Hong Leong Bank

Global Markets Research

Daily Market Highlights

Key Takeaways

- **US stocks kicked off the week with another rally, pushing the NASDAQ to a new record high** as optimistic economic outlook continued to drive overall market sentiment following last Friday's robust jobs data. The reopening of US economy alongside more encouraging data remained the main focus despite ongoing domestic protests and high infection rate of Covid-19 in the States. In fact the number of confirmed Covid-19 has now topped 2mil in the US and the death tolls at more than 110k.

- The Dow Jones added 461pts or 1.7%, while the S&P 500 notched a 1.2% gain back to a positive territory this year. The NASDAQ's 1.1% gain propelled the tech heavy index to surpass its February's record high to 9924.75. The rally was broad-based across all S&P 500 sectors, **led by energy shares (+4.3%) as OPEC+ struck a deal to extend production cuts** that would take roughly 10% oil supply off the market. Oil prices consolidated gains and fell around 3.5% DOD following OPEC+ virtual press conference. WTI settled at $38.19/barrel and Brent at $40.8/barrel. Gold price recovered modestly by 0.8% to $1698.53/ounce and 10Y UST yield closed 2bps lower at 0.88%. The dollar index fell 0.3% to 96.618 as the greenback continued to weaken. **Economic data are scarce this week and the main event is none other than Thursday's FOMC meeting. Futures point to a modest gains in the Asian market later this morning.**

- **Investor sentiment recovered in the Eurozone** as the Sentix investor Confidence Index jumped to -24.8 in June, from -41.8 in May. **The Japanese economy contracted less than initially estimated** as 1Q GDP growth was revised from -0.9% QOQ to -0.6%. Wages fell 0.6% YOY in April as the country was put in a nationwide lockdown. Eco Watcher Survey reported a jump in its outlook index.

- **The dollar weakened 0.3% on Monday, with the DXY now down to 96.618 on closing.** This came as JPY gained 1.07% against the USD. Other currencies also gained further ground against the USD despite prior strength. Focus for markets is likely on the FOMC as well as on CPI/PPI for signs of deflation. We are hence **neutral to bearish** on the USD for the week ahead. At current levels below 97, we expect some consolidation at some point in time.

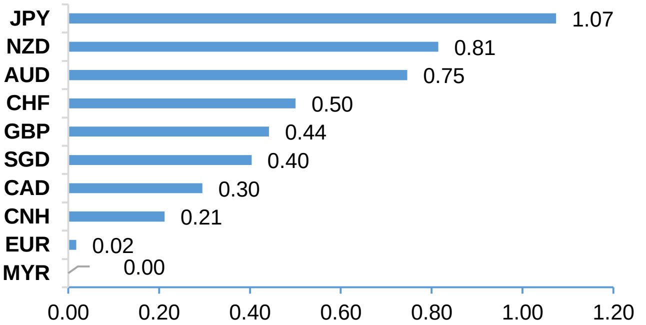
- USDMYR finished 0.27% lower at 4.2668 last Friday following the PM's announcement of a "Recovery MCO" to replace the Conditional MCO. **The pair's daily outlook is bearish** as the USD remains pressured on a broader level and the reopening of more economic sectors locally alongside brighter commodity outlook is likely to support MYR in the short term.

Market Snapshots

	Last Price	DoD %	YTD %
Dow Jones Ind.	27,572.44	1.70	-3.38
S&P 500	3,232.39	1.20	0.05
FTSE 100	6,472.59	-0.18	-14.18
Hang Seng	24,776.77	0.03	-12.11
KLCI	1,586.60	1.94	-0.14
STI	2,816.49	0.70	-12.61
Dollar Index	96.62	-0.3	0.2
WTI oil ($/bbl)	38.19	-3.44	-37.45
Brent oil ($/bbl)	40.80	-3.55	-37.39
Gold (S/oz)	1,698.53	0.80	12.23
CPO (RM/tonne)	2,375.50	-0.57	-21.48

Source: Bloomberg

FX Performance vs USD
(Daily % Change)



Source: Bloomberg

Overnight Economic Data

Eurozone	↑	Japan	→

Up Next

Date	Event	Prior
05/06	US NFIB Small Business Optimism (May)	90.9
	EU GDP SA QoQ (1Q F)	-3.80%
	AU NAB Business Confidence (May)	-46
	US MBA Mortgage Applications (38504)	-3.9%
	US CPI YoY (May)	0.3%
08/06	JP PPI YoY (May)	-2.3%
	JP Core Machine Orders MoM (Apr)	-0.4%
	CN PPI YoY (May)	-3.1%
	CN CPI YoY (May)	3.3%
	AU Westpac Consumer Conf Index (Jun)	88.1
	AU Home Loans Value MoM (Apr)	0.2%

Source: Bloomberg

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Macroeconomics

- ***Japan 1Q GDP revised higher:*** The second reading of Japan 1Q GDP growth was revised upwards from -0.9% QOQ to -0.6%, indicating that the economy had shrunk less than initially expected amid a global pandemic. This brings the annual contraction rate to a smaller 2.2% compared to the initial reading of -3.4% YOY. In the fourth quarter last year, GDP had contracted by -1.9% QOQ and a whopping 7.2% YOY, mainly because of weak consumption resulting from the sales tax hike and also the typhoon-induced activity disruption in October. On a separate note, the Economic Watcher Survey reported that the current economic conditions diffusion index rebounded from 7.9 to 15.5 in May, while the outlook index jumped to 36.5, from 16.6 pointing to recovery in sentiment among Japanese households and businesses as the government eased social distancing rules and reopened the economy.

- ***Japan wages fell in April during the nationwide lockdown:*** Total cash earnings in Japan fell 0.6% YOY in April (Mar: +0.1%), its first decline in four months as the 0.9% fall in contractual earnings, a gauge of base pay outweighed the 10.6% gain in special cash earnings (bonus payout). Within contractual earnings, the "non-scheduled earnings" or overtime wages dropped 12.2%, in line with the fall in total hours worked in (-3.7%) as the country was put in lockdown following the announcement of a Nationwide State of Emergency in mid-April. None-scheduled hours worked saw a gigantic 18.9% decline.

- ***Substantial recovery in Eurozone investor sentiment:*** The Sentix Investor Confidence Index recovered substantially to -24.8 in June, from -41.8 in May. Sentix called it an upswing that is pointing to a global economic upturn. The current situation index remains deep in read but expectations are rising sharply to 27.3 (highest since Mar-15) but the "road to normality is long".

Forex

MYR (Bullish)

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- The pair's daily outlook is bearish as the USD remains pressured on a broader level and the reopening of more economic sectors locally alongside brighter commodity outlook is likely to support MYR in the short term.

USD (Neutral-to-Bearish)

- The dollar weakened 0.3% on Monday, with the DXY now down to 96.618on closing. This came as JPY gained 1.07% against the USD. Other currencies also gained further ground against the USD despite prior strength. Focus for markets is likely on the FOMC as well as on CPI/PPI for signs of deflation.
- We are hence **neutral to bearish** on the USD for the week ahead. At current levels below 97, we expect some consolidation at some point in time.

EUR (Neutral-to-Bullish)

- EUR/USD has consolidated with a 0.02% gain against the USD on Monday. EUR has underperformed vs. other currencies after staying above 1.1300 big figure.
- We are neutral to bullish on EUR for the week. Momentum is strong but consolidation is likely at some stage. This week's data (GDP revision, industrial production, CPI) should not derail momentum.

GBP (Neutral)

- GBP/USD gained further on Monday with a 1.2724 close. Pair is now highest since mid-March.
- We remain neutral on GBP for the following week, on consolidation. There are less reasons to be optimistic on the GBP than the EUR, given Brexit uncertainty, worse Covid-19 infection and fundamentals. Progress in Brexit talks will be keenly watched after Germany's ambassador to the EU said that there has been no real progress in the EU-UK trade deal.

JPY (Neutral-to-Bearish)

- After a high of 109.85 on Friday, USD/JPY has dipped decisively below. Pair is now at 108.33 at the time of writing after a strong move downwards on Monday.
- We stay neutral to bearish on the JPY for the week ahead. A key swing factor may also be on the Covid-19 outbreak in Japan, which may see a second wave in Tokyo and Fukuoka.

AUD (Neutral-to-Bullish)

- AUD/USD has hit a high of 0.7039 at the time of writing on 9 June. It continued to gain ground after being on a bid tone on Monday.
- We are neutral to bullish on the AUD at current levels. We see some consolidation around the 0.69-0.70 range. There is a risk that AUD will drop, mainly from event risks like rising US-China or China-Australia relations, or commodity markets.

SGD (Neutral to Bullish)

- USD/SGD continued to stretch its moves downwards. Pair now moved below the 1.3900 big figure to 1.38779 close on Monday.
- A move below 1.40 shifts the overall equation for the pair. We stay neutral to bullish on the SGD. Pair may look towards staying at a range of 1.38-1.40 should sentiments improve further.

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