr: -34), its lowest since Jan-09 and just a touch above the series' all-time low of -39 in Jul-08 during the Global Financial Crisis. GfK said that consumers remained pessimistic with "no sign of a rapid V-shaped bounce-back" of the economy.

Forex

MYR (Neutral)

- USDMYR finished Thursday's session higher at 4.2785. USD remains pressured for now thanks to the EUR's post-ECB rally but concerns over rising US-China tensions began to take more solid form.
- MYR market is likely to be cautious ahead of the Prime Minister's Economy Recovery Plan announcement today (scheduled at 3pm). US-China fallout risks have been undermining recent MYR's recovery, but the local unit stands to receive a boost (at least in the short-term) from government stimulus and the potential lifting of the current CMCO.

USD (Neutral-to-Bearish)

- The US dollar continued to plummet as other currencies strengthened. Notably, EUR gained 0.93% against USD despite strong momentum before. Hence, DXY fell by another 0.6% and closed at 96.677. DXY weakness has moved beyond our Q4 forecast of 97.00.
- Given current momentum, we stay neutral to bearish on the USD over the coming week. We anticipate some possible consolidation on stretched levels, possibly close to 97.00.

EUR (Neutral-to-Bullish)

- EUR/USD spiked further on Thursday to a high of 1.1352 from 1.1200 levels a day earlier. EUR benefited from a strong combination of Germany stimulus and enlarged ECB program.
- Solid official support and an improving global economic outlook is beneficial for the EUR. Momentum is robust for now. We expect elevated levels to stay and some consolidation ahead.

GBP (Neutral)

- GBP/USD benefited from EUR strength after appearing to reverse downwards. Pair is now in consolidation around 1.2600 levels after climbing several big figures.
- 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 continued to test higher ground after a long period of consolidation from 19 May to 1 June. Pair continues to crawl upwards above the 109.99 level. Bullish risk sentiments continued to pressure the JPY weaker.
- We are slightly bearish on the JPY due to market optimism. Near-term, USD/JPY may continue to test footing at the 109-110 levels.

AUD (Neutral-to-Bullish)

- AUD/USD stayed above the 0.6900 big figure and reached a high of 0.6988 on 4 June. Pair however failed to gain further ground after rising up several big figures.
- 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.

- ***Household spending plummeted in Japan:*** Japan household spending tumbled by 11.1% YOY in April, nearly doubling the 6% decline in March after the government issued a nationwide State of Emergency in mid-April to curb the second wave of Covid-19 outbreak. The double-digit drop was the largest decline yet in its seven-month losing streak, as Japanese has curtailed spending since October last year when a higher rate of sales tax was implemented.

- ***Huge drop in Aussie retail sales; double digit fall in exports; services PMI rebounded:*** Retail sales in Australia fell 17.7% MOM in April, following an 8.5% decline in March led by the record falls sales at cafes, restaurants and takeaway food services (-35.4%) as well as sales of clothing, footwear and personal accessory retailing (-53.6%). The closure of physical stores amid the implementation of Covid-19 containment measures had impacted retail trade. On a separate note, the country recorded a smaller trade surplus of AUD8.8b in April (Mar: AUD10.45b) thanks to larger fall in exports (-11.3% MOM). Imports also decreased but by a smaller margin of 9.8%MOM. Meanwhile, the AiG Performance of Services Index rebounded to 31.6 in May, from the trough of 27.1 in April, in line with global trend that suggests recovery after the economy reopened.

- ***Steep decline in Malaysia exports; bumpy road ahead:*** Malaysia exports nosedived 23.8% YOY to RM64.9bn in April (Mar: -4.7% YOY), to mark its worst fall since the global financial crisis (Sept-09), as the Malaysia Movement Control Order (MCO) shut most economic activities through the whole month of April. This was largely within our expectation for a 24.7% YOY decline but much severe than consensus estimate for a 15.1% YOY fall. Exports to all major export destinations including ASEAN, fell, with the exception of China which registered a 4.2% YOY increase. Imports however fell at a much lesser pace of 8.0% YOY to RM68.4bn (ours -27.1% and consensus -14.1%), pushing the trade position into deficit for the first time since Oct-97. The hefty fall in April exports does not come as a surprise amid a global pandemic. Although April-May PMI may well be the trough, we are skeptical the trajectory of the recovery will be sustainable and solid. Recovery prospect are also pressured by ongoing US-China feud and domestic US unrest. We are maintaining our view for full year exports and imports growth to contract 25-30%, and for the Malaysian economy to contract by 4.3% this year.

SGD (Neutral)

- USD/SGD saw a rebound on Thursday on profit taking but pair returned below 1.4000 by close. This came as markets were reassured by Germany's stimulus and ECB program.
- 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.

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