Hong Leong Bank

Global Markets Research

Daily Market Highlights

Key Takeaways

- **US stocks generally retreated overnight amid profit taking following a powerful rally that briefly brought the S&P500 to a positive territory this year**. The index slipped 0.8% DOD to 3207.18, below where it started in early 2020. The Dow Jones lost 300pts or 1.1% but NASDAQ continued to gain 0.3% to a new record, as info tech and communications services stocks rose. It is likely that investors still have doubt over the potential economic rebound in the US, especially when protests and large gatherings across multiple states could lead to even higher Covid-19 infections and risk a second wave of outbreak.

- **The yield on 10Y US treasury yield edged lower again by 5 basis points to 0.83%, indicating investor jittery**. Gold price climbed 1.0% to $1715.33/ounce and the dollar continued to weaken; the dollar index fell 0.3% to 96.324. Crude oil rebounded over OPEC+ new deal to extend production cut and generally brighter commodity outlook; Brent crude settled at $41.18/barrel (+0.9%) and WTI closed at $38.94/barrel (+2%). **All eyes will be on upcoming FOMC meeting** early tomorrow morning.

- **Data remained scarce.** US small business optimism recovered as economy reopened. Same goes to Australia overall business confidence. Eurozone GDP growth was revised slightly higher from -3.8% to -3.6% QOQ. Japan machinery orders recorded double-digit declines (-12% MOM and -17.7% YOY) and PPI fell 2.7% YOY, deepening the deflation in Japan.

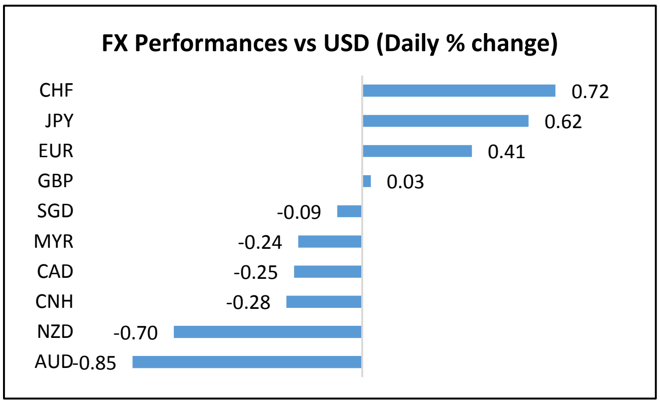
- The dollar U-turned to weaken 0.3% on Tuesday, after a brief rebound. DXY closed at 96.324 from 96.618 a day earlier. JPY and CHF saw some gains against the USD, as AUD and NZD corrected. We are **neutral to bearish** on the USD for the week ahead. At current levels below 97, we expect some consolidation at some point in time.

- USDMYR finished 0.24% higher at 4.2770. The pair's **daily outlook is neutral to slightly bearish** in our view 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. Uncertainty about US-China tension continues to be a downside risk to MYR.

Market Snapshots

	Last Price	DoD %	YTD %
Dow Jones Ind.	27,272.30	-1.09	-4.44
S&P 500	3,207.18	-0.78	-0.73
FTSE 100	6,335.72	-2.11	-16.00
Hang Seng	25,057.22	1.13	-11.11
KLCI	1,575.16	1.21	-0.86
STI	2,794.17	-0.10	-13.30
Dollar Index	96.32	-0.3	0.0
WTI oil ($/bbl)	38.94	1.96	-36.23
Brent oil ($/bbl)	41.18	0.93	-38.76
Gold (S/oz)	1,715.33	0.99	13.03
CPO (RM/tonne)	2,380.50	-0.36	-21.32

Source: Bloomberg



Source: Bloomberg

Overnight Economic Data

US	↑	Eurozone	↓
Japan	↓	Australia	↑

Up Next

Date	Event	Prior
10/06	US MBA Mortgage Applications (05 June)	-3.9%
11/06	US CPI YoY (May)	0.30%
	JN PPI YoY (May)	-2.30%
	JN Core Machine Orders MoM (Apr)	-0.40%
	CH PPI YoY (May)	-3.10%
	CH CPI YoY (May)	3.30%
	AU Westpac Consumer Conf Index (Jun)	88.1
	AU Home Loans Value MoM (Apr)	0.20%
	MA Industrial Production YoY (Apr)	-4.90%
	US FOMC Rate Decision	0-0.25%
	US PPI Final Demand YoY (May)	-1.20%
	US Initial Jobless Claims (6 Jun)	1877k
	UK RICS House Price Balance (May)	-21%
	JN BSI Large Manufacturing QoQ (2Q)	-17.2
	NZ Card Spending Retail MoM (May)	-46.80%

Source: Bloomberg

Macroeconomics

- ***US Small business optimism recovered:*** The NFIB Small Business Optimism Index recovered to 94.4 in May, from 90.9 in April, in line with the general rebound in sentiment as the economy reopened following the easing in social distancing rules in the US.

- ***Eurozone GDP growth revised higher:*** The Euro Area economy contracted lesser than initially estimated in the second reading. GDP contracted 3.6% QOQ, compared to -3.8% in the advance estimate. Compared to the same quarter last year, the annual growth was also revised to -3.1% YOY (advance: -3.2% YOY). In the fourth quarter of 2019, GDP had gained a mere 0.1% QOQ and 1.0% YOY. Nontheless, the quarterly contraction was still the sharpest since the time series started in 1995 as Covid-19 containment measures were widely introduced in March, the final month of 1Q.

- ***Japan machinery orders slumped; factories mired in deflation:*** Machinery orders fell 12% MOM in April, following the minor 0.4% decline in March. This is a direct impact of mid-April nationwide shutdown as businesses halted operations. YOY, machinery orders fell a whopping 17.7%, compared to -0.7% in March. Meanwhile, producer prices continued to fall 2.7% YOY in May (Apr:-2.3%), its third consecutive month of decline, sending factories deeper into deflation.

- ***Australia business confidence rebounded:*** The NAB Business Confidence Index rose to -24 in May, from -34 in April as confidence level among the business community bounced back in response to the easing in social distancing rules in Australia. Business conditions saw a broad-based improvement but remain deep in negative with services sector remaining the weakest.

Forex

MYR (Neutral to slightly bullish)

- USDMYR finished 0.2% higher at 4.2770.
- The pair's daily outlook is neutral to slightly bearish in our view 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. Uncertainty about US-China tension continues to be a downside risk to MYR.

USD (Neutral-to-Bearish)

- The dollar U-turned to weaken 0.3% on Tuesday, after a brief rebound. DXY closed at 96.324 from 96.618 a day earlier. JPY and CHF saw some gains against the USD, as AUD and NZD corrected.
- We are **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 benefitted from USD weaknesses, reaching a high of 1.1364 for the day and registering a 0.41% gain on Tuesday.
- 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 has consolidated after prior gains on Tuesday. Pair touched a high of 1.2755 but was unsustainable and is now hovering just above 1.2700 big figure.
- 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)

- The JPY rebound continues for a second consecutive day, bringing USD/JPY below 108. However, we observed some consolidation in momentum.
- 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 corrected after reaching a high of 0.7041 on Tuesday, It has since dipped to 0.6899 before recovering to above 0.69 levels.
- 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 saw some consolidation against the USD on Tuesday after a downward move to below 1.39. Pair overall rebounded for the day.
- A move below 1.40 shifts the overall equation for the pair. We stay neutral to bullish on the SGD. Pair may look to remain at a range of 1.38-1.39 should sentiments improve further.

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