6 November, 2020

Hong Leong Bank

Global Markets Research

Daily Market Highlights

Key Takeaways

- **US stocks advanced further overnight as markets cheered prospects of a divided Congress** with Republicans poised to retain control of the Senate. Meanwhile **Joe Biden is now within votes to win the US presidency.** Main US benchmarks added nearly 2.0% overnight, led by broad-based gains across all sectors except for energy shares. **Treasury yields were little changed** across the curve as markets awaited election outcomes. The yield on benchmark 10Y UST was flat at 0.76%.

- **Gold futures rebounded sharply** by 2.7% to $1946.8/oz amid renewed dollar weakness as market turned risk-on. **The Fed's continuously dovish statement and the anticipation of a Biden victory also weighed down the greenback. Oil prices snapped three-day winning streak,** retreating from recent sharp gains. Brent crude fell 0.7% to $40.93/barrel and WTI was down by 0.9% to $38.79/barrel.

- **The Federal Reserve maintained the fed funds rate at 0-0.25% while the BOE expanded QE by £150b, keeping Bank rate at 0.1%.** US initial jobless claims hovered at circa 750k last week. Retail sales fell in Eurozone and Singapore. Japan's household spending and wages also declined. Australia trade surplus widened while services PMI back to expansion level.

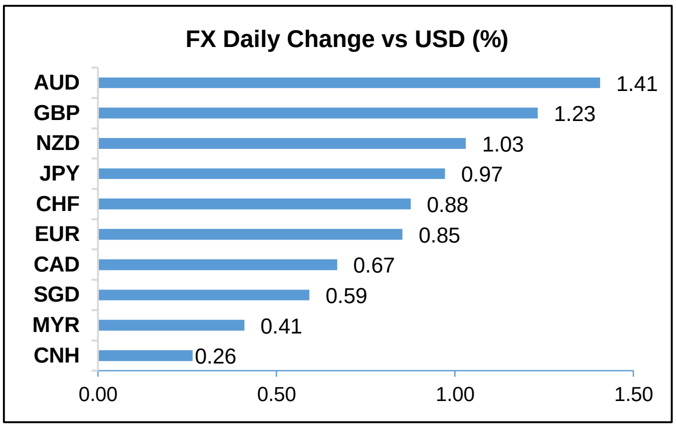
- DXY weakened for the 3rd straight day, by a whopping 0.94% to 92.53, breaking two big figures within three days as markets rallied in the absence of a sweeping victory by either party and amid a dovish Fed. The USD fell against all G10s, the most vs AUD and GBP. A break below the 93.0 support has dampened the bulls and could reinitiate further down move to test the next support at 92.10-92.00. We turn **neutral on USD**, cautioning that the DXY could be in for a technical rebound after recent losses, and as volatility persists pending the final US election outcome. With no surprises from the Fed overnight, nonfarm job data will be in focus next.

- USD/MYR weakened by 0.41% to 4.1475 on Thursday amid broad-based dollar weakness. We are **neutral to bearish on the pair's** outlook, as the dollar weakened further overnight but are still expecting potential volatility ahead of the elections outcomes as well as today's 2021 Malaysia Budget.

Market Snapshots

	Last Price	DoD %	YTD %
Dow Jones Ind.	28,390.18	1.95	-0.52
S&P 500	3,510.45	1.95	8.66
FTSE 100	5,906.18	0.39	-21.69
Hang Seng	25,695.92	3.25	-8.85
KLCI	1,501.49	2.52	-5.49
STI	2,588.62	2.89	-19.68
Dollar Index	92.53	-0.94	-4.01
WTI oil ($/bbl)	38.79	-0.92	-36.47
Brent oil ($/bbl)	40.93	-0.73	-44.59
Gold (S/oz)	1,946.80	2.67	23.67
CPO (RM/tonne)	3,345.00	0.97	10.56

Source: Bloomberg



Source: Bloomberg

Overnight Economic Data

US	→	Eurozone	↓
Japan	↓	Singapore	↓
Australia	↑		

Up Next

Date	Event	Prior
06/11	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%
09/11	MA Industrial Production YoY (Sep)	0.30%
	JP Leading Index CI (Sep P)	--
	EC Sentix Investor Confidence (Nov)	-8.3

Source: Bloomberg

Macroeconomics

- ***Federal Reserve kept rates unchanged:***
  - The Fed kept fed funds rate unchanged at 0-0.25% as widely expected and maintained all its monetary policy. It also reaffirmed its current dovish policy stance and readiness to adjust it as appropriate.
  - Little changes were noted in the latest FOMC statement- Fed said that economic activity and employment continued to recover but remain well below pre-pandemic levels. Weaker demand and earlier declines in oil prices have been holding down consumer price inflation. Overall financial conditions have remained accommodative.
  - In the post-meeting press conference, Chair Jerome Powell continued to call for additional fiscal stimulus to aid the economy, and also added that the Fed is not "out of ammo". He said the current QE program is providing the right amount of accommodation.

- ***Bank of England maintained Bank Rate at 0.1%, expanded QE by £150b:***
  - The BOE left its benchmark Bank Rate unchanged at 0.1% as expected and announced fresh €150b QE stimulus in response to recent rise of Covid-19 infections that have triggered fresh lockdown in the UK.
  - BOE sounded less optimistic over growth outlook, citing signs of softer consumer spending and weak investment intensions. It revised down its growth forecasts, expecting GDP to shrink by 11% QOQ in 4Q (Aug projection: -5.4%) and recover by the same magnitude of 11% in 1Q21.
  - Unemployment rate is expected to be at 6.3% in 4Q (revised down from 7.5%) and at 6.7% in 1Q, as the extended Coronavirus Job Retention Scheme and new Job Support Scheme mitigates the impact of weak activity. CPI inflation is projected to be at 0.6% in 4Q and back to 2.1% in 1Q.
  - It said that the outlook remains unusually uncertain, depending on the evolution of the pandemic as well as Brexit transition. BOE reiterated its stance to act more if necessary as well as its goal to reach 2% inflation target sustainably.

- ***US first-time jobless claims hovered at around 750k:*** Initial jobless claims amounted to 751k for the week ended 31 October, little changed from prior week's 758k, indicating sluggish job growth last month. Continuous claims continued to decline to 7.28mil as at 24 Oct (prior: 7.82mil) reflecting mainly existing claimers' exhaustion of their 26-week programs.

- ***Eurozone retail sales retreated in September:*** Retail sales fell more than expected by 2.0% MOM in September (Aug: +4.2%). This came following a solid growth in the prior month, confirming that the recent growth was not sustainable and consumers were still cautious when it comes to spending. Decline was broad-based across all categories with sales of clothing/footwear as well as online sales retreated sharply following a double-digit growth. Headline sales are expected to be weighed down further moving in October and November as the new wave of Covid-19 triggered fresh lockdowns across Europe.

Forex

MYR (Neutral-to-Bullish)

- USD/MYR weakened by 0.41% to 4.1475 on Thursday amid broad-based dollar weakness. We are neutral to bearish on the pair's outlook, as the dollar weakened further overnight but are still expecting potential volatility ahead of the elections outcomes as well as today's 2021 Malaysia Budget.
- **Factors supporting**: Economic recovery, less dovish MPC, USD weakness
- **Factors against**: Risk aversion, US-China relations, domestic politics, imposition of second lockdown

USD (Neutral over 1 Week Horizon)

- DXY weakened for the 3rd straight day, by a whopping 0.94% to 92.53, breaking two big figures within three days as markets rallied in the absence of a sweeping victory by either party and amid a dovish Fed. The USD fell against all G10s, the most vs AUD and GBP. A break below the 93.0 support has dampened the bulls and could reinitiate further down move to test the next support at 92.1-92.0. We however caution that the DXY could be in for a technical rebound after recent losses, and as volatility persists pending the final US election outcome. With no surprises from the Fed overnight, nonfarm job data will be in focus next.
- **Factors supporting**: Risk aversion, US-China tensions
- **Factors against**: Positive developments from global policymakers, US stimulus

EUR (Neutral)

- EUR/USD advanced 0.85%, back above the 1.18 handle for the first time in over a week. Gains in the EUR which was spurred by USD selloffs, remain fragile in our view, given weakening fundamentals in the Euro area as Covid-19 wave continues to extend its grip. Technical momentum has turned positive suggesting room for further upward climb to 1.1850/60 before pulling back again. Key support at 1.17 levels.
- **Factors supporting**: Economic data rebound
- **Factors against**: Risk aversion, Covid-19 outbreak

GBP (Neutral-to-Bearish)

- GBP/USD rallied and closed above the 1.30 key level, up 1.23% on the day to 1.3148, its highest in two weeks. USD weakness and a bigger than expected QE by the BOE spurred gains in the sterling. The pair appears toppish for now unless it breaks the 1.32 handle, otherwise a return to 1.30 levels are likely.
- **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 moved down one big figure from 104 to 103, as the pair fell 0.97% to an 8-month low of 103.49. We remain **neutral-to-bullish** on JPY, as event risks and market concerns will keep haven currencies like JPY supported. Watch 102.30 support.
- **Factors supporting**: BOJ policy
- **Factors against**: Weak fundamentals, risk sentiments

AUD (Neutral)

- AUD/USD continued to march on, clocking in a 1.41% gain to 0.7283, benefitting from a risk on environment as equities continued to rally. Risk sentiments may continue to drive the Aussie but we caution against potential risks from a dovish RBA quarterly statement and narrower gains going into European and US sessions should the USD start to consolidate and as US election outcome continues to unfold. Upside seen at 0.73 while support at 0.7160.
- **Factors supporting**: Fundamentals improve from current levels
- **Factors against**: Risk aversion, RBA policy

SGD (Neutral)

- USD/SGD pulled back steadily through Asian trading hours, closing 0.59% lower back at the 1.3500 region, down for the 5th straight day. We continue to expect volatility for the SGD, until US election jitters settle. A break of 1.35 will likely push the pair towards 1.3440/50.
- **Factors supporting**: Economic recovery, CNH strength
- **Factors against**: Risk aversion, trade war, US-China

- ***Japan household spending, wages continued to fall:***
  - Japan's household spending fell 10.2% YOY in September, extended from the 6.9% decline in August. The sharper fall reflects the very cautious nature of Japanese spending behaviour since October last year that was further tightened by the pandemic downturn.
  - Labour cash earnings, a key gauge of wage growth continued to decline by 0.9% YOY in September (Aug: -1.3%) as the labour market weakened in recent months.

- ***Singapore retail sales fell in September:*** Retail sales disappointed with a 4.5% MOM decline in September (Aug: +1.8%). This is way below analysts' forecast of 3.5% growth and also marked sales' first drop in four months since the end of the Circuit Breaker. *Excluding auto sales, retail sales still fell 4.2% MOM (Aug: +0.6%), reflecting the sharp drop in department store sales.* The MOM fall translates to 10.8% YOY decline (Aug: -5.4%), its 20th consecutive month of negative readings.

- ***Australia trade surplus widened in September; services PMI jumped:***
  - Australia trade surplus widened to AUD5.63b in September (Aug: AUD2.62b) thanks to a rebound in exports (+4%) and the unexpected sharp drop in imports (-6%). China remained Australia's biggest trading partner although shipments to the mainland were slightly down by 1.8% MOM. September's exports growth was supported by demand from the EU, the UK and Japan.
  - The AiG Performance of Services Index jumped to 51.4 in October (Sep: 36.2) following the end of lockdown in Melbourne that helped rejuvenate its services sector.

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