5 November, 2020

Hong Leong Bank

Global Markets Research
Daily Market Highlights

Key Takeaways

- **US stocks extended rallies overnight as the world awaited US election outcomes;** the Dow Jones added 368pts or 1.3% whereas the S&P500 and NASDAQ each jumped by 2.2% and 3.9%. Investors piled into healthcare and tech stocks, leading to impressive gains of 3.8-4.5%. **Treasury yields fell dramatically especially at the longer end amid absence of a clear winner for now; this reflects markets perception of a smaller stimulus package** and the Republicans look set to maintain control of the Senate. Overall yields fell by 2.2-14.6bps along the curve. The benchmark 10Y UST yield was down by a whopping 13.6bps to 0.763%.

- **Gold futures snapped three-day winning streak**, shedding 0.7% back below $1900/oz amid some renewed USD demand. **Oil prices recovered further** from last week's losses with close to 4.0% gains; Brent crude rose 3.8% at $41.23/barrel; WTI rallied by nearly 4.0% to $39.15/barrel.

- On the data front, **services PMIs continued to reflect uneven recovery across major economies;** meanwhile the **US ADP job number fell short of expectation** while US trade deficit narrowed for the first time in three months. Australia retail sales fell for the second month. **The BOE's MPC decision is due today followed by the FOMC and Jerome Powell's press conference. The BOE is expected to announce fresh bond-buying stimulus to support the newly locked down UK economy. The Fed meanwhile is likely to keep its monetary policy unchanged.**

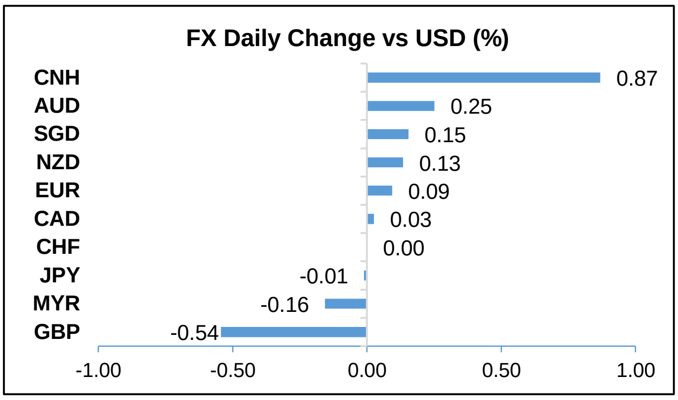
- DXY ended only slightly lower by 0.16% at 93.41 after a roller coaster ride tracking vote count swings that pointed to a closely contested election. The USD weakened against most G10s save for the GBP and JPY, traded within a wide 93.25-94.30 range on Wednesday. We remain **bullish USD** near-term and expect continued volatility pending the final US election outcome. Immediate resistance at 94.742, with support at 93.0. ISM, FOMC as well as non-farm payrolls data will likely be the data focus for the rest of the week.

- USD/MYR rose 0.16% to 4.1645 on Wednesday, steering away from three days of flat movement as markets awaited US election outcomes. We turned **neutral** on the pair's outlook, expecting potential volatility ahead of the elections outcomes as well as Friday's 2021 Malaysia Budget. Having said that, risk aversion resulting from the uncertainty could potentially benefit the dollar in the short run due to haven positioning.

Market Snapshots

	Last Price	DoD %	YTD %
Dow Jones Ind.	27,847.66	1.34	-2.42
S&P 500	3,443.44	2.20	6.58
FTSE 100	5,883.26	1.67	-22.00
Hang Seng	24,886.14	-0.21	-11.72
KLCI	1,464.61	0.22	-7.81
STI	2,515.98	0.75	-21.93
Dollar Index	93.41	-0.16	-3.09
WTI oil ($/bbl)	39.15	3.96	-35.88
Brent oil ($/bbl)	41.23	3.83	-37.53
Gold (S/oz)	1,896.20	-0.74	25.15
CPO (RM/tonne)	3,313.00	2.90	9.50

Source: Bloomberg



Source: Bloomberg

Overnight Economic Data

US	→	Eurozone	↓
UK	↓	Japan	↓
Hong Kong	↑	China	↑
Singapore	↑		

Up Next

Date	Event	Prior
05/11	AU Trade Balance (Sep)	A$2643m
	SG Retail Sales YoY (Sep)	-5.7%
	EU Retail Sales MoM (Sep)	4.4%
	US Initial Jobless Claims (31 Oct)	751k
06/11	US FOMC Rate Decision (05 Nov)	0-0.25%
	AU AiG Perf of Services Index (Oct)	36.2
	JP Household Spending YoY (Sep)	-6.90%
	JP Labor Cash Earnings YoY (Sep)	-1.30%
	AU RBA Statement on Monetary Policy	
	MA Foreign Reserves (30 Oct)	$105.2b
	US Change in Nonfarm Payrolls (Oct)	661k
	US Unemployment Rate (Oct)	7.90%
	US Average Hourly Earnings YoY (Oct)	4.70%

Source: Bloomberg

Macroeconomics

- ***Services PMIs reflect uneven recovery across the globe:***
  - US ISM Non-manufacturing Index slipped to 56.6 in October (Sep: 54.8) while the separately released Markit Services Index surged to 56.9 (Sep: 54.6), offering optimism that US services sector continued to grow last month.
  - Eurozone Markit Services PMI fell to 46.9 in October (Sep: 48.0), as a new wave of coronavirus disrupted recovery in the services sector.
  - UK Markit/CIPS Services PMI dropped sharply to 51.4 in October (Sep: 56.1), signalling a huge retreat in the sector's recent expansion which could deteriorate further after fresh lockdown was imposed.
  - Japan Jibun Bank Services PMI slipped to 46.6 in October (Sep: 46.9), marking the services sector gauge's ninth consecutive month below 50.
  - China Caixin Services PMI surged to 56.8 in October (Sep: 54.8), offering optimism that the sector is on track for recovery.
  - Hong Kong Markit PMI rose to 49.8 in October (Sep: 47.7), its highest level since Mar-18, reflecting some improvement in the private sector economy.
  - Singapore Markit PMI rose to 48.6 in October (Sep: 45.1), its best reading in nine months, adding to signs of ongoing recovery.

- ***US private sector added much fewer jobs; trade deficit narrowed:***
  - The US private sector added 365k jobs in October according to the latest ADP report, a starkly smaller gain in employments compared to September's 753k and well below analysts' expectation of 643k. The headline number reflects a mere 17k gains (prior: +198k) in manufacturing jobs and fewer increase in services jobs as well (+348k vs 55k prior). This does not bode well for Friday's NFP payrolls number and consistent with views that US job growth has slowed.
  - US trade deficit narrowed for the first time in three months to $63.9b in September (Aug: -$67.0b), matching expectation, driven by a jump in exports (+2.6% MOM) and slower import growth (+0.5% MOM) although total trade remained below pre-pandemic levels.
  - Mortgage applications rose 3.8% last week (prior: +1.7%), mainly because of the surge in refinancing segment. Purchasing segment recorded decline.

- ***Australia retail sales fell for second month:*** Retail sales fell 1.1% MOM in September (Aug: -4.0%), marking its second month of decline albeit at a smaller rate. September print was driven by larger fall in sales of food (-1.5% vs -0.2%); department store sales and café/restaurant sales rebounded whereas sales of household goods, apparels, other retailing recorded smaller losses.

Forex

MYR (Neutral)

- USD/MYR rose 0.16% to 4.1645 on Wednesday, steering away from three days of flat movement as markets awaited US election outcomes. We turned neutral on the pair's outlook, expecting potential volatility ahead of the elections outcomes as well as Friday's 2021 Malaysia Budget. Having said that, risk aversion resulting from the uncertainty could potentially benefit the dollar in the short run due to haven positioning.
- **Factors supporting**: Economic recovery, less dovish MPC, USD weakness
- **Factors against**: Risk aversion, US-China relations, domestic politics, imposition of second lockdown

USD (Neutral-to-Bullish Outlook over 1 Week Horizon)

- DXY ended only slightly lower by 0.16% at 93.41 after a roller coaster ride tracking vote count swings that pointed to a closely contested election. The USD weakened against most G10s save for the GBP and JPY, traded within a wide 93.25-94.30 range on Wednesday. We remain bullish USD near-term and expect continued volatility pending the final US election outcome. Immediate resistance at 94.742, with support at 93.0. ISM, FOMC as well as non-farm payrolls data will likely be the data focus for the rest of the week.
- **Factors supporting**: Risk aversion, US-China tensions
- **Factors against**: Positive developments from global policymakers, US stimulus

EUR (Neutral-to-Bearish)

- EUR/USD closed up by a smallish 0.09% to 1.1726, after going through a volatile session touching a low of 1.1603 and a high of 1.1770, holding above the 1.16 key psychological support. Expectation for a near term USD bull and Covid-19 wave in Europe are expected to pose downside risk to the EUR.
- **Factors supporting**: Economic data rebound
- **Factors against**: Risk aversion, Covid-19 outbreak

GBP (Neutral-to-Bearish)

- GBP/USD surged to an intraday high of 1.3140 and back down to a low of 1.2911 in European markets open before bouncing back to 1.2988 at close, down 0.54% DOD, pressured by nationwide lockdown amid recent outbreak in Covid-19 infections again. Expect the sterling to stay under pressure ahead of BOE's policy meet today, which will have a bearing on GBP direction going forward.
- **Factors supporting**: Breakthrough in news, USD weakness
- **Factors against**: Risk aversion, Brexit, twin deficits, Bank of England increasing monetary accommodation

JPY (Neutral-to-Bullish)

- USD/JPY also went through a similar volatile session with some stability seen towards the American trading hours. The pair was toying between 104.15-105.34 before closing little changed at 104.52. We remain **neutral-to-bullish** on JPY, mostly on event risks and market concerns. Dollar strength may bring pair towards 105 and above while downside is seen at 104.19 support.
- **Factors supporting**: BOJ policy
- **Factors against**: Weak fundamentals, risk sentiments

AUD (Neutral)

- AUD/USD bounced back from a low of 0.7049 to close 0.25% higher at 0.7182 amid a weaker USD. The pair may find support from some paring of risk aversion today as more surrounding the US election outcome unfolds. Trade data for September due this morning will likely have little impact on the Aussie.
- **Factors supporting**: Fundamentals improve from current levels
- **Factors against**: Risk aversion, RBA policy

SGD (Neutral-to-Bearish)

- USD/SGD stayed elevated through Asian trading hours, only to come off in US session, closing 0.15% lower DOD at 1.3584 on Wednesday, below the 1.36 big figure. We continue to expect volatility for the SGD, until US election jitters settle. Singapore retail sales due today may see further improvements.
- **Factors supporting**: Economic recovery, CNH strength
- **Factors against**: Risk aversion, trade war, US-China

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