5 August, 2020

Global Markets Research
Daily Market Highlights

Key Takeaways

- **US stocks extended gain overnight as markets eyed a new stimulus deal at Congress**. The Dow Jones rose 164pts or 0.6% while both the S&P500 and NASDAQ registered more modest gains of 0.4%. Energy shares led the gains alongside higher crude oil prices while financial and healthcare shares suffered losses. Stocks rallied despite rising US-China tension over President Trump's comments on Microsoft's plan to purchase the US operation of TikTok. Investors bought into stocks, for fear of losing out of a potential stimulus aid rally. Bloomberg reported that the US and China are now planning to review its Phase One trade (signed in January) this month. Elsewhere, stocks largely gained in Europe as well as the Asia Pacific.

- **Treasury yields fell across the curve by 0.2-5bps**, highlighting some manner of concerns in markets. 10Y UST fell nearly 5bps to 0.51%. **The ongoing bull run push gold prices above $2000 for the first time in history**- futures closed at $2001.2/ounce and spot closed at $2019.21/ounce on Tuesday. Brent crude rose 0.6% to $44.43/barrel despite rising demand concerns and OPEC's upcoming lift of production cuts.

- **US factory orders recovered further in June**. Eurozone producer prices registered minor recovery as oil prices stabilised. New Zealand job report was mixed – unemployment rate fell thanks to a shrinking labour force. Australia exports eked out a minor growth and retail sales rose for the second month. **The RBA had kept cash rate unchanged at 0.25% earlier yesterday.**

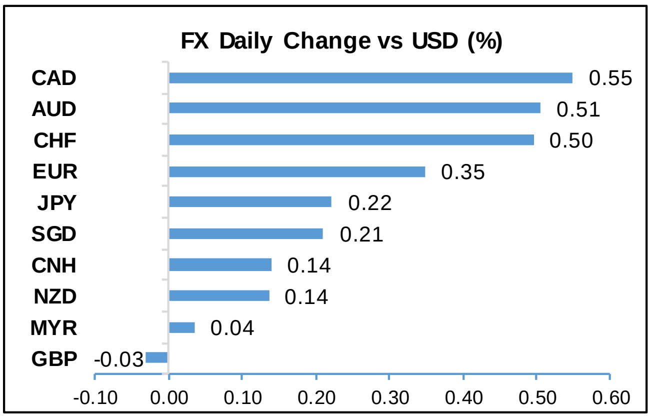
- **The greenback failed to maintain previous session's momentum**; the USD weakened modestly against most major currencies and the DXY fell nearly 0.2% to 93.38. Despite this we turn neutral as levels look stretched. **We foresee some consolidation for now.**

- **USD/MYR finished little changed (-0.04%) at 4.2190** on Tuesday as the ringgit held steady alongside its Asian peers against the greenback in the absence of catalyst. **Daily outlook is expected to be largely neutral as the greenback weakened slightly overnight**.

Market Snapshots

	Last Price	DoD %	YTD %
Dow Jones Ind.	26,828.47	0.62	-5.99
S&P 500	3,306.51	0.36	2.34
FTSE 100	6,036.00	0.05	-19.97
Hang Seng	24,946.63	2.00	-11.50
KLCI	1,575.94	0.21	-0.81
STI	2,515.70	1.24	-21.94
Dollar Index	93.38	-0.17	-3.12
WTI oil ($/bbl)	41.70	1.68	-31.71
Brent oil ($/bbl)	44.43	0.63	-32.68
Gold (S/oz)	2,001.20	1.79	31.39
CPO (RM/tonne)	2,829.50	5.68	-6.48

Source: Bloomberg



Source: Bloomberg

Overnight Economic Data

US	↑	Eurozone	↑
Australia	→	New Zealand	→

Up Next

Date	Event	Prior
05/08	JP Jibun Bank Japan PMI Services (Jul F)	45.2
	HK Markit Hong Kong PMI (Jul)	49.6
	SG Markit Singapore PMI (Jul)	43.2
	CN Caixin China PMI Services (Jul)	58.4
	SG Retail Sales YoY (Jun)	-52.1%
	EU Markit Eurozone Services PMI (Jul F)	55.1
	UK Markit/CIPS UK Services PMI (Jul F)	56.6
	EU Retail Sales MoM (Jun)	17.8%
	US ADP Employment Change (Jul)	2369k
	US Trade Balance (Jun)	-$54.6b
	US Markit US Services PMI (Jul F)	50.0
	US ISM Non-Manufacturing Index (Jul)	57.1
06/08	UK Bank of England Bank Rate (06 Aug)	0.1%
	US Initial Jobless Claims (01 Aug)	1,434k

Source: Bloomberg

Macroeconomics

- ***US factory orders recovered further in June:*** Headline factory orders rose for the second month by 6.2% MOM in June (May: +7.7%), following the more than 10% fall in March and April at the onset of the pandemic. Looking at details, orders of durable goods also increased 7.6% MOM (May: +15%), of which core capital orders (a gauge of capex) recorded a 3.4% growth.

- ***Eurozone producer prices rebounded in June:*** Producer prices index recovered by 0.7% MOM in June, from the 0.6% decline in May. This was mainly driven by the rebound in energy prices as prices of other goods mostly recorded only slight increases. This led the annual decline in PPI to narrowed to 3.7% YOY compared to the sharp 5% decline prior.

- ***New Zealand's labour force shrank, led to lower unemployment rate:*** New Zealand unemployment rate fell to 4% in the second quarter, from 4.2% in the first quarter, despite a fall in employment (-0.4% QOQ vs 1%). mainly because of the shrinking of the labour force. Labour participation rate fell substantially to 69.7% in 2Q from 70.5% after the outbreak of the Covid-19 pandemic that has earlier led government to impose a lockdown. On the bright side, employment was 1.2% higher (1Q: +2.2%). compared to the same quarter last year. Wage growth eased in 2Q – private wage growth slipped to 0.2% QOQ (1Q: +0.3%).

- ***RBA kept cash rate unchanged amid mixed economic data, virus resurgence:***
  - RBA kept cash rate and 3-year yield target unchanged at 0.25% and maintained its monetary policy stance. It said it would resume purchasing Australian Government Securities tomorrow as yield has gone up a little higher above 0.25% in recent weeks. It flagged uncertainty over global economic recovery outlook, citing the containment of virus. Domestically, the recovery is likely to be both uneven and bumpy, given the new outbreak in Victoria. RBA's baseline scenario is a GDP contraction of 6% in 2020, followed by a 5% rebound in 2021. Inflation is expected to remain below 2% over the next couple of years.
  - Earlier release showed that Australia's trade surplus widened to AUD8.2b in June, from the revised AUD 7.3b in May. The reading missed expectation of AUD8.8b. Exports recovered a mere 3.5% MOM (May: -6.7% revised) following two months of decline. Exports to China grew by 7.5% MOM, marking its fourth consecutive growth after the plunge in February. Imports gained for the first time in six months by 1.3% MOM (May: -6.7%).
  - Retail sales rose 2.7% MOM in June, following the nearly 17% rebound in May, driven by recovery in sales of apparel as well as at café and restaurants. For 2Q, retail sales fell 3.4% QOQ (1Q: +0.7%), a result of the Covid-19 pandemic, slightly smaller than the record fall (-3.7%) observed in 3Q2000.

Forex

MYR (Neutral)

- USD/MYR finished little changed (-0.04%) at 4.2190 on Tuesday as the ringgit held steady alongside its Asian peers against the greenback in the absence of catalyst. Daily outlook is expected to be largely neutral as the greenback weakened slightly overnight.
- **Factors supporting**: Economic recovery
- **Factors against**: Risk aversion, US-China relations, domestic politics, imposition of second lockdown

USD (Neutral Outlook over 1 Week Horizon)

- USD weakened on Wednesday, looking towards the 92.55 low on 31 July. Despite this we turn neutral as levels look stretched. We foresee some consolidation for now.
- **Factors supporting**: Risk aversion, US-China relations, stretched low DXY levels
- **Factors against**: Complacent markets, positive developments from global policy makers, poor US economy

EUR (Neutral)

- EUR/USD has returned to 1.18 once again after a bid tone. We stay slightly constructive on EUR on possible gains to close to 1.19 but levels are overbought. Consolidation is due.
- **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 moved higher on Tuesday, and now looking to touch the 1.3113 high on 3 August. Pair in overbought territory and is due some consolidation at some stage.
- **Factors supporting**: Breakthrough in news, USD weakness
- **Factors against**: Risk aversion, Brexit, twin deficits

JPY (Neutral-to-Bullish)

- USD/JPY mowed lower and is close to the 105.58 low seen on 3 August. Given prior underperformance we see some near-term room for JPY gains vs. the greenback. Consolidation may also be due close to 105 levels.
- **Factors supporting**: BOJ policy, risk aversion, USD weakness
- **Factors against**: Weak fundamentals

AUD (Neutral-to-Bearish)

- AUD/USD looked to a bid tone again on Tuesday, close to 0.717 levels and looking to tough the 31 July high of 0.7227. Despite strong momentum higher, we see possible correction.
- **Factors supporting**: Current account, resilient economy
- **Factors against**: Risk aversion, 2nd wave of Covid-19 infections, China-Australia relations, stretched levels

SGD (Neutral-to-Bearish)

- USD/SGD dipped lower on Tuesday below 1.373. Similar to other pairs registering gains against USD, pair is looking to reach the 1.3689 low on 31 July. We see possibility of near-term correction.
- **Factors supporting**: Fed vs. MAS policy, economic recovery
- **Factors against**: Risk aversion, trade war, US-China

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