HongLeong Bank

Global Markets Research

Daily Market Highlights

Key Takeaways

- **US stocks rebounded overnight,** recovering from Tuesday's brutal sell-off and **marking their first gains following three consecutive sessions in the red.** The Dow Jones added nearly 440pts or 1.6%; the S&P500 rose 2.0% and NASDAQ gained 2.7% in a single day. The S&P500 info tech shares rose 3.4%; stocks of major tech companies which had first triggered the sell-off (Microsoft, Apple, Amazon) all rebounded. **Yields rose as investors sell treasuries amid preference for risky asset.** Treasury yields rose 0.6-3.6bps; 10Y UST yield closed 2bps higher right at 0.70%.

- **Gold futures continued to advance** 0.6% to $1946.8/oz, marking its second positive session. **Crude oil prices bounced back** as well, **benefitting from improved risk sentiment.** Brent futures rose 2.5% to $40.79/barrel after five sessions of declines; WTI settled 3.5% higher at $38.05/barrel. **Key events today BNM's OPR decision and ECB Governing Council Meeting and President Lagarde's subsequent press conference. Our house view is for a 25bps cut in the OPR.**

- **On the data front, we saw positive prints overall.** US mortgage applications rose last week. UK house prices gained further according to RICS survey. China consumer inflation and factory deflation eased. Japan core machine orders rebounded. Australia consumer sentiment improved and home loans jumped. New Zealand retail card spending declined.

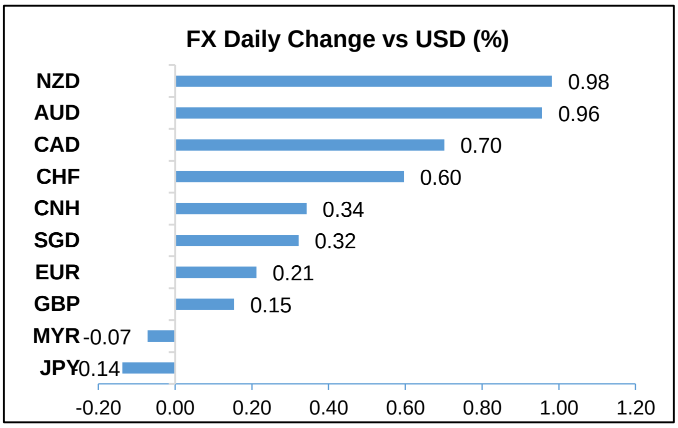
- Better risk appetites also prompted markets to dump the greenback, leading nearly all major currencies to strengthen against USD, except for the JPY which weakened slightly. The Dollar index gave up some recent gains, ending 0.2% lower at 93.26. We still see scope of some increases for the week ahead, from recent volatility, hence our **neutral to bullish view on the USD.**

- USD/MYR was little changed (+0.07%) at 4.1710 on Wednesday. **The pair is expected to hold steady** ahead of today's OPR decision at 3pm. We are calling for a 25bps cut. A pause by the central bank may temporarily lead to resurgence in MYR bulls.

Market Snapshots

	Last Price	DoD %	YTD %
Dow Jones Ind.	27,940.47	1.60	-2.10
S&P 500	3,398.96	2.01	5.21
FTSE 100	6,012.84	1.39	-20.28
Hang Seng	24,468.93	-0.63	-13.20
KLCI	1,496.72	-1.49	-5.79
STI	2,499.33	-0.22	-22.45
Dollar Index	93.26	-0.20	-3.25
WTI oil ($/bbl)	38.05	3.51	-37.68
Brent oil ($/bbl)	40.79	2.54	-38.20
Gold (S/oz)	1,946.80	0.60	27.82
CPO (RM/tonne)	2,918.00	0.45	-3.55

Source: Bloomberg



Source: Bloomberg

Overnight Economic Data			
US	↑	UK	↑
Japan	↑	China	↑
Australia	↑	New Zealand	↓

Up Next

Date	Event	Prior
10/09	MA BNM Overnight Policy Rate (40422)	1.75%
	EU ECB Deposit Facility Rate (40422)	-0.5%
	US PPI Final Demand MoM (Aug)	0.6%
	US Initial Jobless Claims (5 Sep)	881k
11/09	NZ BusinessNZ Manufacturing PMI (Aug)	58.8
	MA Industrial Production YoY (Jul)	-0.40%
	UK Monthly GDP (MoM) (Jul)	8.70%
	UK Industrial Production MoM (Jul)	9.30%
	UK Manufacturing Production MoM (Jul)	11.00%
	UK Visible Trade Balance GBP/Mn (Jul)	-£5116m
	US CPI YoY (Aug)	1.00%

Source: Bloomberg

Macroeconomics

- ***US mortgage applications rose last week:*** Mortgage applications in the US rose 2.9% for the week ended 4 Sep, following a 2.0% decline in the prior week. This reflects increases in both the purchases and refinancing segments. The purchases segments have continued to rise (save for prior week's 0.2% decline), offering signs of firmer housing market activity.

- ***UK house prices rose in August:*** The RICS House Price Balance Index rose sharply to a 44% in August, from 13% in July to signal higher house prices in a robust housing market in the UK. This mainly reflects higher price expectations and agreed sales although all other indicators also remained positive. The proportion of surveyors reporting rise in house prices continued to increase for three consecutive months.

- ***Japan core machine orders rose in July***: Japan core machine orders, a key gauge of business investment rose 6.3% MOM in July, recovering from the previous 7.6% fall in June. This offered some comforts that businesses are spending again in July even as the economy is struggling to recover.

- ***China consumer inflation eased; factory deflation slowed:***
  - Consumer price inflation matched expectations at 2.4% YOY in August (Jul: +2.7%). The slower growth was driven by smaller increase in food prices (albeit still at more than 10% YOY). Services inflation also recorded negative growth (-0.1%) with consumer goods inflation easing to below 4%. MOM, CPI rose 0.4% (prior: +0.6%), its second consecutive month of increase.
  - Producer prices fell 2.0% YOY in August (Jul: -2.4%), slightly more than analysts expectation of -1.9% YOY. This marks PPI's third month of smaller decline, implying the easing in deflationary pressure on the factory front which spells good signs for industrial profits.

- ***Australia consumer sentiment improved; home loans jumped:***
  - The Westpac Consumer Confidence Index rose 18% to 93.8 in September (Aug: 79.5), driven by the double-digit jump in both current conditions and expectations index as the smaller number of new Covid-19 cases recently raised optimism of potential easing in social distancing rules.
  - Home loans approval values jumped by 8.9% MOM in July (Jun: +6.4%), beating analysts expectation (+2.0%) by huge margin, suggesting a recovery in the Australian housing market. This reflects the 10.7% surge in owner-occupier loan value; investors' loan value saw slightly slower growth of 3.5%

- ***New Zealand retail card spending fell in August:*** New Zealand retail card spending fell 7.9% MOM in August (Jul: +1.2%). This comes after spending had risen for three consecutive months when the economy reopened in May. Pent-up demand following the pandemic lockdown had helped fuel the growth in retail sales for the prior three months. MOM, the total card spending (inclusive of retail) also fell 7.0% (Jul: +1.2%).

Forex

MYR (Neutral-to-slightly-bearish)

- USD/MYR was little changed (+0.07%) at 4.1710 on Wednesday. The pair is expected to hold steady ahead of today's OPR decision at 3pm.
- **Factors supporting**: Economic recovery, less dovish MPC
- **Factors against**: Risk aversion, US-China relations, domestic politics, imposition of second lockdown

USD (Neutral-to-Bullish Outlook over 1 Week Horizon)

- DXY weakened on Wednesday, reversing increases in September. An abrupt correction came after a high of 93.662, with now DXY down to 93.255. We still see scope of some increases for the week ahead, from recent volatility.
- **Factors supporting**: Risk aversion, US-China relations
- **Factors against**: Complacent markets, positive developments from global policymakers, poor US economy, US stimulus

EUR (Neutral-to-Bearish)

- EUR/USD rebounded after a low of 1.1753 on Wednesday, and returned to above-1.18 levels. Despite the sharp correction, there may still be some near-term bias on the downside for the pair, on volatility/risk aversion.
- **Factors supporting**: USD weakness
- **Factors against**: Risk aversion, 2nd wave of Covid-19 infections, faltering fundamentals

GBP (Bearish)

- GBP/USD dipped to a low of 1.2885 before recovering to around 1.30 levels. At this stage, pair is sensitive to Brexit news and will likely await further developments. Disappointments may favour bears.
- **Factors supporting**: Breakthrough in news, USD weakness
- **Factors against**: Risk aversion, Brexit, twin deficits

JPY (Neutral-to-Bullish)

- USD/JPY hit a low of 105.80 but rebounded thereafter. Overall, we see the pair stuck within a range of 105.80-106.50 for now, unless any significant changes in market sentiment.
- **Factors supporting**: New prime minister's directives, BOJ policy, USD weakness
- **Factors against**: Weak fundamentals, risk sentiments

AUD (Neutral-to-Bearish)

- AUD/USD rebounded after a low of 0.7192 early on Wednesday. Pair recovered to levels a day earlier around 0.728 but failed to gain further. Pair looks to have hit resistance and may see downside bias ahead.
- **Factors supporting**: Resilient economy, USD weakness
- **Factors against**: Risk aversion, 2nd wave of Covid-19 infections, China-Australia relations

SGD (Neutral-to-Bearish)

- USD/SGD came off on Wednesday, reversing a move higher since 1 September. However, pair has consolidated around 1.367 levels and is looking to trade with a bid tone on Thursday open.
- **Factors supporting**: Fed vs. MAS policy, economic recovery, USD weakness
- **Factors against**: Risk aversion, trade war, US-China

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