HongLeong Bank

Global Markets Research
Daily Market Highlights

Key Takeaways

- **US stocks retreated overnight after a rally on Monday, underscoring lingering concerns over the Covid-19 pandemic in the US** despite encouraging economic data. US cases have topped 3mil and Reuters reported that death tolls has also surpassed a grim 130,000. **The Trump Administration had notified the United Nation that the US is formally withdrawing for the World Health Organisation.** The withdrawal would only take effect one year from the notice's date of submission. The President of Brazil, Jair Bolsonaro tested positive for Covid-19; Brazil reported about 1.7mil cases based on latest statistics and the President is often said to be downplaying the pandemic.

- The Dow Jones lost nearly 400pts or 1.5%, the S&P 500 fell by 1.1% and NASDAQ recorded a 0.9% decline. Stocks in Europe and Asia had finished in the reds earlier. **Investors piled into safe havens as sentiment turned** - seen in lower 10Y UST yield (-4bps) at 0.64% alongside higher gold price (+0.6%) at $1794.86/ounce. The dollar staged a comeback, with the dollar index adding 0.2% to 96.88. Oil prices were flat. **Stock futures are pointing to a mixed start in Asian equities as of writing.**

- On Tuesday, **BNM decided to ease the OPR by a further 25bps, and offered clues for another cut in 2020. The RBA meanwhile had held cash rate steady** at 0.25% earlier. Data were limited. Malaysia's international reserves went up to $103.4b in June. Japan leading index points to more positive outlook although current condition is worsening.

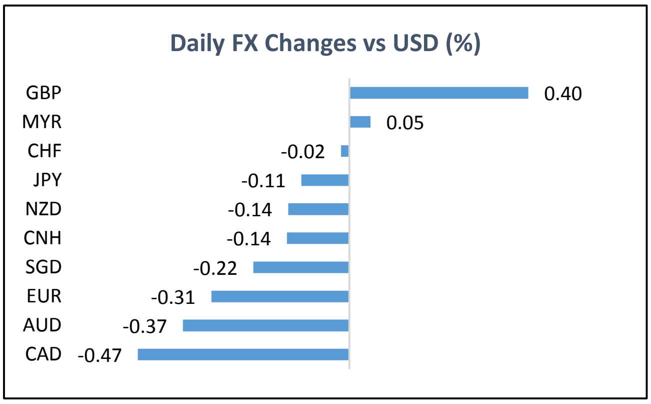
- USD rebounded as risk sentiments turned. DXY gained 0.2% to 96.88. This was led by losses in CAD, AUD and EUR. We are **neutral to bearish on the USD** for the week ahead. Sentiments remain volatile and a zig-zag movement seems most likely. This will continue the DXY in range movement since 10 June, after a bottom of 95.716 on 11 June. A break of the low on 2 July shifts attention towards more movements downward. However, a return of risk aversion may trigger a rebound.

- **USDMYR** was little changed at 4.2760 even after BNM decision to cut the OPR by a further 25bps. Markets were earlier mixed on such a move with some expecting a pause and some expecting a bigger cut. The pair is expected to turn **slightly bullish today** in response to a resurgence of the dollar overnight as global risk sentiment retreated while markets digest the dovish BNM statement that offered clues for further easing ahead.

Market Snapshots

	Last Price	DoD %	YTD %
Dow Jones Ind.	25,890.18	-1.51	-9.28
S&P 500	3,145.32	-1.08	-2.65
FTSE 100	6,189.90	-1.53	-17.93
Hang Seng	25,975.66	-1.38	-7.85
KLCI	1,566.72	-0.65	-1.39
STI	2,661.42	-1.05	-17.42
Dollar Index	96.88	0.2	0.6
WTI oil ($/bbl)	40.62	-0.05	-33.48
Brent oil ($/bbl)	43.08	-0.05	-34.94
Gold (S/oz)	1,794.86	0.57	18.27
CPO (RM/tonne)	2,424.00	0.19	-19.88

Source: Bloomberg



Source: Bloomberg

Overnight Economic Data

Japan	→	Malaysia	↑

Up Next

Date	Event	Prior
08/07	US MBA Mortgage Applications (03 Jul)	-1.8%
	JP Eco Watchers Survey Outlook SA (Jun)	36.5
09/07	US Initial Jobless Claims (04 Jul)	1427k
	UK RICS House Price Balance (Jun)	-32%
	JP Core Machine Orders MoM (May)	-12.0%
	JP Machine Tool Orders YoY (Jun P)	-52.8%
	CH PPI YoY (Jun)	-3.7%
	CH CPI YoY (Jun)	2.4%
	AU Home Loans Value MoM (May)	-4.8%
	NZ ANZ Business Confidence (Jul P)	-34.4

Source: Bloomberg

Macroeconomics

- ***BNM delivered its fourth consecutive cut to accelerate recovery:*** BNM cut the OPR by another 25ps to 1.75%, a fresh record low to accelerate the pace of economic recovery, acknowledging downside risks in both the global and domestic economy. Even though this was against our house view for a pause, the 25bps cut does not come as a complete surprise given the fluid growth backdrop. BNM has reduced the OPR by a cumulative 125bps in the current easing cycle, 25bps shy of the 150bps cut seen during the global financial crisis back in 2008/09, although today's cut bring about a fresh record low (2.00% in 2009). This is also BNM's fourth back-to-back cut, its first such serial move in history. This sounds like an insurance cut to us to safeguard the recovery traction given prevailing growth uncertainties. Even though there are recent green shoots to suggest we have sailed pass the trough in 2Q, sustainability of such uptick remains highly questionable. Taking cue from today's dovish statement, the risk of another 25bps cut for the remaining of the year remain. We would however caution that over-easing could limit policy flexibility in the unfortunate event of further shocks and deterioration in macro outlook. We believe there is still policy room should BNM decide to pull the trigger. We therefore see the risk of another 25bps cut this year.

- ***Higher international reserves in June:*** The international reserves of Malaysia rose to $103.4b as at 30 June 2020 (previous: $102.8b). The reserves position is sufficient to finance 8.3 months of retained imports and is 1.1 times total short-term external debt.

- ***No surprise from RBA:*** RBA left cash rate at record low of 0.25% as widely expected, and signaled its intension to keep it so until progress is being made towards achieving full employment and 2-3% inflation target. RBA said it has not purchased government bonds for some time, with total purchases to date at around AUD50b. It reiterated its pledge to scale up purchases if necessary and the importance of "substantial, coordinated and unprecedented easing of fiscal and monetary policy". Total drawings of Term Funding Facility amounted to AUD15b, versus AUD6b in last meeting; further use is expected over coming months. RBA gave more optimistic assessment but was wary of outlook. It said that leading indicators have generally picked up, suggesting that the "worst of the global economic contraction has now passed". Australia has lost 800k jobs since March; conditions have stabilised and the "downturn has been less severe than earlier expected". Outlook remains uncertain and the recovery is "expected to be bumpy", depending on the containment of the virus. Uncertainty is making households and businesses cautious, affecting consumption and investment plans.

- ***Japan leading index rebounded, suggesting brighter outlook:*** Japan's leading economic indicator rose to 79.3 in May, from 77.7 in April according to a preliminary reading, marking its first increase in three months, an indication that of a more positive economic outlook. The Coincident Index fell for the fourth month albeit by a smaller magnitude to 74.6 (Apr: 80.1), pointing to poor current condition.

Forex

MYR (Slightly bearish)

- USDMYR was little changed at 4.2760 even after BNM decision to cut the OPR by a further 25bps. Markets were earlier mixed on such a move with some expecting a pause and some expecting a bigger cut.
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USD (Neutral-to-Bearish)

- USD rebounded as risk sentiments turned. DXY gained 0.2% to 96.88. This was led by losses in CAD, AUD and EUR.
- We are **neutral to bearish** on the USD for the week ahead. Sentiments remain volatile and a zig-zag movement seems most likely. This will continue the DXY in range movement since 10 June, after a bottom of 95.716 on 11 June. A break of the low on 2 July shifts attention towards more movements downward. However, a return of risk aversion may trigger a rebound.

EUR (Neutral-to-Bullish)

- EUR/USD weakened by 0.31% on Tuesday, partly retracing from Monday's gain. This brought pair back below 1.13.
- Markets look reassured at this moment. However, Covid-19 cases are now climbing in Europe, amid warnings by the World Health Organisation. There is a chance of some pullback when risk aversion climbs sometime this week.

GBP (Neutral-to-Bullish)

- GBP gained 0.40% on Tuesday, outperforming most G10 currencies. GBP/USD is now around 1.255, still well below the 11 June high of 1.2813. This came as Brexit negotiators meet and ahead of a speech on fiscal stimulus by UK Finance Minister.
- Brexit uncertainty, and possibly fragile fundamentals will likely continue to weigh down on the GBP. However, markets may take some Brexit developments positively.

JPY (Neutral)

- JPY weakened by 0.11% against the USD on Tuesday. USD/JPY stayed close to 107.5 in the process, continuing the trend since 1 July.
- JPY looks to stay within a range of 106-108. Further moves away from the range looks unlikely at this stage.

AUD (Neutral-to-Bullish)

- AUD/USD came off by 0.37% on Tuesday, retracing Monday's gains. Pair stayed just below 0.70 in the process.
- We see 0.70 as a huge resistance. Consolidation may continue. As the AUD/USD pair remains above its moving averages, some return to 0.67 levels is possible if market fears climb some more.

SGD (Neutral-to-Bullish)

- USD/SGD rose by 0.22% on Tuesday as the USD strengthened.
- SGD may be supported by improving sentiments near-term. However, improving data (such as China's PMI) is counterbalanced by risk aversion that a second global wave of Covid-19 cases is escalating. Momentum upwards looks limited for now, with psychological 1.4000 big figure resistance holding up.

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