6 May 2020

Global Markets Research
Daily Market Highlights

Key Takeaways

- **US stocks extended modest gain for the second session alongside firmer oil prices as US states gradually reopened their economies.** The Dow Jones and S&P500 rose 0.6% and 0.9%, while NASDAQ picked up 1.1%; gains were broad-based and were led by healthcare shares (+2.2%). Equities had also rallied earlier in Europe and Asia on the back of renewed optimism. **Treasury yields rose in the US on paring of risk aversion**; 10Y UST yield was up by 3bps to 0.66%. **The dollar index held on to gains (albeit at a limited extent) despite poor US data,** adding 0.1% overnight to 99.79.

- On the commodity front, gold price was 0.2% higher at $1705.92 while **crude oil was boosted by improving outlook as economies reopened.** WTI jumped 20.5% DOD to $24.56/barrel and Brent crude surged nearly 13.9% to $30.97/barrel. Tuesday session marked the benchmarks' fifth successive daily gain. **The EIA's weekly report for US crude stockpiles is due today.** Earlier, **the RBA left cash rate steady at 0.25% and BNM cut OPR by 50bps,** taking the policy rate lower to 2.00% in a widely expected move. *(Please refer separate write-up for more detailed commentary on OPR)*

- **Dataflow was all negative.** US ISM non-manufacturing PMI fell below 50 for the first time since Dec 2009 during the Global Financial Crisis while the Markit Services PMI saw its record drop in April. Trade deficit widened to $44.4b in March as exports collapsed 10%. Eurozone PPI index fell sharply by 1.5% MOM, as deflation deepened. UK Markit Services PMI also printed a record low at 13.4 in April. New Zealand unemployment rate went up to 4.2% in 1Q and Singapore retail sales fell 13.3% YOY in March.

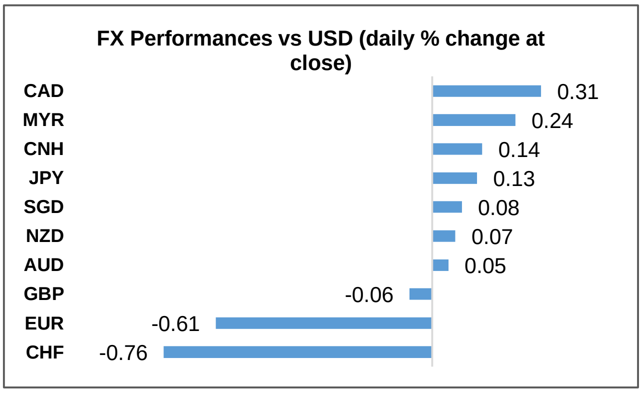
- **The USD was slightly stronger** on 5 May after a spike on Tuesday afternoon in Asia. DXY was slightly up adding 0.1% to 99.79 at close, mainly on the back of gains against the EUR. At this moment, **the USD remains in consolidation mode** and we see some range bound movements near-term. Near-term may see USD rebound a little further up to the 100 level for DXY. Markets may favour optimism in the USD from reopened US economy, even as data is poor and US cases continue to climb.

- **USDMYR came off intraday high and** fell nearly 190pips after BNM cut OPR by 50 basis point. The pair managed to rebound thereafter but nonetheless **finished 0.24% weaker at 4.3065.** BNM's latest move suggests that the central bank would not adjust rate in the near to medium term, offering relief to the MYR market. **Daily outlook for USDMYR is slightly bearish** as the dollar appears to lose its lustre for now while MYR could strengthen on the back of firmer oil prices.

Market Snapshots

	Last Price	DoD %	YTD %
Dow Jones Ind.	23,883.09	0.56	-16.31
S&P 500	2,868.44	0.90	-11.22
FTSE 100	5,849.42	1.66	-22.45
Hang Seng	23,868.66	1.08	-15.33
KLCI	1,389.55	0.94	-12.54
STI	2,572.36	0.34	-20.18
Dollar Index	99.79	0.1	3.5
WTI oil ($/bbl)	24.56	20.45	-59.78
Brent oil ($/bbl)	30.97	13.86	-52.74
Gold (S/oz)	1,705.92	0.23	12.23
CPO (RM/tonne)	2,068.50	-1.34	-31.63

Source: Bloomberg



Source: Bloomberg

Overnight Economic Data			
US	↓	Eurozone	↓
UK	↓	New Zealand	↓
Singapore	↓		

Up Next

Date	Event	Prior
06/05	US MBA Mortgage Application	-3.3%
	US ADP Employment (Apr)	-27k
	EU Retail Sales (Mar)	0.9%
	AU Retail Sales (Mar)	0.5%
07/05	US Initial Jobless Claims (02 May)	3.839m
	UK BOE Bank Rate	0.1%
	AU AiG Manufacturing PMI	38.7
	AU Trade Balance (Mar)	4.361b
	CN Caixin Services PMI (Apr)	43
	CN Exports (Apr)	-6.6%

Source: Bloomberg

Macroeconomics

- ***RBA left cash rate unchanged :*** The RBA left its cash rate unchanged at 0.25% as widely expected and reiterated its monetary stance. It noted that containment measures have reduced infection rate of Covid-19 and if this continues, would lead to the recovery of global economy later this year. The Australian economy is going through a difficult period; its baseline scenario is that output falls by around 10% in 1H2020 and by around 6% for 2020 as a whole. This is followed by a bounce-back of 6% in 2021. It added that a stronger recovery is possible if there is further progress in containing the virus in near term and a faster return to normal activity. CPI is expected to turn temporarily negative in 2Q and will rebound to 1.0-1.5% in 2021. RBA concluded by reinforcing its aim to keep funding cost low and credit available to households and businesses.

- ***BNM cut OPR by 50bps:*** BNM cut the OPR for the third straight meeting, by 50bps to 2.00% today, down to its lowest level since 2009 but the SRR was maintained at 2.00% after being reduced by 100bps on 20th March. After a cumulative 100bps reduction in the OPR within a span of five months, and taking cue from a rather neutral but still cautious policy statement, we are of the view that BNM is not in a hurry to deliver further OPR cut in the near term, at least not in the next meeting in July, unless policy introduced encompassing both fiscal and monetary to date, prove insufficient to shore up the weakening growth prospect. Assuming reasonable containment of the pandemic and resumption of economic activities, we expect growth to recover, though remain weak, from its 2Q slump towards the later part of the year. This should provide some breathing space for BNM to hold rates steady at 2.00% going forward, barring escalation in downside growth risks, whilst assessing the effectiveness of stimulus measures implemented so far. BNM also reiterated that OPR will be used along other policy tools in supporting improvement in economic activity, hence odds of a pause ahead.

- ***US ISM PMI contracted for the first time since GFC:*** The ISM Non-manufacturing PMI fell to 41.8 in April, better than analysts' expectation of 36.8 and down from 52.5 in March. Notably it was the index's first contraction (sub-50) in more than a decade ago in Dec 2009 during the Global Financial Crisis. Meanwhile on a separate note, the IHS Markit US Services PMI came in at 26.7 in April, down from the flash reading of 27.0. This was 13pts lower compared to March reading of 39.8, an unprecedented contraction in the index's history. Both official and private PMIs underscored the significant damage caused by the containment measures to curb Covid-19.

- ***US trade deficit widened in March as imports collapsed:*** US trade deficit widened to $44.4b in March, from $39.8b in February, reflecting a deeper plunged in exports (-10% MOM) compared to imports (-6% MOM). The international trade sector took a huge hit from the Covid-19 pandemic as demand from overseas broadly weakened on a global scale. The trade deficit with China however narrowed to $15.5b (Feb: -$19.7b) due to the 14% decline in imports, while American exports to the Mainland grew by 4%.

Forex

MYR

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- **Daily outlook for USDMYR is slightly bearish** as the dollar appears to lose its lustre for now while MYR could strengthen on the back of firmer oil prices.

USD

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- At this moment, **the USD remains in consolidation mode** and we see some range bound movements near-term. Near-term may see USD rebound a little further up to the 100 level for DXY. Markets may favour optimism in the USD from reopened US economy, even as data is poor and US cases continue to climb.

EUR

- EUR/USD has rebounded from bottom of the April range of 1.0727-1.0991. We see little risks of EUR/USD breaking the 1.08-1.10 range at the moment, given little impetus. Both economies are looking to return to business-as-usual after the lockdowns.
- **A return of risk aversion may weaken EUR sometime in May**. Other key drivers include the Covid-19 situation in the US and in the Eurozone**.**

GBP

- GBP has dipped following a recent high of 1.2643 on 30 April and is now below 1.2500.
- **We caution against being optimistic about the GBP down the road.** The Covid-19 pandemic and risk aversion benefits the USD vs. GBP. There are also Brexit negotiations down the road.

JPY

- JPY has been grinding stronger past two weeks. This has come despite some recovery in risk sentiments. Bank of Japan is unlikely to undertake more measures at this stage, weakening the case for a softer JPY.
- After some lows, **we see room for USD/JPY to slightly rebound in the coming days.** This will stem from a recovery in risk sentiments. However, policy differentials between Fed and BOJ may favour JPY strength. Our End-June forecast is 107.

AUD

- AUD/USD has dipped from the recent high of 0.6570 to sub-0.6400 levels. AUD is likely to dip after experiencing a relief rally past few weeks.
- Although fundamentals are recovering in Australia, the commodity market outlook is likely to remain poor for the rest of Q2. **USD strength sometime middle of May can weigh on the AUD.** Longer-term, some USD weakness will help stabilise and limit downsides in the AUD. Our End-June forecast is 0.63, albeit with downside risks.

- ***Eurozone factory slumped deeper into deflation:*** Producer prices index in the Euro area fell by 1.5% MOM in March following a 0.7% decline in February, reflecting the substantial fall in prices of energy (-5.5% MOM) thanks to the collapse in global crude oil prices. Compared to the same month last year, the index was down by 2.8% YOY (Feb: -1.4%), its largest fall in its 8-month losing streak, reinforcing the current state of deflation in an already weak manufacturing industry prior to the pandemic.

- ***UK services PMI saw largest drop on record:*** The final reading of UK Markit/CIPS Services PMI was slightly higher at 13.4 in April, compared to the flash reading of 12.3 but did not change the fact that the services sector is in a state of deep contraction. April reading represents the index' 21-pt fall from 34.5 in March, marking its largest decline on record according to IHS Markit as a nationwide lockdown to contain the spread of Covid-19 put a stop to services activity.

- ***New Zealand unemployment rate rose in 1Q:*** New Zealand Unemployment Rate rose to 4.2% in the first quarter of 2020, from 4.0% in 4Q19, a direct reflection of the stringent nationwide lockdown imposed by the government which had successfully contained the spread of Covid-19. Otherwise, the labour market had been robust, according to StatNZ, maintaining at around 4.0% since late 2018. The labour cost index (including overtime payment) rose 2.5% YOY in 1Q, of which public sector wages rose 3.2% and private sector wages picked up 2.4%. StatNZ said that the impact of Covid-19 should be clearer in 2Q, and also expressed confidence in 1Q data, citing that the labour force survey was collected over a 13-week period rather than a single point in time at the end of the quarter.

- ***Singapore retail sales generally fell, spending patterns distorted by Covid-19:*** Singapore's retail sales fell by 13.3% YOY in March (consensus: -16.8%). This was on the back of a fall of total vehicle sales, down by 28.2% YOY. Excluding autos, retail sales plunged by 9.7% YOY (consensus: -15%). Breakdown reflected spending patterns pre-circuit-breaker. Spending in supermarkets surged by more than 35% YOY. There were small increases in spending on computers & telecommunications/furniture & household equipment. Otherwise, the biggest falls were seen in clothing & footwear, F&B as well as department stores.

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