10 December, 2020

Hong Leong Bank

Global Markets Research

Daily Market Highlights

Key Takeaways

- **Key US equity benchmarks all fell on Wednesday as deadlock in stimulus talks dampened risk sentiments.** At a proposed $916bn, the aid package is already less than half the initial proposal of close to $2 trillion, and yet lawmakers cannot reach an agreement even as new infections continue ravaging across the country. The Dow and S&P declined 0.4-0.8% DOD while the Nasdaq plunged 1.9% from record high levels, snapping its 10-day winning streak. **Earlier, European and Asian stocks ended largely in the green.**

- **US Treasuries narrowed** declines in late US trading as equities fell but still ended the day lower, pushing yields up by 1-2bps across the curve save for the front end where the 2s ended little changed again. The 10Y note yields inched 2bps lower at 0.94%. The reopening sale of $38bn 10Y bonds was met with decent demand with a BTC of 2.33x at a high yield of 0.951%. (prior: 2.32x @ 0.960%). Gold futures recovered from the day low but still down 1.7% on the day, at $1843/oz. **The Dollar Index rallied in US trading session back above the 91.0 handle.** It however settled off the intraday high of 91.20 at 91.09, marking its 3rd straight day of gain nevertheless. The greenback traded mixed against the majors, stronger against the EUR and JPY but weaker against GBP and AUD.

- **Global crude oil prices ended higher** by 0.2-0.5%. Brent crude last settled at $49.09/barrel, whilst the WTI at $45.71/ barrel, **as markets shrugged off an EIA report on higher inventories, still clinging on to vaccine optimism** that is expected to translate into higher demand for oil. **Futures showed Asian markets are slated for lower opening this morning**, taking cue from the selloffs in US equities overnight. **ECB policy meeting and President Lagarde press conference will be key watch today.**

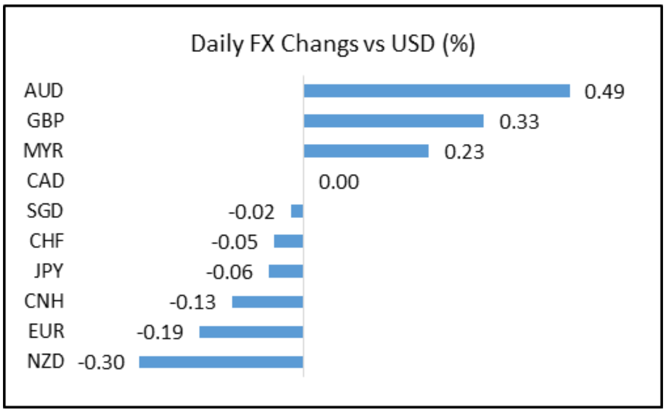
- DXY went up on Wednesday, by 0.14% for a 91.09 close. The dollar seems to have bottomed out since 4 December, even as stocks headed northwards. We still see some **slight weaknesses over a 1-week horizon**. Eyes on CPI today and PPI tomorrow.

- **USD/MYR ended 0.23% lower at 4.0625; daily outlook neutral.** USD/MYR pulled back steadily through the day to settle close to the day low of 4.0620, off from an intraday high of 4.0730 as the USD weakened in early Asian trading session before bouncing back in US trading. Daily outlook remains neutral within the 4.06-4.08 handles in our view.

Market Snapshots

	Last Price	DoD %	YTD %
Dow Jones Ind.	30,068.81	-0.35	5.36
S&P 500	3,672.82	-0.79	13.68
FTSE 100	6,564.29	0.08	-12.97
Hang Seng	26,502.84	0.75	-5.98
KLCI	1,646.53	0.91	3.64
STI	2,843.07	0.62	-11.78
Dollar Index	91.09	0.14	-5.50
WTI oil ($/bbl)	45.71	0.24	-25.45
Brent oil ($/bbl)	49.09	0.51	-33.81
Gold ($/oz)	1,842.90	-1.71	16.61
CPO (RM/tonne)	3,635.00	-0.14	20.15

Source: Bloomberg



Source: Bloomberg

Overnight Economic Data

US	↓	China	→
UK	↓	Japan	↑

Up Next

Date	Events	Prior
10/12	UK Monthly GDP (MoM) (Oct)	1.10%
	UK Industrial Production MoM (Oct)	0.50%
	UK Visible Trade Balance GBP/Mn (Oct)	-£9348m
	EC ECB Deposit Facility Rate (10 Dec)	-0.50%
	US CPI YoY (Nov)	1.20%
	US Initial Jobless Claims (05 Dec)	712k
11/12	NZ BusinessNZ Manufacturing PMI (Nov)	51.7
	MA Industrial Production YoY (Oct)	0.2%
	US PPI Final Demand YoY (Nov)	0.50%
	US U. of Mich. Sentiment (Dec P)	76.9

Source: Bloomberg

Macroeconomics

- ***US mortgage applications continued declining:*** US MBA mortgage applications fell 1.2% WOW for the week ended 4-December (prior: -0.6%). Declines in application for new purchases (-5.0%) outweighed the rebound in refinancing (+1.8%), a tell-tale sign of softening housing demand.

- ***UK RICS house price balance moderated:*** RICS house price balance moderated less than expected to 66% in November (Oct: 67% revised). A slight increase in price expectations was offset by decline in sales expectations as well as sharp deceleration in new buyer enquiries, offering tentative signs of a plateau in the UK housing market after recent gains.

- ***China's first disinflation in over a decade:*** China's CPI surprisingly fell to -0.5% YOY in November (Oct: +0.5%), its first negative print since Oct-09 signalling disinflationary pressures are building up, supporting the case for PBOC to maintain its accommodative policies. Food prices fell 2% YOY. Meanwhile, PPI improved to -1.5% YOY in November, from -2.1% prior, likely positive for industrial profits.

- ***Positive slew of data from Japan:***
    - Machine tool orders rebounded and increased 8.0% YOY in October (Sept: -4.4% MOM), its first expansion since Sept-18, offering added signs of an improvement in capex although we doubt its sustainability.
    - BSI large all industry outlook for 4Q jumped to a 7-year high at 11.6 (3Q: 2.0) led by the manufacturing sector which leapfrogged to 21.6 (3Q: 0.1). Meanwhile, the non-manufacturing outlook also improved albeit at a more modest pace from 2.9 to 6.7 during the quarter. The broad-based increases suggest a sharp improvement in current business conditions. Forward looking index however points to some moderation in the outlook ahead, albeit still positive.
    - Producer prices was stagnant MOM in November (Oct: -0.2% MOM) as expected. YOY prices sustained a 2.2% YOY decline (Oct; -2.1% YOY), reaffirming continued deflationary pressure in Japan.

Forex

MYR (Neutral)

- USD/MYR ended 0.23% lower at 4.0625. The pair pulled back steadily through the day to settle close to the day low of 4.0620, off from an intraday high of 4.0730 as the USD weakened in early Asian trading session before bouncing back in US trading. Daily outlook remains neutral within the 4.06-4.08 handles in our view.
- **Factors supporting**: Economic recovery, less dovish MPC, USD weakness
- **Factors against**: Risk aversion, domestic politics, second lockdown.

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

- DXY went up on Wednesday, by 0.13% for a 91.09 close. The dollar seems to have bottomed out since 4 December, even as stocks headed northwards. We still see some slight weaknesses over a 1-week horizon. Eyes on CPI today and PPI tomorrow.
- **Factors supporting**: Risk aversion, Covid-19 resurgence
- **Factors against**: Fed accommodation, vaccine, potential US stimulus, Buoyant sentiments

EUR (Neutral-to-Bullish)

- EUR/USD rose to a midday high of 1.2142, before turning lower, hitting 1.2080, the lowest level in the week. We look at the lack of agreement between the European Union and the United Kingdom as a point of reversal. We maintain our neutral-to-bullish sentiment ahead of the European Central Meeting that is expected to bring about additional stimulus.
- **Factors supporting**: Economic data rebound
- **Factors against**: Risk aversion, Covid-19 outbreak

GBP (Neutral-to-Bullish)

- GBP/USD rose to a weekly high of 1.3473 before closing the day at 1.3382. We maintain our stance of neutral-to-bullish GBP amid expectation of a bearish USD. Next level of psychological resistance to clear is at 1.35.
- **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 reached a high of 104.41 on Wednesday, before closing at 104.23. After a weekly bottom of 103.67 on 3 December, USD/JPY appears biased on the upside. We see a range of 103.7-104.5 for now. Tankan will likely be important data to possibly shape JPY movements in the coming week.
- **Factors supporting**: BOJ policy, risk aversion, dollar weakness
- **Factors against**: Weak fundamentals

AUD (Neutral-to-Bullish)

- On Wednesday, AUD/USD touched a high of 0.7485 but fell back thereafter, up 0.49% for the day. We still see a range of 0.73-0.75. Australia has sold bills at negative yields for the first time. Risk aversion may shape AUD softness in the coming days, although we stay constructive on the AUD.
- **Factors supporting**: Fundamentals improve from current levels
- **Factors against**: Risk aversion, RBA policy, Australia-China relations

SGD (Neutral-to-Bullish)

- USD/SGD dipped to around 1.3340 low on Wednesday but recovered to close around 1.3380. We stay slightly constructive on the SGD, especially if dollar weakens. We see 1.33 as the next psychological barrier, with only a pullback above 1.341 signalling at some upsides for USD/SGD.
- **Factors supporting**: Economic recovery, CNH strength
- **Factors against**: Risk aversion, potential deterioration in Singapore fundamentals

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